

Wednesday, January 27, 2021

The day in review

- Equities market closed positive
- Financial system liquidity remained robust
- Uptick in stop rates at the CBN's PMA
- Naira depreciated at the parallel market

Looking forward

- Q2-Q4 2020 Telecoms Data - NBS

Daily Insight

Nigeria upstream oil & gas sector: A look at FGN's optimistic 3.0mbpd target

The Federal government has signalled its plans to expand production output to 3.0mbpd in 2023 from its current production level of 1.4mbpd (excluding condensates). This comes on the heels of recent reforms in the Nigeria oil and gas industry such as the re-opening of bidding rounds for marginal fields and potential progress with the Petroleum industry bill which would potentially spur increased drilling in the sector. Nevertheless, we think this target is implausible considering current production cycle as well as a number of other headwinds.

First, a relatively high cost of drilling (average cost of drilling in Nigeria is \$17 vs \$8 and \$9 in Saudi Arabia and Iran respectively) could deter further investment in oil and gas assets. Moreover, Nigeria's alliance with OPEC means she will have to adhere to output caps over its expansion targets. For example, in Q4 2020, OPEC's proposed quotas in bid to rebalance oil markets saw cuts in production for the Joint ventures (JVs) and marginal fields. The cartel will make output adjustments to productions levels by +/- 500,000 bpd monthly, reviewing market fundamentals. However, stable prices at around \$55 per barrel will provide some respite for drillers and their margins.

We also highlight concerns around regulatory bottlenecks which has stifled investment flows into oil & gas assets. Prior to the pandemic, FDI flows into the sector had slowed significantly even in periods of high prices due to unattractive investment terms for PSC agreements and JVs. Thus, increased legislative reforms are required to attract even more investments in the upstream oil and gas sector. That said, we think Nigeria's long-term production goal 3.0mbpd remains a tight target to reach considering even in greener times, historical production peaked at 2.3mbpd in 2005. However, current acquisition of the NNPC JV assets by local investors provides relief to the FGN's ambitious target.

Headline	Level	1 day	YTD
NSE ASI	41,930.7	▲ 0.8%	▲ 4.1%
Mkt. Cap (₦'bn)	21,934.4	▲ 0.8%	▲ 4.2%
Mkt. Cap (\$'mn)	57,874.5	▲ 0.8%	▲ 4.2%
Value (N'mn)	7,322.0	▲ 31.6%	
Value (\$'mn)	19.3	▲ 31.6%	
Volume	543.6	▲ 16.2%	
Deals	6,770.0	▲ 13.0%	
Market Breadth	1.6x		

T-Bills Yields	Current	Previous	%Δ
3 months	0.35	0.20 ▲	0.15
6 months	0.51	0.45 ▲	0.06
12 months	1.17	1.17 ▬	0.00

Bonds Yields	Current	Previous	% Δ
3 years	6.27	3.45 ▲	2.82
5 years	7.02	7.02 ▬	0.00
7 years	8.29	7.95 ▲	0.34
10 years	8.55	8.34 ▲	0.21

Currencies	Current	Previous	% Δ
Official	379.00	379.00 ▬	0.00%
Parallel	478.00	476.00 ▼	-0.42%
NAFEX	394.25	394.00 ▼	-0.06%

Other Key indices	Current	Previous	% Δ
OBB	5.0	4.5 ▲	0.50
OVN	5.5	5.3 ▲	0.25
Brent	55.6	55.9 ▼	-0.63

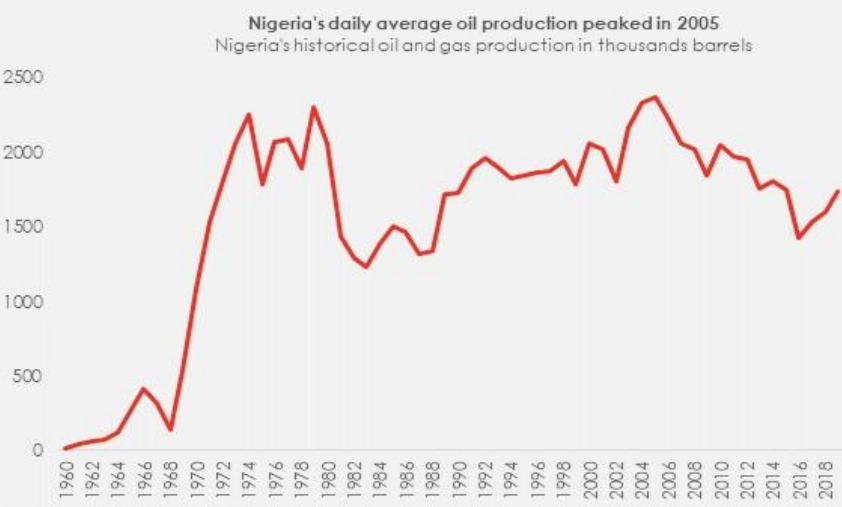
	1 day	MTD	YTD	P/E (x)	Div. Yid.
Agriculture	0.0% ▲	3.5% ▲	3.5%	0.0	0.0%
Banks	0.3% ▲	5.1% ▲	5.1%	4.3	8.3%
Consumer	0.2% ▲	5.7% ▲	5.7%	228.2	3.7%
Industrial	0.5% ▲	1.3% ▲	1.3%	23.1	4.5%
Insurance	1.5% ▲	29.3% ▲	29.3%	6.8	2.2%
Oil & Gas	-0.1% ▲	13.7% ▲	13.7%	97.7	5.6%
Mkt. Avg. P/E		16.0		Mkt. Avg. Div. Yid	4.4%

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



Pan African Market Monitor as at today

Equities	Level	1 day	YTD	P/E (x)	Div. Yid.
BRVM	133.9	0.7% ▼	-7.9%	8.4	7.0%
Egypt	11,578.8	0.4% ▲	6.8%	12.4	2.8%
Ghana	2,025.3	0.1% ▲	4.4%	n/a	4554.0%
Kenya	157.0	-0.3% ▲	3.2%	11.7	4.3%
Mauritius	1,641.1	0.0% ▼	-0.5%	n/a	1.2%
Morocco	316.1	0.7% ▲	3.7%	31.7	3.3%
MSCI FM	551.1	-0.5% ▲	2.5%	12.8	3.3%
South Africa	62,784.5	-1.8% ▲	5.7%	28.6	2.5%
Tunisia	6,615.2	-0.4% ▼	-3.9%	20.0	0.6%
Zimbabwe	65,280.9	-12.8% ▲	40.9%	1.5	1.5%



Sources: OPEC, 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