Role of the Capital Market in a Recessionary Economy

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Outline

1. How we got here; External and Internal Shocks
2. Current Realities
3. Role of the Capital Market
4. Afrinvest
How we got here; External and Internal Shocks
• Despite years of high GDP growth and improved economic indicators, inherent structural weakness in the economy remained unaddressed.
The Oil Price Shock

- After Years of overdependence on Oil for Government revenue and FX reserves, plunge in global Oil prices devastated the fundamentals of the Nigerian economy

Crude Oil Price Movement (January 2014 – August 2016)

Source: CBN, Afrinvest Research
### The Result of the Shock

#### Deterioration in Fiscal Fundamentals

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<tbody>
<tr>
<td>FGN Retained Revenue (N'ntn)</td>
<td>4.1</td>
<td>3.9</td>
<td>-5.9%</td>
</tr>
<tr>
<td>FGN Oil Revenue (N'ntn)</td>
<td>2.4</td>
<td>0.8</td>
<td>-65.2%</td>
</tr>
<tr>
<td>FGN Budget (N'ntn)</td>
<td>5.0</td>
<td>6.1</td>
<td>22.6%</td>
</tr>
<tr>
<td>Recurrent Expenditure ex Debt Service (N'ntn)</td>
<td>2.4</td>
<td>2.3</td>
<td>-1.6%</td>
</tr>
<tr>
<td>Capital Expenditure (N'ntn)</td>
<td>1.6</td>
<td>1.6</td>
<td>0.7%</td>
</tr>
<tr>
<td>Fiscal Deficit (% of GDP)</td>
<td>-1.9%</td>
<td>-2.5%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Tax &amp; Duties Revenue/GDP (%)</td>
<td>2.6%</td>
<td>2.5%</td>
<td>-0.1%</td>
</tr>
<tr>
<td>External Reserves (US$'bn)</td>
<td>42.8</td>
<td>24.8</td>
<td>-42.0%</td>
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<tr>
<td>Import Cover (Months)</td>
<td>8.5</td>
<td>6.0</td>
<td>-29.4%</td>
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<tr>
<td>Interbank Exchange Rate (N/US$)</td>
<td>159.9</td>
<td>324.0</td>
<td>-50.6%</td>
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<tr>
<td>Credit Rating (S&amp;P)</td>
<td>BB- (Stable)</td>
<td>B (Stable)</td>
<td>Down 2 Notches</td>
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<tr>
<td>Credit Rating (Fitch)</td>
<td>BB- (Stable)</td>
<td>B+ (Stable)</td>
<td>Down 1 Notch</td>
</tr>
<tr>
<td>Credit Rating (Moody's)</td>
<td>Ba3 (Stable)</td>
<td>B1 (Stable)</td>
<td>Down 1 Notch</td>
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</table>

*Lower oil proceeds weakened Revenue base significantly and exposed the economy to external sector vulnerabilities

*Source: CBN, Budget Office, Afrinvest Research*

*Tax Revenue/GDP, External Reserves, Import Cover, Interbank Exchange Rate are the latest figures from the CBN*
Weaker Trade Balance, Pressure on FX

Quarterly Movement of Trade Balance Vs. Exchange Rate (Q1:2012 – Q2:2016)

- Trade Balance of also weakened significantly as control measures on exchange rate amplified negative trade balance

Source: CBN, Afrinvest Research
Rigid FX Policy and Fiscal Inertia Widened FX Rates Spread

Nigeria Exchange Rate Trajectory (Jul 2014–August 2016)

- Policy response was not helpful, with the CBN adopting a rigid FX policy. The resulted in a sharp rise in parallel market rate and widened the spread between official and unofficial rates.

- Meanwhile, Fiscal Policy was largely delayed with the late constitution of the cabinet members by Mr. president.
• Compared to peer countries, the CBN refused to respond appropriately to huge demand pressure in the currency market.
Fiscal Policy Inertia - Energy Reforms only Bright Spot

Also, pressure in the FX market resulted in a full blown energy crisis as the economy entered into another episode of fuel scarcity and long queues resulting in huge wastage in productive hours.

