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# Nigerian Capital Market Update



September 2020

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In H1 2020, the twin combination of the outbreak of the novel coronavirus (COVID-19) and volatility in commodity prices impacted the Nigerian economy as well as other emerging economies. According to the Nigerian Bureau of Statistics (NBS), Nigeria’s gross domestic product (GDP) contracted by -6.1% year-on-year in Q2 2020 and by -8.22% when compared to the GDP growth rate of 2.12% recorded in Q2 2019.

The sectoral growth recorded in the agriculture (1.58%), finance and insurance (18.49%), and information and telecommunications sectors (15.09%) in Q2 2020 could not level out the decline recorded in other sectors due to the nationwide lockdown. Expectedly, the transportation & storage and accommodation & food services sectors suffered the worst contraction of -49.2% and -40.19%, respectively.

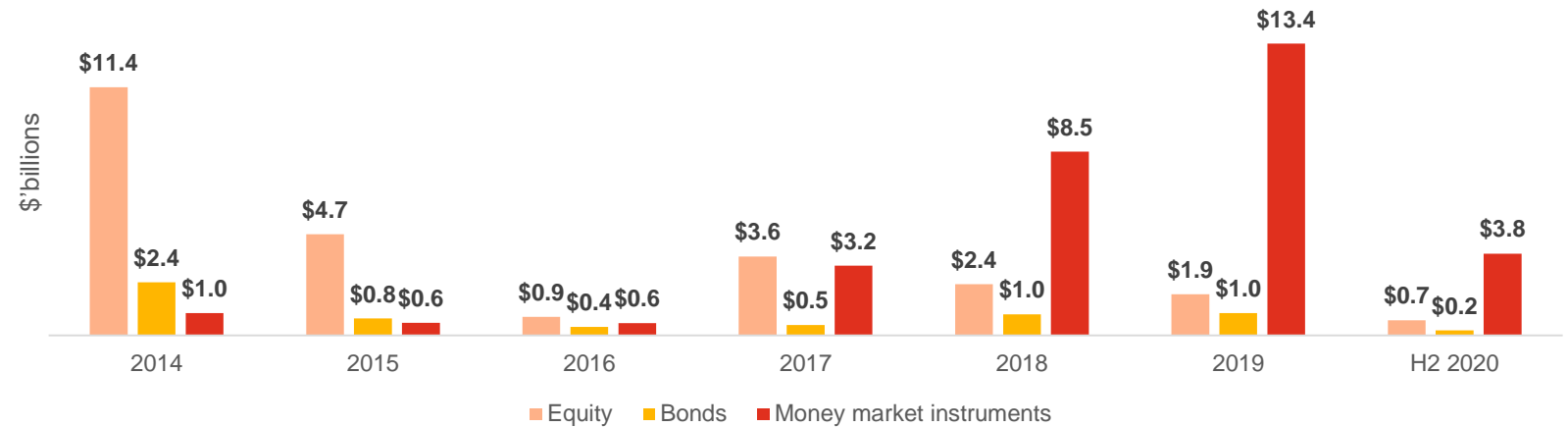
Crude oil price volatility has continued to put pressure on foreign exchange stability which has necessitated several exchange rate

adjustments by the Central Bank of Nigeria from ₦307/\$1 in March 2020 to ₦380/\$1 in August 2020, indicating a naira devaluation by 23.8%. Similarly, headline inflation rate has been on the rise, from 11.22% in June 2019 to 12.13% in January 2020 and 12.56% as at June 2020.

Macro-economic indices and forecasts portray rather low level of investors’ confidence in the domestic investment climate as foreign direct investment (FDI) and foreign portfolio investments (FPI) plunged 33.41% and 91.14% respectively, year-on-year in Q2 2020.

Stock market returns, measured by Nigerian Stock Exchange All Share Index (NSE ASI), dipped by 8.8% as at H1 2020 year-to-date from 26,842.07 in December 2019 to close at 24,479.22 in June 2020.

Foreign portfolio investment, 2014 - June 2020



Source: National Bureau of Statistics, Nigeria

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As witnessed in the global markets, the Nigerian equities market is gradually recovering from the impact of COVID-19, albeit more slowly. Macroeconomic instability continues to fuel investor and issuer apathy in the equities market as no IPO has been recorded through out the year.

