

# Equities Market Frothiness: *Navigating the Thin Ice*

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# The Market is Driven by Information





# Major Global Economic Drivers that Impact the Equity Market

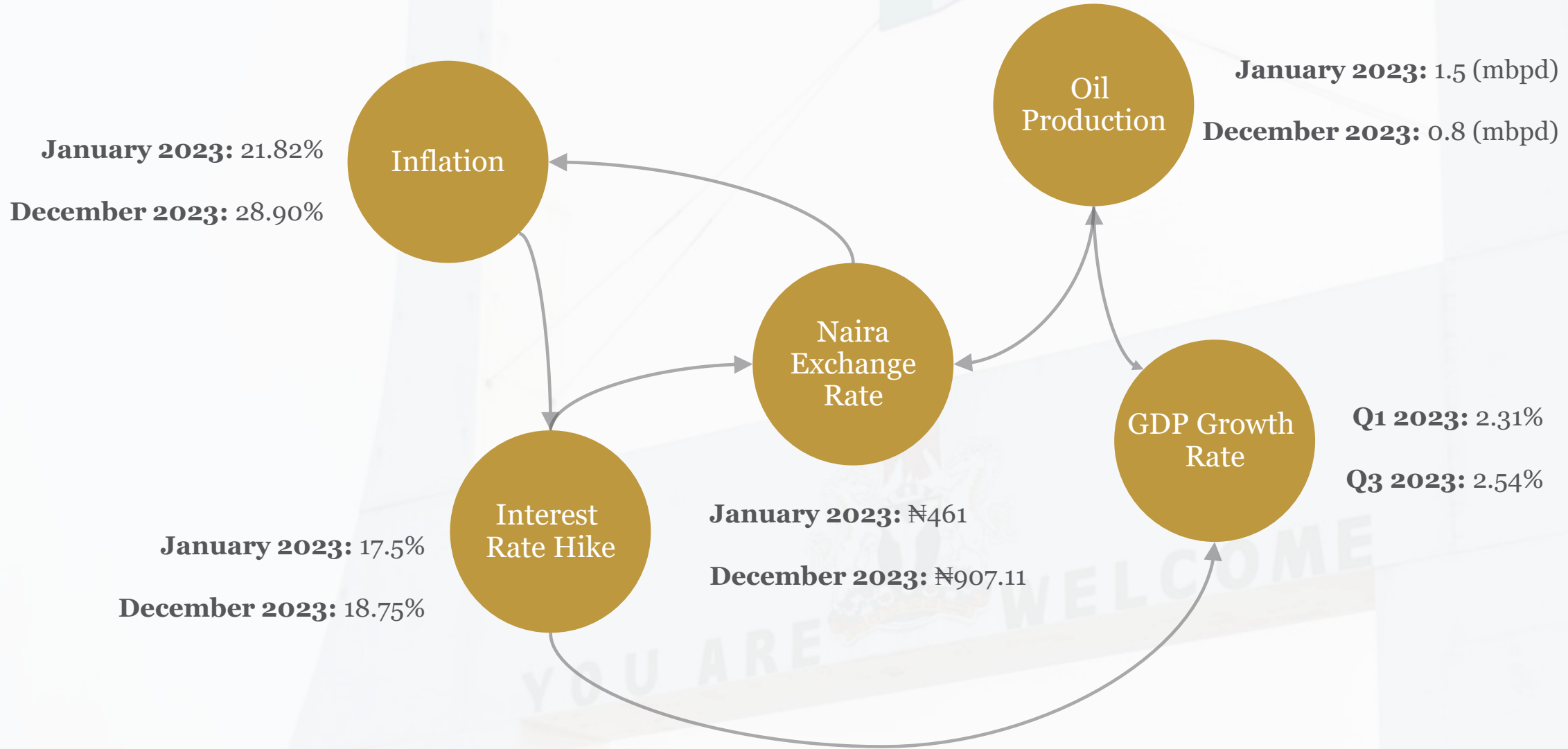
## Crude Oil

- Brent oil prices in the first half of 2023 were volatile, averaging around US\$80 per barrel, marking a 38% drop from their 2022 peak.
- The decline was attributed to by geopolitical turmoil and concerns about the oil output levels of major producers around the world.
- In the second half of 2023, geopolitical tensions and concerns about crude oil demand led to additional price fluctuations.
- Brent crude oil prices concluded the year at US\$78 per barrel, \$4 lower than the start of 2023.

