

The day in review

- Equity market gained 1.0%
- Interbank rates closed lower
- Bearish activity in Bonds market
- Naira depreciated at the NAFEX window

Looking forward

Dec-2021 CPI and Inflation Report - NBS

Daily Insight

2022 Appropriation Bill Series 2: A budget of wishful spending?

In the second part of our series, we examine the underlying assumptions in the 2022 Appropriation Act as well as the budget expectations. First, we reckon that the oil price benchmark of \$62.0/bbl., is realistic on account of surging global energy prices amid structural supply bottlenecks. However, we consider the exchange rate forecast of N410.15/\$ conservative as the Naira currently trades at N422.0/\$ at the I&E window and is projected to maintain an upward trajectory in 2022. That said, this could represent a positive for revenue generation if the FG opts to adjust its exchange rate assumption, given it represents the rate at which USD revenues are converted. Similarly, other macro assumptions such as inflation (at 13.0%), GDP growth (at 4.2%) and oil production (at 1.9mb/d) are unrealistic considering economic realities and our projections.

In 2022, FG aims to generate a total revenue of N10.7tn in 2022, 32.3% higher than 2021's budgeted revenue. Annualising FG's revenue (excluding GOE's budgeted and annual revenue) for the first 11 months of 2021 (printing at N4.7tn), it represents a revenue performance of 69.4% in 2021. Again, excluding 2021's revenue performance, average revenue performance in the full budget calendars of the current administration (2016 – 2020) prints at 74.5% while average revenue growth prints at 8.5%. Clearly, nothing from historical numbers suggests the FG can achieve record revenue numbers of N10.7tn (excl GOEs – N9.0tn). We believe the FG's pitfall would be oil revenue generation where we expect an optimistic oil production estimate will undermine FG's oil revenue projection. Also, we note the FG continues to overestimate its ability to generate "Other income" which could become another clog in the wheel in 2022.

On the expenditure side, we think the FG may be stretching its finances which would force unnecessary reliance on the debt market to actualize its spending plans. The 2022 budget projects a total expenditure of N17.1tn, 18.0% higher than 2021's budget. Truly, historically, expenditure performance has been decent with a 94.1% performance in 2021 and a prior five-year average of 88.4%. Thus, we think the FG would push to actualize its spending plans but at the cost of debt sustainability and possibly high interest rates.

Headline	Level	1 day	YTD
NGX ASI	43,476.8	▲ 1.0%	▲ 1.8%
Mkt. Cap (N'bn)	23,426.5	▲ 1.0%	
Mkt. Cap (\$'mn)	54,480.3	▲ 1.0%	
Value (N'mn)	42,966.4	▲ 2734.8%	
Value (\$'mn)	99.9	▲ 2686.5%	
Volume	1,240.9	▲ 472.7%	
Deals	4,032.0		
Market Breadth	1.3x		

T-Bills Yields	Current	Previous	%Δ
3 months	3.00	3.00	0.00
6 months	3.73	3.73	0.00
12 months	5.23	5.23	0.00

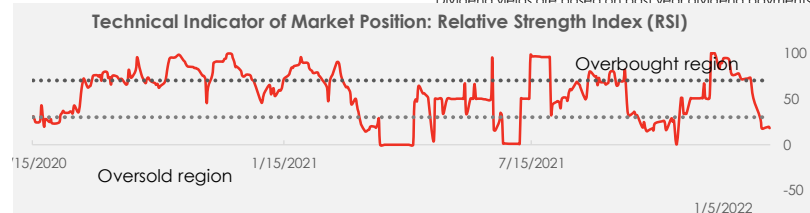
Bonds Yields	Current	Previous	% Δ
3 years	9.12	9.12	0.00
5 years	11.50	11.27	0.23
7 years	12.33	12.40	-0.07
10 years	12.61	12.61	0.00

Currencies	Current	Previous	% Δ
NAFEX	430.00	422.67	-1.7%

Other Key indices	Current	Previous	% Δ
OBB	4.5	6.7	-2.17
OVN	5.3	7.5	-2.25
Brent	80.2	80.0	0.25

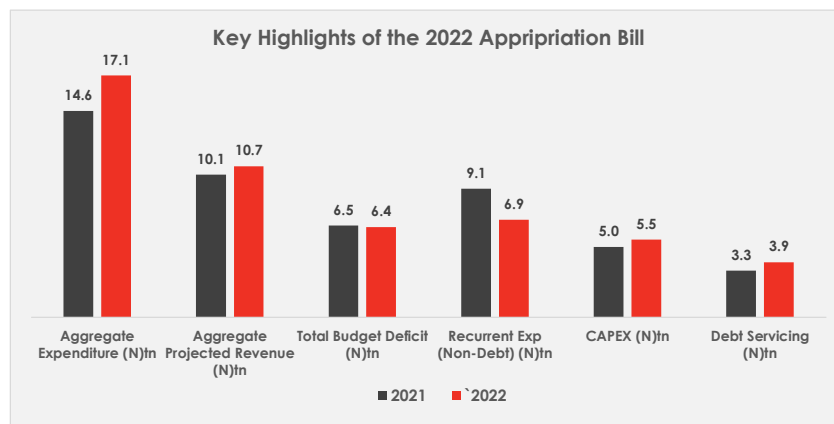
	1 day	MTD	YTD	P/E (x)	Div. Yid.
Agriculture	0.0%	0.0%	0.0%	na	na
Banks	-0.5%	-0.1%	-0.1%	2.4	8.5%
Consumer	0.0%	-0.9%	-0.9%	27.1	3.6%
Industrial	-2.4%	0.5%	0.5%	16.9	3.7%
Insurance	0.8%	0.4%	0.4%	2.1	2.9%
Oil & Gas	3.1%	2.6%	2.6%	9.4	4.5%
Mkt. Avg. P/E		9.7		Mkt. Avg. Div. Yid	4.7%

*P/Es are based on the last twelve months trailing earnings
*Dividend yields are based on past year dividend payments



Pan African Market Monitor as at today

Equities	Level	1 day	YTD	P/E (x)	Div. Yid.
BRVM	201.3	▼ -0.4%	▼ -0.5%	9.2	5.4%
Egypt	11,982.6	▲ 0.7%	▲ 0.3%	9.1	1.4%
Kenya	169.2	▲ 1.3%	▲ 1.7%	11.3	3.4%
Mauritius	2,099.1	▲ 0.1%	▲ 0.1%	na	3.0%
Morocco	345.8	▼ -0.6%	▼ -0.6%	23.0	3.1%
MSCI FM	665.3	▼ 0.0%	▼ 0.0%	14.6	2.7%
South Africa	75,052.1	▲ 1.8%	▲ 1.8%	12.6	4.1%
Tunisia	6,960.3	▼ -0.2%	▼ -1.2%	22.9	2.3%
Zimbabwe	287,639.6	▼ -2.5%	▼ -2.5%	18.4	1.1%



Source: Federal Budget Office, United Capital Research

Contact us

Research | +234-1-631-7898
research@unitedcapitalplcgroup.com

Trustees | +234-1-631-7877
trustees@unitedcapitalplcgroup.com

Securities Trading | +234-1-631-7891
securities@unitedcapitalplcgroup.com

Investment Banking | +234-1-631-7883
investmentbanking@unitedcapitalplcgroup.com

Asset Management | +234-1-631-7876
assetmanagement@unitedcapitalplcgroup.com