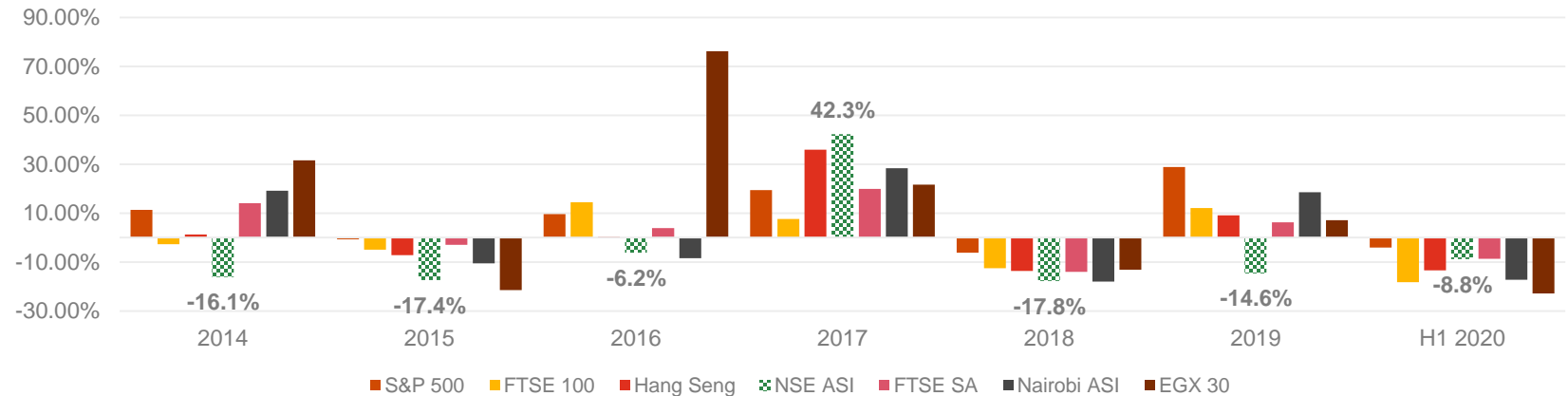
Meanwhile, the market witnessed a some significant primary market activities within the year.

The largest rights issue to date on the Nigerian Stock Exchange (NSE) was recorded within the year by International Breweries Plc, raising ₦164.4 billion in March 2020. Proceeds from the rights offer were used to part-refinance the company's existing debt in the bid to optimize the capital structure. The market also saw the listing of BUA Cement Plc, a product of the merger agreement between OBU Cement and Cement Company of Northern Nigeria (CCNN) which was concluded in January 2020. BUA Cement Plc attracted a valuation of ₦1.18 trillion, making it the third largest company on the NSE as at listing date.

As part of initiatives aimed at attracting fast growth companies and startups to the capital market, the NSE launched the Growth Board earlier in the year. The Growth Board aims to address the shortcomings of the Alternative Securities Market (ASem) by offering more flexible listing options, relaxed eligibility requirement, and less regulatory burden in terms of post-listing obligations. For instance, companies with market capitalization of as low as ₦50 million with a minimum of 25 shareholders could be eligible to list its shares on the Growth Board.

In the similar vein, the NSE recently released a draft regulatory framework for the listing of special purpose acquisition companies (SPACs) in Nigeria. This will further expand the funding options available to start-ups and fast growth companies through the capital market, and create an avenue for listing through a reverse merger. It will also provide a regulated and 'shareholder-friendly' structure for retail investors to invest in start-ups thereby having a reduced risk perception.

**NSE ASI vs global indices, 2014 - June 2020**





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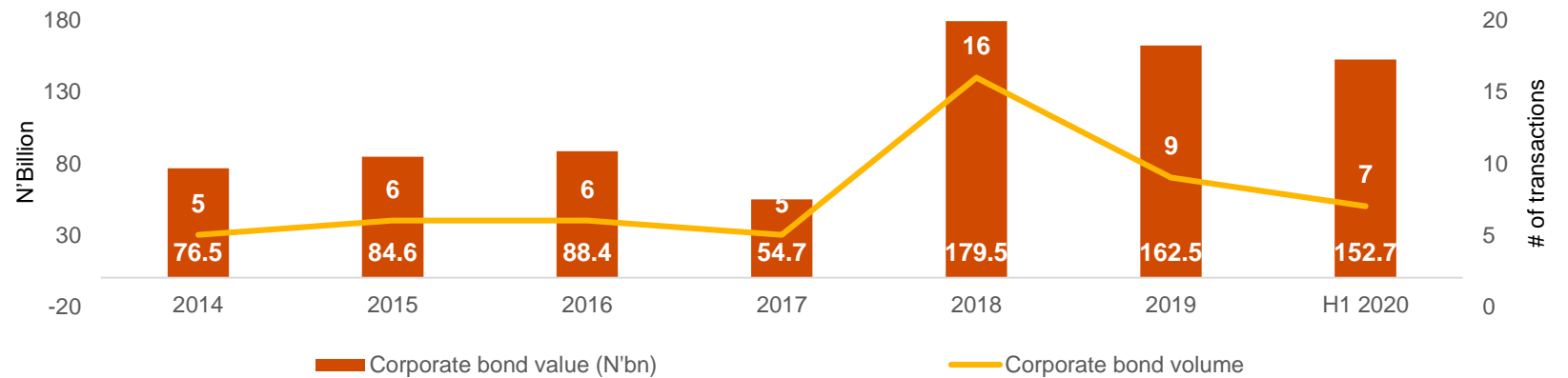
Activities in the domestic bond market increased significantly year-on-year as corporates continue to take advantage of the relatively low yields in the market to refinance existing debts and fund business expansion, amongst others.