## Global Inflation and interest Rates

- With inflation moderating in advanced economies, central banks are anticipating rate cuts sometime in 2024.
- Nevertheless, given the widespread agreement that inflation is not projected to reach target levels until at least 2025, central banks are exercising caution and avoiding impulsive rate-cut decisions.
- These decisions are poised to have significant impacts on Africa's economic trajectory.

# The Nigerian Economy



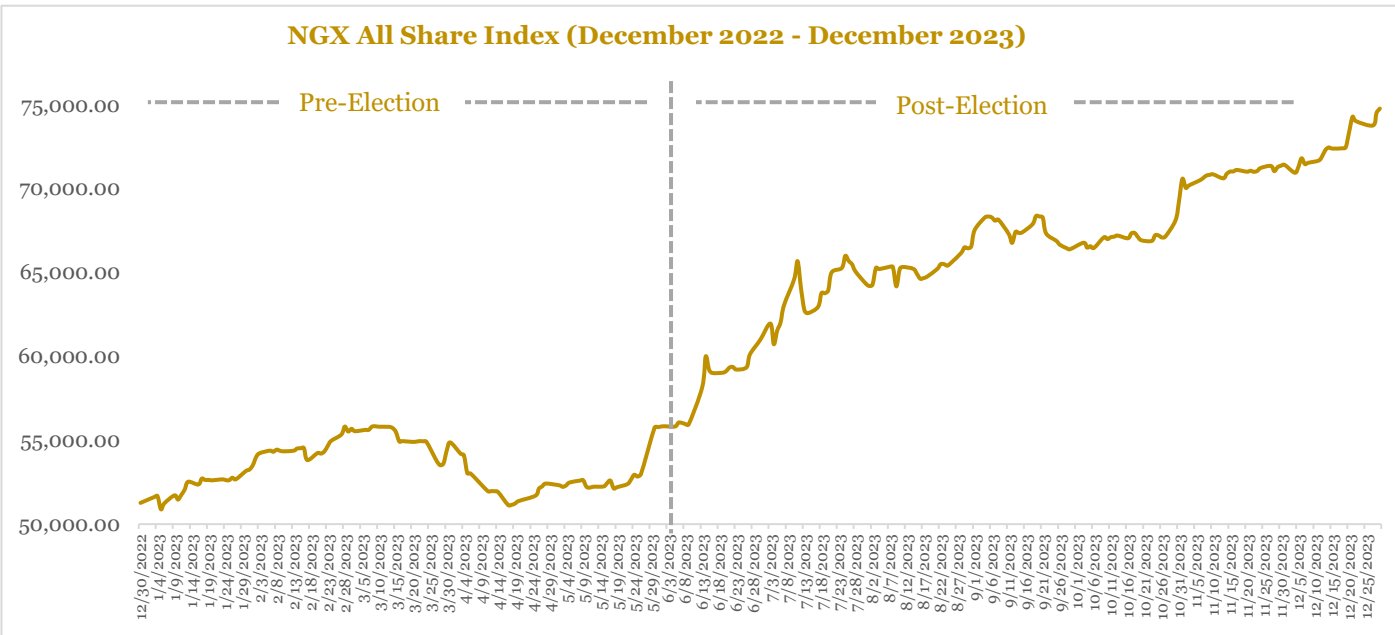


## 2023 gave us:

- New historical highs; the NGX All-Share Index surpassing 74,000 points
- Rights issue by 8 companies
- Listing of 3 new companies on the exchange
- 4 companies delisted, with an additional 3 currently in the delisting process
- 2 Mergers and acquisitions; further shaping the landscape of corporate dynamics.



