CSL STOCKBROKERS LIMITED
2022 OUTLOOK: IN DRIBS AND DRABS

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GLOBAL ECONOMIC REVIEW

GLOBAL ECONOMY: FINDING BALANCE POST-PANDEMIC INDUCED DISTRESS

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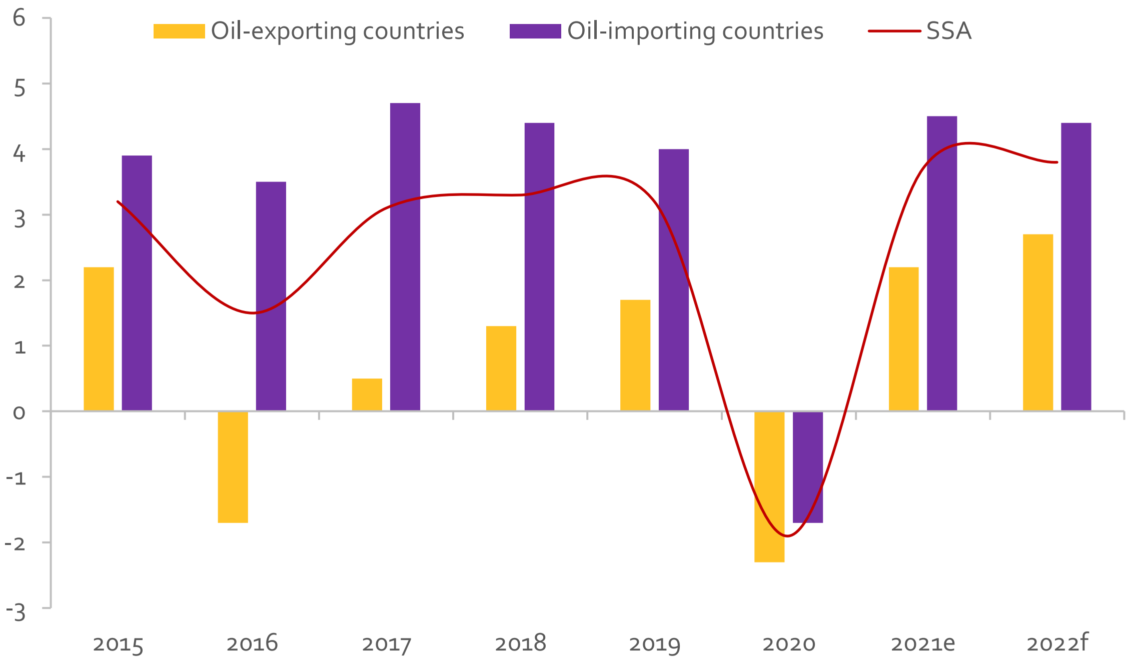
Region	Outlook	Growth	Inflation	Monetary Policy
Global Economy	The global economy is projected to grow by 4.9% in 2022, but the rapid spread of the omicron variant, and the threat of new variants have increased uncertainty about how quickly the pandemic can be overcome. Beyond this, the rising commodity prices and rapid domestic demand will continue in the short term before receding.	Neutral	Higher	Higher
Euro Area	As confinement measures were gradually lifted, economic activity in the euro area is projected to expand by 4.3% in 2022. Growth will be supported by strong consumption and higher investments due to the national and European recovery plans. Unemployment is projected to decline to close to pre-crisis levels, as foreign markets continue to strengthen.	Neutral	Higher	Higher
USA	The US economy is projected to grow at a blistering pace of 6.0% in 2021, the strongest growth pace since 1984. Looking forward, GDP growth will slow to about 5.2% in 2022, which is still an above-trend growth. However, we believe that the rising inflation will remain a concern for the US economy and could spur a hawkish reaction from the Fed.	Neutral	Higher	Higher
Emerging & Developing Asia	Growth is gaining momentum in the region, driven mainly by China. Also, cross-border trade has improved, strengthened by pick up in global economic activity and a rebound in manufacturing. Covid-19 cases have declined, and vaccinations have progressed, but rising global cases and the emergence of a highly mutated variant, suggest the pandemic is far from over.	Neutral	Neutral	Higher