A total of ₦152.7 billion was raised in seven corporate bond issuances in H1 2020 compared to ₦54 billion raised in three issuances in the corresponding 2019 period. Out of the corporate bond issuances in H1 2020 was the landmark issuance by Dangote Cement in its ₦300 billion bond programme, raising ₦100 billion in the first series. The offer, which was oversubscribed by 55%, is the largest corporate bond issued in the Nigerian capital market to date.

Also, there is renewed activity in the issuance of sub national bonds by state governments to fund key infrastructure projects as they redeem their ongoing bond obligations. In H1 2020, the Lagos State and Ondo State governments issued ₦100 billion and ₦14.8 billion, respectively to part-finance social projects in the states.

Meanwhile, the domestic debt market is about to witness its third supranational bond issuance with the registration of a ₦300 billion domestic bond programme by the Africa Export-Import Bank (Afreximbank). This is coming after the IFC's ₦12 billion domestic bond issuance in 2013 and the AfDB's ₦12.95 billion issuance in 2014. According to filings with the Nigerian SEC filings, Afreximbank is expected to use the bond proceeds to fund its domestic operations in Nigeria.

## Corporate Bond Activity (2014 – H1 2020)



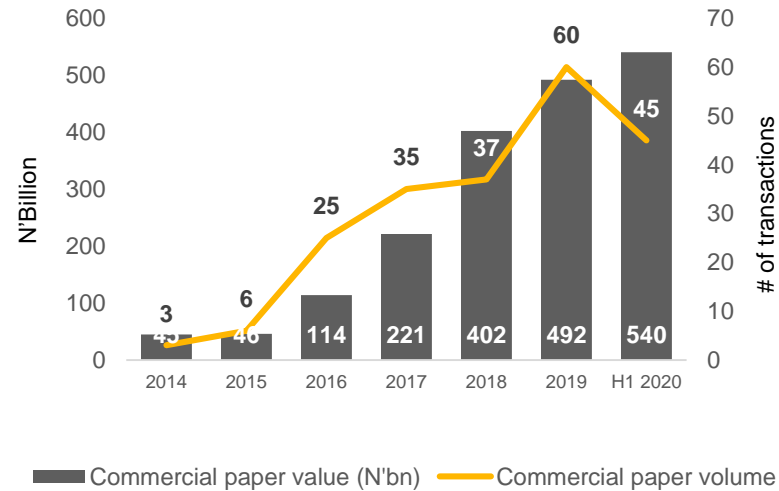
Source: NSE and FMDQ

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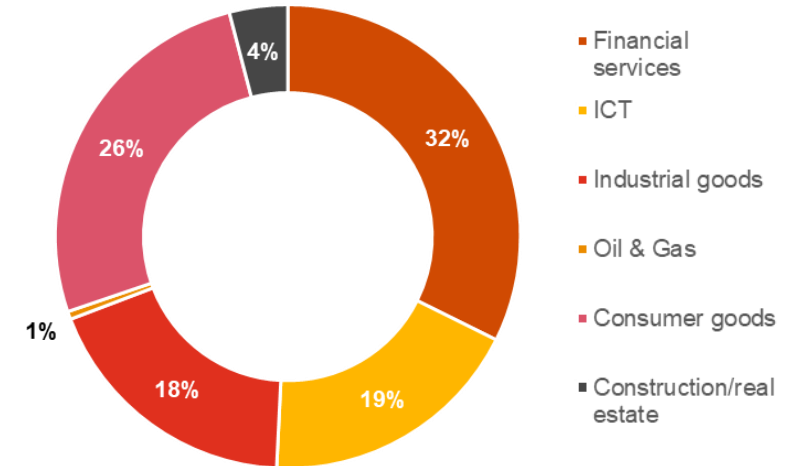
Activities in the commercial papers market maintained its upward trajectory as more blue chip companies continue to access short-term funding from a diversified investor base through the capital market and on favourable terms. As at June 2020, **₦539.8 billion** has been raised from 45 issuances by 16 corporates compared to **₦296.8 billion** raised in 33 issuances in H1 2019.