# Equities Market Performance in 2023



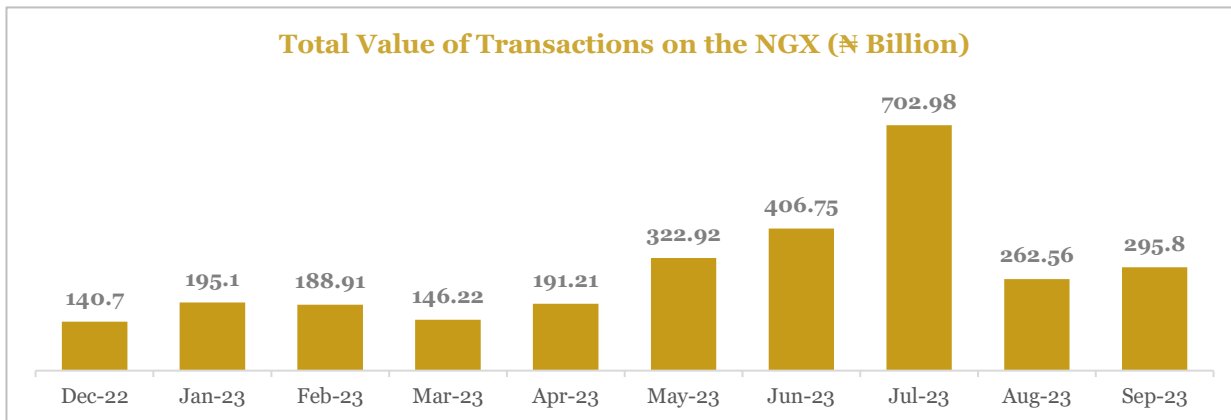
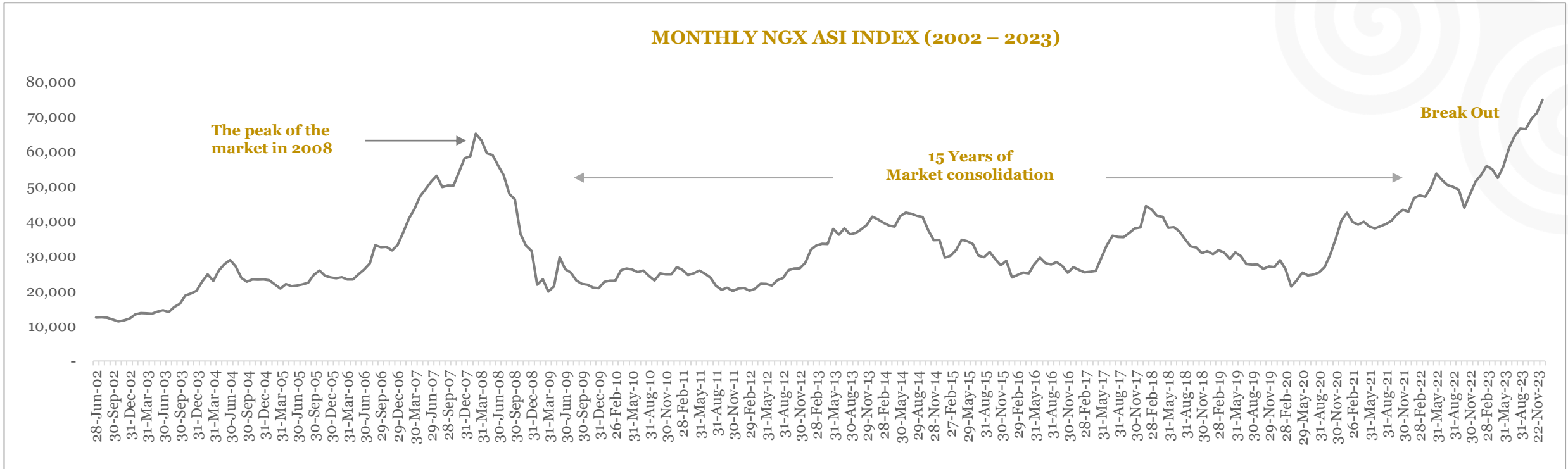
## Drivers of the Equities Market in 2023