This continued until the minister of state for Petroleum announced the deregulation of the petrol market sector in May 2016.

Average Premium Motor Spirit Prices in Nigeria (Jun-2014 – Aug 2016)

Massive jump in PMS Prices, fueled by scarcity of the product.

Partial Deregulation of the downstream Oil & Gas sector.

Source: NBS, Afrinvest Research
The advent of the Buhari Administration and his anti-corruption campaign revived the Niger-Delta Crisis and crumbled domestic crude oil production.

Source: NBS, CBN
### Revenue Dropped Significantly

Federation Revenue (H1:2015 – H1:2016)

The immediate impact of the shocks is felt on government revenue which tumbled from over N2.7trillion to N2.2tn.

### Graph:

The graph shows the breakdown of Federation Revenue (H1:2015 – H1:2016) into Total Oil Revenue (PPT) Inclusive (N'tn), Taxes and Customs Revenue, and Average Total (N'tn). The data indicates a significant drop in revenue from H1:2015 to H1:2016.

### Source:

NBS, Afrinvest Research
Contraction in GDP

Also, GDP contracted for the first time in 20 years pulling the economy into a technical recession.

Quarterly GDP Growth Trend (Q2:2014 - Q2:2016)

Source: NBS, Afrinvest Research
Inflation in Double-Digit due to “Supply Side” Shocks

Expectedly, Inflation rate galloped from single digits to over 17% and may touch 19% before year end.

Source: NBS, Afrinvest Research
Capital Inflows Response to Oil Prices and Policies

Finally, Capital flows into the country tumbled from the highs of 2014 to roughly 1bn as at Q2:2016
The Role of the Market in getting out of Recession
**Primary Market**

Market where securities are purchased directly from an issuing company or the DMO as the case may be.

Synonymous with IPOs when a private company sells stocks to the public for the first time or Rights Issues and new debt securities in the form of bonds.

**Secondary Market**

"Stock market". Includes all major exchanges around the world.

Investors trade previously-issued securities without the involvement of the issuing companies.

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**The Nigerian Capital Market**

- **Primary**
  - Equities: IPOs, POs, Rights etc.
  - Bonds: PMAs
- **Secondary**
  - Equities: NSE
  - Bond: FMDQ
All Share Index of Nigerian Equities Trend (July 2014 – September 2016)

- **July 2014 – Aug 2014**: Weak sentiment due to poor earnings, fiscal and monetary policy uncertainties.
- **May 2016 – June 2016**: Rally driven by expectation of flexibility in the FX market.
- **July 2014 – Dec 2014**: Weak sentiment due to political uncertainty and decline in oil prices.
- **Feb 2015**: Election postponement & shutdown of the RDAS.
- **May 2016**: Continued delay in implementation of fiscal and monetary stimulus.

Source: NBS, Afrinvest Research
Nigeria Sovereign Yield Curve Movement (December 2015 – September 2016)

Source: NBS, Afrinvest Research
### Treasury Bills Auction Results

<table>
<thead>
<tr>
<th>Tenor</th>
<th>Auction Date</th>
<th>Allotment / Issue Date</th>
<th>Tenor</th>
<th>Auction Date</th>
<th>Allotment / Issue Date</th>
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<tr>
<td>(364-Day)</td>
<td>5/10/2016</td>
<td>6/10/2016</td>
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<tr>
<td><strong>Offer Amount (=N=)</strong></td>
<td>28,000,000,000</td>
<td>33,490,874,000</td>
<td>68,184,887,000</td>
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<tr>
<td><strong>Total Subscription (=N=)</strong></td>
<td>39,126,660,000</td>
<td>68,090,757,000</td>
<td>204,649,902,000</td>
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<tr>
<td><strong>Proposed Allotment (=N=)</strong></td>
<td>28,000,000,000</td>
<td>33,490,874,000</td>
<td>68,184,887,000</td>
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<tr>
<td><strong>Range of Bid Rates (%):</strong></td>
<td>12.5000 – 18.0000</td>
<td>12.0000 – 23.0000</td>
<td>17.0000 – 21.0000</td>
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<td><strong>Recommended Stop Rates (%):</strong></td>
<td>13.9</td>
<td>17.09</td>
<td>18.25</td>
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Sale of National Asset to fund Fiscal Stimulus Plan & reflate the economy

- Raising Non-oil revenue by the Reduction of Federal Government’s stake in JVs in the Oil & Gas sector (e.g. NLNG) through the Capital Market
- Companies to raise capital by issuing new shares.

