

The day in review

- Equity market down by 10bps
- Interbank rates ficked downwards
- Bullish activity in Bonds market
- Naira closed flat at the NAFEX window

Looking forward

CPI and Inflation Report Nov-2021 - NBS

Daily Insight

Fuel Subsidy Removal in Nigeria: A potential double-edged sword

Recently, the Minister of Finance hinted at a subsidy removal in 2022, with the Minister hinting at replacing the program with a N5,000 cash handout for the poorest Nigerians. The move to continue to treat Petrol Motor Spirit (PMS) as a public (which should be non-excludable and non-rivalrous) continues to deter investment in the downstream oil and gas sector and has left the FGN as the primary importer of PMS, as the price per liter remains fixed.

Thus far in Sep-2021, the FGN has spent N864.0bn (vs a total of N496.3bn of NNPC remittances in 2021) on its under-recovery program to keep the price of petrol fixed. The FGN's energy subsidy programs continue to create a gaping hole in the FGN finances. Subsidy programs coupled with the revenue underperformance, printing at just 67.0% in H1-2021 have led to increased debt financing for the FGN. Infamously in April -2021, NNPC remittances were net-zero, mainly due to the financing of the expensive program, which continues to derail the downstream sector. Regarding investments, the reluctance to implement deregulation makes it largely unprofitable for significant oil marketers to import PMS by sourcing FX in the parallel market. The current price cap does not allow marketers to recover their initial costs. This discourages market players from engaging in wholesaler activity and relying on NNPC to import PMS, meaning all other marketers eat retailers' margins.

Looking forward, the implementation of the Petroleum Industry Act (PIA) and the potential removal of the subsidy in 2022 is expected to provide some respite for the downstream oil and gas sector. We are broadly optimistic regarding the potential removal of subsidies as it would be a net benefit for the oil and gas sector with regards to investments and reduced reliance on NNPC's importation. On the downside, however, the months in the initial aftermath of the subsidy removal will see rising inflationary pressures which could be detrimental to household income considering the slow pace of household income growth since 2015. As a result, we expect significant public backlash and possible industrial actions.

Headline	Level	1 day	YTD
NGX ASI	43,270.9	▼ -0.1%	▲ 7.5%
Mkt. Cap (N'bn)	22,578.7	▼ -0.1%	
Mkt. Cap (\$'mn)	54,397.4	▼ -0.1%	
Value (N'mn)	2,359.6	▼ -34.0%	
Value (\$'mn)	5.7	▼ -34.0%	
Volume	213.1	▼ -30.2%	
Deals	4,105.0		
Market Breadth	0.6x		

T-Bills Yields	Current	Previous	%Δ
3 months	2.46	2.46	0.00
6 months	3.35	3.35	0.00
12 months	6.55	6.56	-0.01

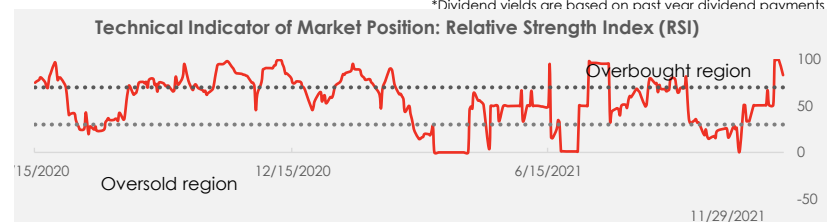
Bonds Yields	Current	Previous	% Δ
3 years	9.32	9.35	-0.03
5 years	11.64	11.68	-0.04
7 years	12.08	11.98	0.10
10 years	12.24	12.29	-0.05

Currencies	Current	Previous	% Δ
NAFEX	415.07	415.07	0.0%

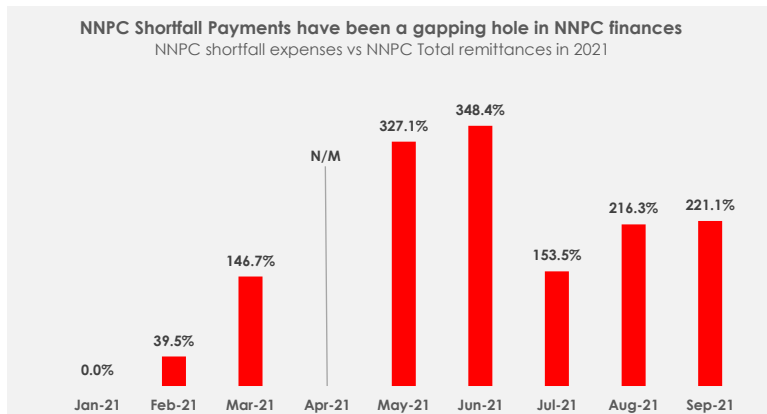
Other Key indices	Current	Previous	% Δ
OBB	15.0	15.0	0.00
OVN	15.3	15.7	-0.42
Brent	74.5	72.7	2.49

	1 day	MTD	YTD	P/E (x)	Div. Yid.
Agriculture	0.0%	3.1%	43.9%	na	na
Banks	-0.3%	-4.9%	-0.6%	3.1	8.8%
Consumer	-1.1%	-3.5%	-4.1%	39.9	3.8%
Industrial	0.0%	0.8%	6.9%	17.8	3.6%
Insurance	0.6%	1.8%	-3.4%	2.0	3.1%
Oil & Gas	-1.6%	-6.7%	61.3%	8.6	4.1%
Mkt. Avg. P/E	10.5	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	196.6	▲ 0.6%	33.5%	10.2	5.5%
Egypt	11,212.3	▼ -0.6%	3.5%	8.4	1.4%
Kenya	164.8	▲ 0.2%	8.3%	12.2	3.6%
Mauritius	2,019.4	▼ -2.7%	27.2%	na	3.0%
Morocco	344.7	▼ -0.8%	13.1%	25.6	3.3%
MSCI FM	666.6	▲ 0.3%	16.9%	14.2	2.7%
South Africa	70,008.5	▼ -0.1%	16.7%	11.6	4.3%
Tunisia	7,067.3	▼ -0.1%	2.6%	22.1	2.3%
Zimbabwe	265,559.3	▲ 5.4%	473.2%	2.0	1.0%



Source: NNPC, 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