Legend: Lower Neutral Higher (over the next 6-month)

SSA GROWTH TO STRENGTHEN, DESPITE LOW VACCINATION

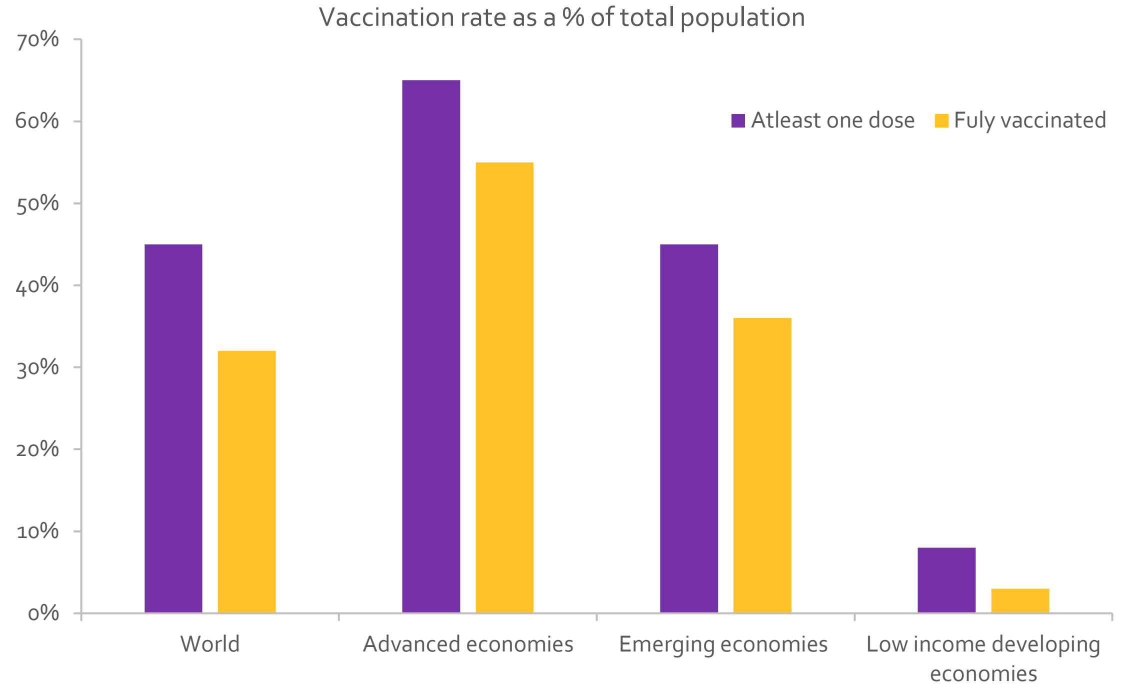
SSA GROWTH LOOKS BRIGHT FOR 2022



Sources: IMF, CSL Research

The SSA region is set to grow by 3.8% in 2022 (vs 3.7% in 2021). This continued recovery is largely due to a sharp improvement in global trade and commodity prices. The favourable harvests have also helped lift agricultural production, which contributes about 20-30% of the GDP of the region.

AFRICA CONTINUES TO LAG IN COVID-19 VACCINATION



Sources: IMF, CSL Research

The outlook remains uncertain, and risks are tilted to the downside. In particular, the recovery depends on the path of the global pandemic and the regional vaccination effort.