- Impressive 2022 full-year earnings
- Attractive dividend declaration
- Inauguration of President Bola Ahmed Tinubu
- Market friendly reforms; the liberalization of the FX market, removal of fuel subsidies and the power bill
- Suspension of the CBN Governor
- The mild increase in foreign investors' participation
- Cheaper stock price valuation due to the devaluation of the currency
- Increase in money flow to the equity market
- Corporate actions on the NGX

Sectors	YTD Return	Details
<b>Oil and Gas</b>	<b>125.54%</b>	<ul style="list-style-type: none"> <li>• Implementation of the PIA; petrol subsidy removal</li> <li>• Acquisition of 100 percent of the Nigerian Agip Oil Company (NAOC) shares</li> <li>• Potential delisting of Oando until the December court meeting verdict</li> </ul>
<b>Consumer Goods</b>	<b>90.39%</b>	<ul style="list-style-type: none"> <li>• Corporate Action on the proposed listing of Dangote foods</li> <li>• Increased pricing which has been passed to the consumers due to inflation</li> <li>• Inelastic demand for food products</li> </ul>
<b>Banking</b>	<b>114.90%</b>	<ul style="list-style-type: none"> <li>• FX revaluation gains</li> <li>• Listings of rights issues in banking stocks like FBNH, Jaiz Bank</li> <li>• Proposed Recapitalization of Banks</li> </ul>
<b>Insurance</b>	<b>84.48%</b>	<ul style="list-style-type: none"> <li>• Recapitalization and Restructuring</li> </ul>
<b>Industrial Goods</b>	<b>12.86%</b>	<ul style="list-style-type: none"> <li>• Impacted by high energy prices</li> </ul>



# Market Break Out After 15 Years Of Consolidation



### Points that drove the market post 2008

1. Drop in crude oil
2. FX instability
3. Impact of the bifurcation of the treasury bills market
4. Reemergence of the market post 2023 elections; premarket policies of the new presidency