Equities Market

Listing of JVs on the Nigerian Stock Exchange by the FGN

IPOs & Rights Issues
Federal Government can raise funds for Capital Projects by borrowing through the Capital Market through bonds issuance.

Companies can raise additional capital through debt by issuing corporate Bonds.
The Role of the Market; Derivatives

- Foreign Investors coming into the Nigerian Market Can Hedge positions by purchasing derivatives products through the FMDQ OTC securities exchange.

Derivatives

- Futures Contracts
- Forwards Contracts
Afrinvest Securities Ltd.
Afrinvest Securities Limited ("ASL") is the licensed broker dealer and subsidiary of Afrinvest (West Africa) Limited ("AWA"), a boutique investment banking firm in Nigeria with a primary focus on West Africa.

Founded in 1995 as Securities Transaction and Trust Company Limited ("SecTrust") grew to become a respected research, brokerage and asset management firm

Following the business restructuring exercise in 2005, SecTrust combined with the Nigerian based corporate finance business of Afrinvest (UK) Limited (Afrinvest Nigeria Limited) resulting in the renaming of SecTrust as Afrinvest (West Africa) Limited

In 2012, the Broker Dealer license of AWA was transferred to its subsidiary Afrinvest Securities Limited (ASL).

Afrinvest Securities Limited is regulated by the Securities and Exchange Commission ("SEC") as a broker-dealer and is a dealing member of The Nigerian Stock Exchange and National Association of Securities Dealers (NASD Plc)

ASL is also an appointed Designated Adviser (DA) by The Nigerian Stock Exchange for companies listed on the ASEM Board.

ASL maintains offices in Lagos, Port-Harcourt and Abuja.
ASL has invested heavily in technology and human capital to provide a comprehensive product offering to its clients.
Our Products & Services – General Overview

Stockbroker to New Issue of Securities
As a dealing member of the Nigerian Stock Exchange, we act as stockbroker to new issues of securities to be listed on The NSE.

Brokerage
• We are reputed for timely execution of trades for our clients, with the recent technology upgrade (via introduction of our online Trading Portal Afrinvestor.com), our effectiveness in this will take an upward nudge. Afrinvestor.com gives real time access to the Nigerian Stock Exchange.

Institutional Sales and Marketing
• Institutional Sales & Marketing (“ISM”) provides an in-house distribution channel for often exclusive investment products originated by both our Afrinvest West Africa Ltd and Afrinvest Asset Management Ltd as well as unique value secondary market trading opportunities.
• The investment products include straight equity, convertibles, structured products, money markets, currencies and fixed income securities (both listed and unlisted).
• ISM is organized in two sub-divisions: International & Domestic serving clients such as Fund/Asset Managers, Brokers, Insurance Companies, Pension Fund Administrators, Asset Management Firms, Cooperatives

Fixed Income Trading
• Our Fixed Income Trading unit offers specialized services in sales and trading to both the wholesale and retail end of the market. We are involved in the primary issuance of sovereign, municipal and corporate Bonds.
Our Products & Services

Research & Data Services

- The research unit at ASL is at the very core of our business value proposition as we strive to provide our clients, both internal and external, with in-depth knowledge and thought leadership required for sound investment decisions.

Our Investment Research provides:

- Cutting-edge company fundamentals, industry and economic research; and
- Investment advice for institutional and retail clients

We maintain an extremely robust research database on the Nigerian market spanning 15 years which ensures that we have at our ready disposal up-to-date trading information on the stock and fixed income markets as well as corporate actions. This ensures the integrity of our periodical market and industry reports as well as updates.