DEBT DISTRESS REMAINS A CONCERN IN THE SSA REGION

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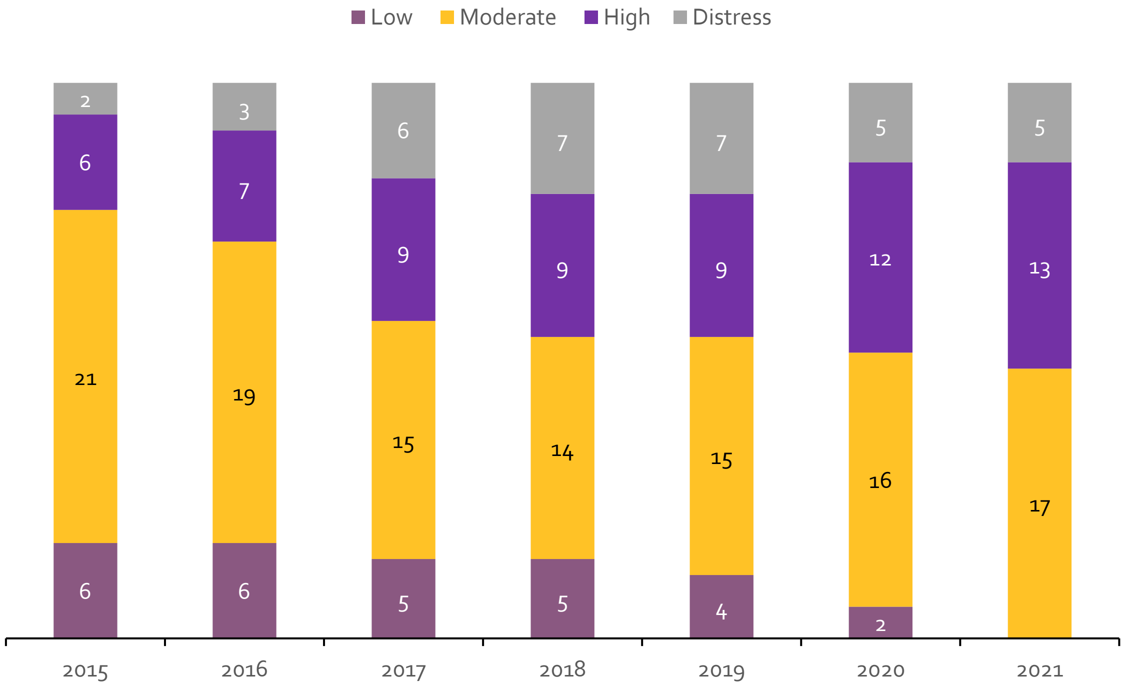
SSA DEBT SUSTAINABILITY ANALYSIS OF COUNTRIES WITHIN THE REGION



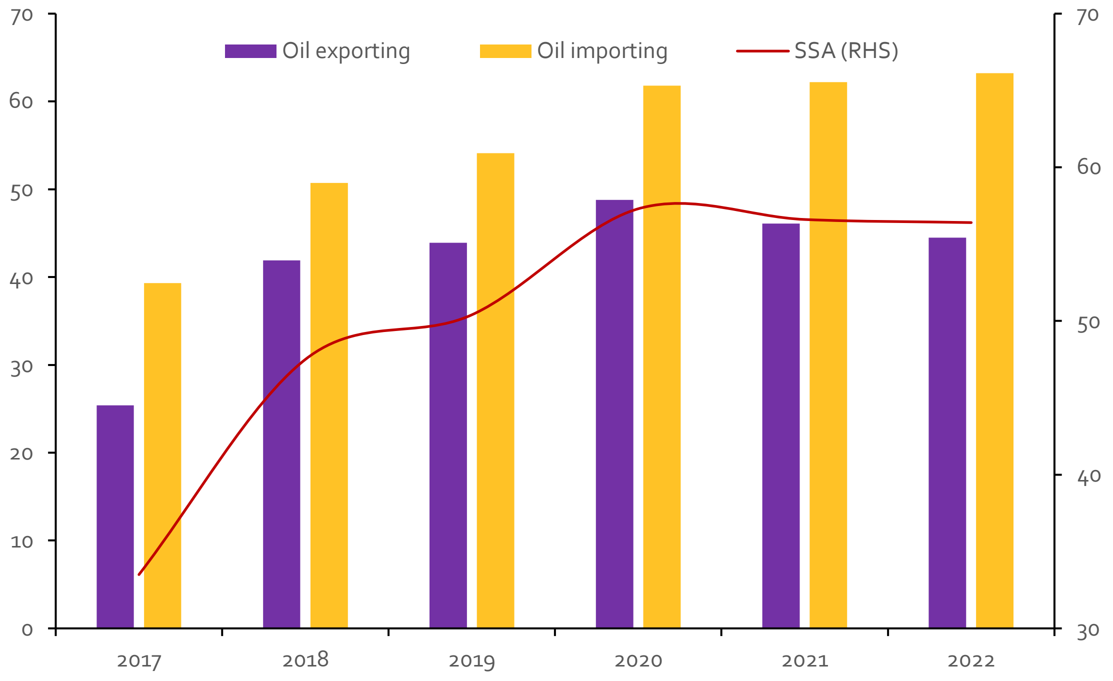
	2015	2016	2017	2018	2019	2020	2021
Distress	2	3	6	7	7	5	5
High	6	7	9	9	9	12	13
Moderate	21	19	15	14	15	16	17
Low	6	6	5	5	4	2	

