United Capital Research | Daily Market Commentary

Tuesday, 18 May 2021

United Capital
The Intelligent Choice

The day in review

- Equities market lost 0.7%
- Interbank rates pressure ease
- Bullish session in the bonds market
- Naira depreciates by 3bps at the I&E window

Looking forward

May Bond Auction - DMO

Daily Insight

More and more debt...Where do we draw the line?

Yesterday, President Muhammadu Buhari submitted a request for the approval of additional N2.3tn ($6.2bn) worth of external debt to the senate. According to the request, the loan is aimed at part-financing the N5.6tn budget deficit for 2021 with critical focus on funding capital expenditure. Noteworthy to mention, the loan request had been provided for as part of the 2021 appropriation act, thus the current presentation is merely to fulfill legal provisions. Interestingly, the FG recently got approval for $1.5bn and €995.0m worth of multilateral loans few weeks ago.

Last year, the Federal government relied heavily on a slew of borrowings largely from multilateral organisations such as the IMF, World Bank and AfDB. The huge reliance on the debt market was necessitated by shocks to revenue generation. Similarly, the FG appears to be leaning heavily towards the external debt market in 2021, to spend its way out of the economic slowdown. However, the concern remains Nigeria's rising debt sustainability risk.

At the end of 2020, Nigeria's total debt stock (national & sub-national) stood at N32.9tn (or $86.8bn). The government has historically justified its rising debt profile by the compliant debt-to-GDP ratio of less than 30.0%. However, we reiterate our position that the FG's debt service cost as a percentage of revenue is a fairer reflection of the country's debt sustainability position. This is because a huge proportion of nominal GDP does not contribute to government's ability to repay its obligations. Recently, the pandemic driven revenue shock has exacerbated the already precarious debt service cost to revenue ratio (averaging c.80% in 2020 vs. historic average of c.55%). Thus, while we recognize deficit spending as a critical fiscal policy tool to drive economic recovery, we think the FG can no longer ignore the associated debt sustainability risk.

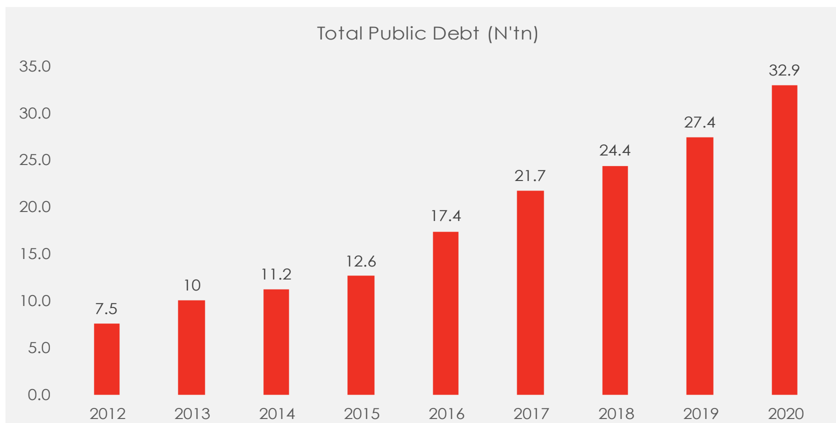
Headline	Level	1 day	YTD
NSE ASI	39,022.5	-0.7%	-3.1%
Mkt. Cap (₦'bn)	20,339.5	-0.7%	
Mkt. Cap ($'mn)	53,666.1	-0.7%	
Value (N'mn)	1,839.7	-48.4%	
Value ($'mn)	4.9	-48.4%	
Volume	204.6	-42.8%	
Deals	3,940.0		
Market Breadth	0.7x		

T-Bills Yields	Current	Previous	%Δ
3 months	3.78	3.50	0.28
6 months	5.09	5.09	0.00
12 months	9.07	9.24	-0.17

Bonds Yields	Current	Previous	% Δ
3 years	12.01	12.04	-0.03
5 years	12.62	12.64	-0.02
7 years	13.01	13.01	0.00
10 years	13.24	13.24	0.00

Currencies	Current	Previous	% Δ
Official	379.00	379.00	0.00%
Parallel	484.00	484.00	0.00%
NAFEX	411.63	411.50	-0.03%

Other Key indices	Current	Previous	% Δ
OBB	12.8	13.5	-0.75
OVN	13.3	13.8	-0.50
Brent	68.7	69.5	-1.08

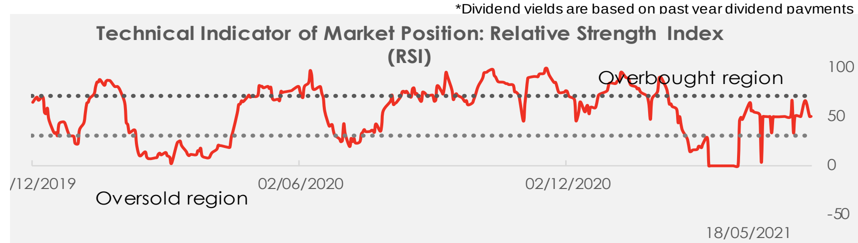


Source:DMO, United Capital Research

	1 day	MTD	YTD	P/E (x)	Div. Yid.
Agriculture	0.0%	2.5%	8.4%	0.0	0.0%
Banks	0.0%	3.8%	-7.0%	3.5	9.6%
Consumer	-0.1%	0.8%	-1.8%	119.0	3.9%
Industrial	-2.6%	-4.0%	-8.9%	17.2	4.9%
Insurance	-1.1%	0.3%	6.6%	4.1	4.9%
Oil & Gas	0.3%	5.9%	26.8%	na	4.6%
Mkt. Avg. P/E	13.1		Mkt. Avg. Div. Yid	5.1%	

*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	151.5	0.6%	4.2%	9.3	6.2%
Egypt	10,780.9	1.0%	-0.6%	12.1	2.9%
Ghana	2,566.3	-0.5%	32.3%	n/a	n/a
Kenya	162.6	-1.1%	6.9%	12.4	2.2%
Mauritius	1,753.7	0.0%	6.4%	n/a	1.2%
Morocco	322.6	0.0%	5.8%	29.5	3.4%
MSCI FM	551.1	0.1%	8.2%	12.8	2.7%
South Africa	67,254.9	0.1%	13.2%	26.2	2.5%
Tunisia	7,380.7	-0.1%	7.2%	25.4	1.8%
Zimbabwe	122,717.2	0.0%	164.9%	6.4	1.3%

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