## Differences Between Now and 2008

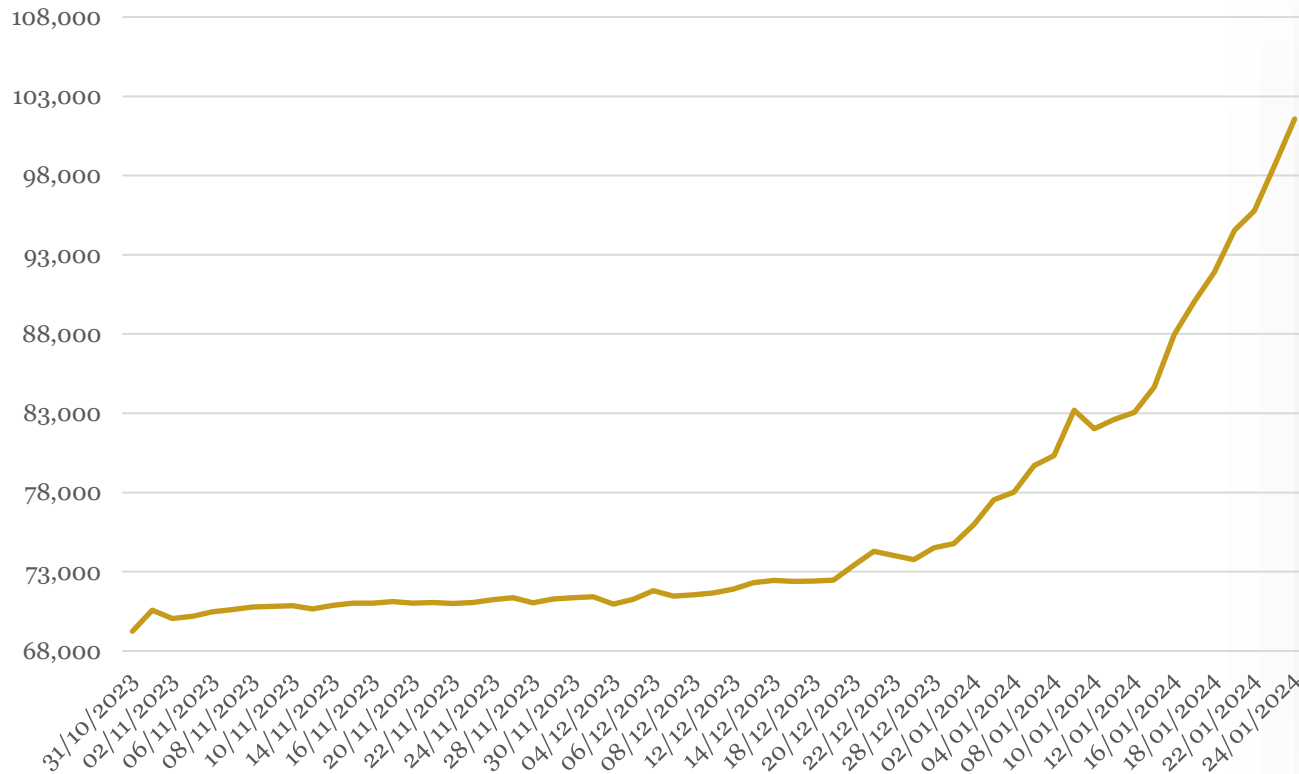
1. Fewer foreign investors
2. The market is driven by domestic institutional investors.
3. Cheaper stock valuations; the naira value of stocks is trading at a discount in US Dollar terms compared to 2008.
4. Higher inflation rate at 28.90% compared to 2008 (at 11.58%)
5. More informed/knowledgeable investors compared to 2008
6. Renewed interest in the equities market







**NGX ASI Performance  
October 2023 – January 2024**



## The Equity Market in 2024

- The NGX All-Share Index surpassed 100,000 points
- The market activities in terms of total volume traded rose sharply, above 16 billion units in just the first month of the year alone.
- The market activities is largely driven by domestic investors.



## Drivers of The Equity Market in 2024

- Low interest rates in the fixed income market
- High inflation rate
- Anticipation of better corporate earnings in full year 2023
- Anticipation of higher dividend declaration
- The devaluation of the currency
- Proposed listings
- The anticipated recapitalization of the banks
- Increased fund flows into the equities market



## How sustainable is this trend

- The rally in January 2024 is not fundamentally justifiable and sustainable. We believe that some investors might already be pricing in the positive performance of the full-year 2023 earnings and the dividend that would likely be declared causing the surge in the market. This is diluting the attractiveness of dividend yields.
- We advice that investors and traders adopt a cautious approach going forward as the market has been exhibiting a parabolic growth. The NGX ASI has risen sharply by 28.08% in the first month of the year alone and has been positive for the last 14 weeks. Other major technical indicators such as the Relative Strength Index (RSI) and the Moving Average Convergence/Divergence (MACD) all points to the fact that the market is due for a pull back in a short period of time