In terms of industry spread, the financial services sector accounted for 32% of the proceeds raised as at H1 2020, followed by the consumer goods sector representing 26% of total proceeds. Dangote Cement and MTN Nigeria accounted for 36% of total proceeds, with each raising **₦100 billion** from the commercial paper market.

## Commercial Paper Activity (2014 – H1 2020)



## Commercial paper issuance by sector, June 2020 YTD



Source: FMDQ

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### NSE Demutualisation

Following the SEC’s “No Objection” on the planned demutualization of the NSE, members of the Exchange approved a scheme of arrangement that will see the NSE metamorphosed into a non-operating holding company with three subsidiaries charged with the trading operations, self-regulatory function, and investment business of the Exchange.

The NSE will be the third demutualized exchange in Africa, with Johannesburg Stock Exchange and Nairobi Stock Exchange demutualized in 2006 and 2014 respectively.

### Launch of NSE Growth board

The NSE launched the Growth Board in January 2020 aimed at replacing the Alternative Securities Market (ASeM). The Growth Board is set to provide the much needed flexibility to SMEs and fast growth companies that are looking to raise long term capital through the market as well as facilitate liquidity for their shares.

### SEC Crowd funding rules

In a bid to create a structure and framework for crowdfunding activities in Nigeria, the SEC released proposed rules for the regulation of crowdfunding activities. This is expected to drive investor confidence and provide a structured platform for start-ups to access funding. With the right implementation strategy, crowdfunding has the potential to complement public market listings as most successful startups will consider going public at some point in their life cycle.

### CAMA 2020: legal framework for derivatives

The signing into law the Companies and Allied Matters Act 2020 provided the necessary legal backing for the development of the derivatives market in Nigeria with the introduction of the netting concept as it relates to qualified financial contracts. This new CAMA provision, which is in line with international best practice, ensures Nigeria’s participation in the global derivatives market valued at over \$600 trillion and it is expected to drive liquidity in the Nigerian capital market as well as provide investors with effective risk management tools.



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As the global markets recover from the initial shock of COVID-19, which created an extreme market volatility in Q1 2020, there has been renewed issuer and investor confidence with a surge in IPO activity in developed markets, especially in the US and China. We expect to see issuers in the tech and healthcare space take advantage of the current market sentiments as more companies within these sectors continue to prepare for an IPO.

Despite the recoveries noted, there are still uncertainties around the speed of global economic recovery. The US presidential elections in November 2020 and the Brexit transition in December 2020 are all factors which may impact global market performance.

On the domestic front, we expect a quiet primary market activity in the short term given the current macroeconomic concerns and blurry economic outlook. However, it is expected that the key market-led initiatives introduced within the year will encourage more companies, especially start-ups to explore the opportunity of accessing the capital market for long term funding.

It is expected that corporates will continue to take advantage of the low interest rates and the huge market demand for relatively higher yields in the bond market. However, given that market conditions are highly unpredictable, time to market is very important for corporates wishing to capitalize on this window of opportunity.





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### Other Africa Capital Markets publications



PwC’s Capital Markets Watch is an annual report that focuses on equity and debt capital markets transactions in Africa.

The report provides a detailed and insightful analysis of major trends across Africa’s capital markets, including information on initial public offerings (IPOs), further offerings (FOs) and debt issuances on African exchanges, and of African companies globally.

### A better path to capital

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- Our capital market professionals sit at all corners of the globe – so no matter where you need to access capital, we can help to make it happen. Whether it’s accessing existing, new or alternative funding sources, our global network works together so you can get to market faster.

For a deeper discussion about our capital markets offerings in Africa, please contact one of our practice leaders:

**West Africa**  
**Omobolanle Adekoya**  
omobolanle.adekoya@pwc.com  
+234 271 1700 Ext 39024

**Southern Africa**  
**Nicholas Ganz**  
nicholas.ganz@pwc.com  
+27 11 797 5568

**East Africa**  
**Anthony Murage**  
anthony.murage@pwc.com  
+254 20 285 5347

**North Africa**  
**Muhammad Hassan**  
muhammad.hassan@pwc.com  
+971 4 304 3421

**Global IPO Centre**  
**Ross Hunter**  
ross.hunter@pwc.com  
+44 20 7804 4326

**Francophone Africa & Maghreb**  
**Douty Fadiga**  
douty.fadiga@pwc.com  
+225 20 31 54 38

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# Thank you

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