

Wednesday, February 24, 2021

The day in review

- Equities market climbed marginally
- Financial system liquidity was buoyant
- Uptick in yields at the NTB auction
- Naira remained flat at the NAFEX window

Looking forward

FY-2020 Earnings Publications - NSE

Daily Insight

Subsidy removal and cost reflective tariff: Tough decisions to be made

In 2020, the COVID-19-induced economic shock led the FGN to adopt structural changes and move away from subsidizing energy products. The government moved towards price modulation for PMS, removing subsidy provisions in the MTEF (2020-2023). It also announced its plans to fully adopt cost-reflective electricity tariffs by 2021, following a partial adoption in 2020.

Reception from stakeholders to this policy was mixed, primarily due to doubts regarding the government's ability to retain its policy when market fundamentals improved as energy prices have long been subject to politicking in Nigeria. Oil prices have risen above \$65/b with landing cost of PMS estimated at N186/l in the media. However, pump prices remain at N162/l, highlighting some form of subsidy by the NNPC. In Q4 2020, following the call for price adjustments by marketers, organized labour began to advocate for the welfare of its members, highlighting the potential economic impact and threatening strike action. The FGN responded by setting up a technical committee that constituted the NNPC, organized labour, the PPPRA, and other relevant government ministries. Following the technical committee's report, state governments and the FGN will hold a final vote on Thursday (25/02/2021) to decide on price adjustments.

At Thursday's vote, we suspect the government will be wary of the potential short-term effect of subsidy removals, amid rising inflation and overall pressure on consumption spending. In these challenging times, subsidizing consumption of petrol have their economic and social benefits, and rightly so. However, there lies a counter-argument that temporary pain from their removal could potentially lead to a long-term gain. Thus, the government may be better off in a number of ways by biting the bullet now. Firstly, it challenges Sub-national government and the FGN to adopt tough measures to grow the income per capita of its citizens to cushion the impact of higher energy prices. Secondly, it opens up the industry to increased investment. Finally, it frees up funding for developmental projects that could potentially accelerate economic growth in the long-run.

Headline	Level	1 day	YTD
NSE ASI	40,221.3	▲ 0.1%	▼ -0.1%
Mkt. Cap (N'bn)	21,044.0	▲ 0.1%	▼ -0.1%
Mkt. Cap (\$'mn)	55,525.0	▲ 0.1%	▼ -0.1%
Value (N'mn)	7,080.8	▲ 84.2%	
Value (\$'mn)	18.7	▲ 84.2%	
Volume	469.6	▲ 38.9%	
Deals	5,470.0	▲ 4.5%	
Market Breadth	1.0x		

T-Bills Yields	Current	Previous	%Δ
3 months	0.76	0.76	0.00
6 months	1.42	1.42	0.00
12 months	2.03	2.07	-0.04

Bonds Yields	Current	Previous	% Δ
3 years	6.24	7.39	-1.15
5 years	9.60	9.60	0.00
7 years	10.33	10.33	0.00
10 years	10.77	10.79	-0.02

Currencies	Current	Previous	% Δ
Official	379.00	379.00	0.00%
Parallel	477.50	477.50	0.00%
NAFEX	408.80	408.60	-0.05%

Other Key indices	Current	Previous	% Δ
OBB	1.5	1.8	-0.25
OVN	1.8	2.0	-0.20
Brent	67.2	65.4	2.75

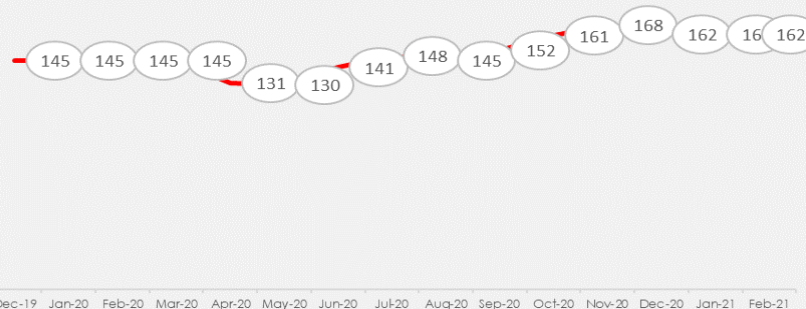
	1 day	MTD	YTD	P/E (x)	Div. Yid.
Agriculture	0.0%	0.0%	0.0%	0.0	0.0%
Banks	0.8%	-8.0%	-0.7%	3.9	8.8%
Consumer	-0.3%	-7.0%	-0.5%	304.3	3.9%
Industrial	0.2%	-8.6%	-7.3%	20.8	4.9%
Insurance	-1.9%	-16.1%	8.9%	5.2	2.6%
Oil & Gas	0.8%	4.3%	17.2%	111.1	5.4%
Mkt. Avg. P/E	15.2	Mkt. Avg. Div. Yid	4.6%		

*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	133.0	▲ 0.9%	▼ -8.5%	8.3	7.1%
Egypt	11,416.7	▼ -1.2%	▲ 5.3%	13.0	2.6%
Ghana	2,177.4	0.0%	▲ 12.3%	n/a	n/a
Kenya	165.9	0.0%	▲ 9.1%	12.0	4.1%
Mauritius	1,606.2	▼ -0.2%	▼ -2.6%	n/a	1.1%
Morocco	305.4	▼ -0.3%	▲ 0.2%	24.3	3.5%
MSCI FM	551.1	▲ 0.1%	▲ 3.3%	12.8	3.2%
South Africa	65,921.6	▼ -2.1%	▲ 11.0%	26.0	2.3%
Tunisia	6,695.4	▼ 0.0%	▼ -2.8%	20.3	0.6%
Zimbabwe	82,833.7	0.0%	▲ 78.8%	1.7	1.3%

Pump Price of PMS has not responded to changes in crude in recent months
PMS pump price



Sources: NBS, United Capital Research

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