S/N	Company	Market Value as of 29 Dec 2023	Market Value as of 24 Jan 2024	YTD Return
1	Dangote Cement	319.90	651.80	103.75%
2	Airtel Africa	1,887.00	2,000.00	5.99%
3	MTN Nigeria Communications	264.00	293.90	11.33%
4	BUA Cement	97.00	163.35	68.40%
5	BUA Foods	193.40	257.40	33.09%
6	SEPLAT Energy	2310.00	2,795.10	21.00%
7	Zenith Bank	38.65	42.05	8.80%
8	Guaranty Trust Holding Co	40.50	42.55	5.06%
9	Geregu Power	399.00	469.70	17.72%
10	United Bank for Africa	25.65	30.00	16.96%
11	Access Holdings	23.15	28.75	24.19%
12	Transcorp Hotels	70.18	100.00	42.49%
13	Dangote Sugar Refinery	57.00	75.00	31.58%
14	FBN Holdings	23.55	25.80	9.55%
15	Nestle Nigeria	1100.00	1,100.00	0.00%
16	Stanbic IBTC Holdings	69.65	65.00	-6.68%
17	Lafarge Africa	31.50	43.20	37.14%
18	Transnational Corp of Nigeria	8.66	16.39	89.26%
19	Ecobank Transnational Inc	20.90	25.60	22.49%
20	Nigerian Breweries	36.00	40.00	11.11%
	<b>NGX ASI Return</b>	0.36%	35.84%	31.89%



## What we expect in 2024

- CBN to maintain monetary policy tightening to tame inflationary pressures
- FG to intensify tax collection effort to boost revenue and ease fiscal pressures
- Government policies will be geared towards promoting private investment
- Recapitalization of the banking industry
- Capital raising by some listed companies
- Mergers and acquisitions in the banking industry
- Prospective energy capacity increase
- The exodus of more companies from Nigeria due to the harsh operating environment



## Stock Recommendation

Companies	Entry Price	Exit Price	% Return	Comments
<b>TRANSCORP</b>	14.00	20.00	42.9%	<ul style="list-style-type: none"> <li>Acquisition Abuja Disco.</li> <li>Possible listing of Transcorp Power</li> </ul>
<b>ACCESSCORP</b>	28.00	36.00	28.6%	<ul style="list-style-type: none"> <li>Banks Recapitalization</li> <li>Strong corporate earnings and high dividend yields</li> <li>FX revaluation gains</li> </ul>
<b>UBA</b>	29.90	40.00	33.8%	
<b>WEMA</b>	9.00	15.00	66.7%	
<b>GTCO</b>	42.56	57.84	35.9%	
<b>ZENITH</b>	42.00	52.00	23.8%	
<b>UCAP</b>	23.00	30.00	30.4%	
<b>OANDO</b>	11.95	20.00	67.0%	<ul style="list-style-type: none"> <li>The proposed delisting of Oando from the NGX and the buy out price tussle between the Minority &amp; Majority share holders.</li> </ul>
<b>NASCON</b>	62	89.00	43.5%	<ul style="list-style-type: none"> <li>The proposed merger between Dangote Sugar, NASCON and Dangote Rice and the listing of Dangote Foods on the NGX.</li> </ul>
<b>DANGSUGAR</b>	72	89.00	23.6%	

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# Navigating the Thin Ice; *Trade with caution*

We are available to provide guidance and support should you need any clarification

Buy only fundamentally sound stocks	<u>01</u>
Risk management; take profit and stop loss	<u>02</u>
Liquidity of the stocks	<u>03</u>
Corporate actions	<u>04</u>
Macroeconomic policies	<u>05</u>
Trade alerts	<u>06</u>
Investment advisory	<u>07</u>
Managing greed and fear	<u>08</u>



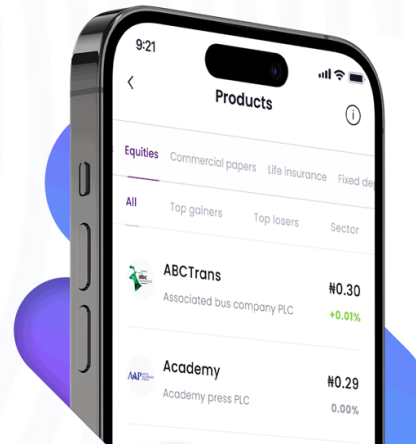
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