Due to our research expertise, we are on retainership with a number of companies to provide research support services

Other Services

- Receiving agent to Public Offers
- Revalidation of dividend warrants and reconciliation of shareholding with Registrars, verification and dematerialization of share certificates, Estate Accounts/Share transmission services
- AfriTrack: Afritrack is a combination of ancillary services provided by Afrinvest Securities Limited bundled into a single service offering to clients. The product is designed to unlock the value of outstanding and unclaimed entitlements of investments in Nigerian quoted securities (equities and bonds) on behalf of our clients. We intend to leverage on our cordial relationships with various company registrars to promptly reconcile actual shareholdings against benefits and entitlement received

The maintenance of an extremely robust research database on the Nigerian market approximately two (2) decades ensures that we have at our ready disposal up-to-date trading information on the stock and fixed income markets as well as corporate actions. This ensures the integrity of our periodical market and industry reports as well as updates.

Given the knowledge and experience of our research analysts, our research publications are widely acknowledged to rank amongst the most incisive and detailed.
Afrinvestor.com is an online trading and investment management portal provided by Afrinvest Securities Limited (ASL) to empower its brokerage clients to take control of their investments, supported by sound investment advice and professional guidance.

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<td>Account &amp; Portfolio Management</td>
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<td>Profile Management</td>
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<td>Trade Execution</td>
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<td>Deposit &amp; Withdrawal of Funds</td>
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<td>Research &amp; Resources</td>
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<td>Easy to Use</td>
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<td>Unique Trading Experience</td>
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<td>Relevant Content</td>
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<td>Timely Execution</td>
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<td>Research Support</td>
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<th>Secondary Features</th>
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<tr>
<td>Access to other Afrinvest Products e.g. AEF &amp; NIDF</td>
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Benefits of Afrinvestor.com

**NO MINIMUM DEPOSIT REQUIREMENT**
Account can be opened with Nil cash deposit or Share certificates. You can also move your account in from other Stockbroking Firms. Our trading fees and commissions are transparent and clear.

**24/7ACCESS.**
Monitor your portfolio wherever and whenever while you get access to the latest Capital market activities to guide you as you trade.

**EASY TO USE**
The platform is designed in a very flexible way to meet your trading needs. It’s easy to navigate, execution of trades is seamless and instant. Afrinvestor.com also has an App available on IOS and Android devices.

**ACCESS TO FREE RESEARCH.**
Afrinvestor.com leads you by the hand, get the latest stock recommendations, investment tips and trading tools you need whenever you need it on the Platform. We deliver the stock market information you need to make informed decisions and place equity trades. Explore our Research Hub for in-depth research and analysis.
## Overview of AfriTrack

### What does it involve?
- Reconciliation of clients’ Shareholdings and Investments
- Recovery of outstanding certificates, bonuses and dividend warrants
- Recovery of return money/interest on un-allotted public offer shares
- Dematerialization of recovered Share Certificates
- Revalidation of expired Dividend Warrants
- Consolidation of multiple shareholding account
- Consolidation of CSCS accounts in multiple Houses

### SERVICE DETAIL
AfriTrack services would normally be concluded within a period of 1-3 months depending on the complexity of the portfolio and particular circumstances.

### FEE STRUCTURE
3% service charge on the value of shares or dividends recovered. However, an initial N5,000 upfront commitment will be required for individual applicants while N10,000 is required for corporate applicants.

### TARGET CLIENTS
- High Net Worth Individuals/Corporations
- Co-operate societies
- Estate Account Clients
- Busy Executives

### How it Works
- Open a Brokerage account with ASL and provide us with complete KYC documents
- Fill out AfriTrack application form
- Mandate Letter(s) authorization from clients
- Supply of Basic investment information
- Provide initial feedback to Clients
- Retrieve outstanding benefits and entitlements on clients’ behalf
- Sending of Final Report of the global assignment to the client
<table>
<thead>
<tr>
<th>Contacts</th>
<th>Email</th>
<th>Tel</th>
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<tbody>
<tr>
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<td><strong>Investment Research</strong></td>
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Thank You

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