Sources: IMF, CSL Research

In 2021, half of the region's low-income developing economies (accounting for 25% of the region's GDP and 28% of the region's debt stock) were either in debt distress or at high risk of debt distress.

This trend will likely continue in 2022, due to persistent fiscal spillage.

GOVERNMENT DEBT (% OF GDP)



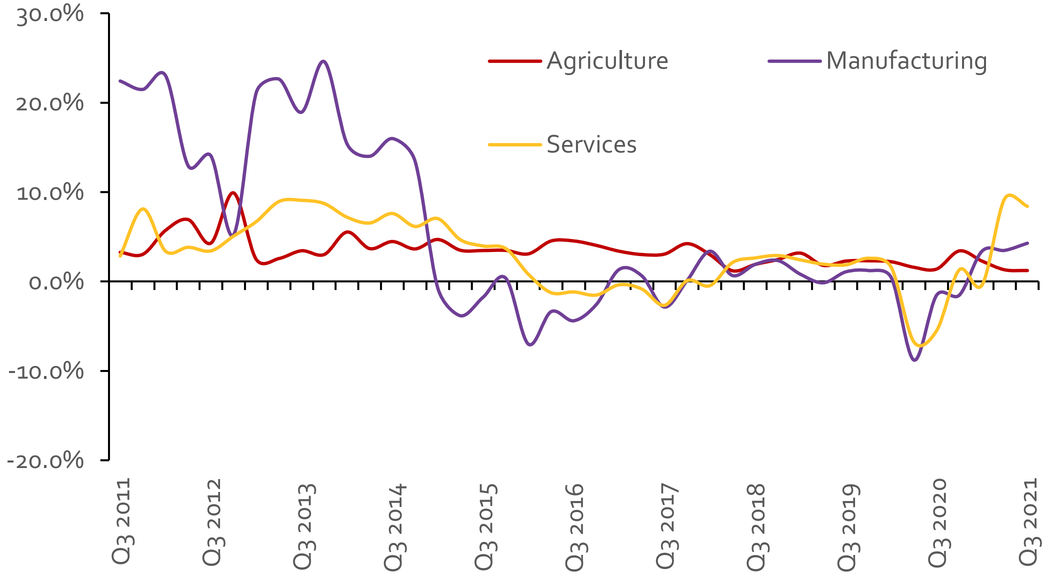
Sources: IMF, CSL Research

Overall, public debt levels are expected to improve slightly in 2022 to 56.4% of GDP from 56.6% in 2021e. However, this ratio remains elevated compared with a pre-pandemic level of 50.4%, and debt sustainability is still a concern in several countries.

DOMESTIC ECONOMY

BASE EFFECT IN THE NON-OIL SECTOR SUPPORTED GROWTH IN 2021

GROWTH ACROSS MAJOR SECTOR OF THE ECONOMY

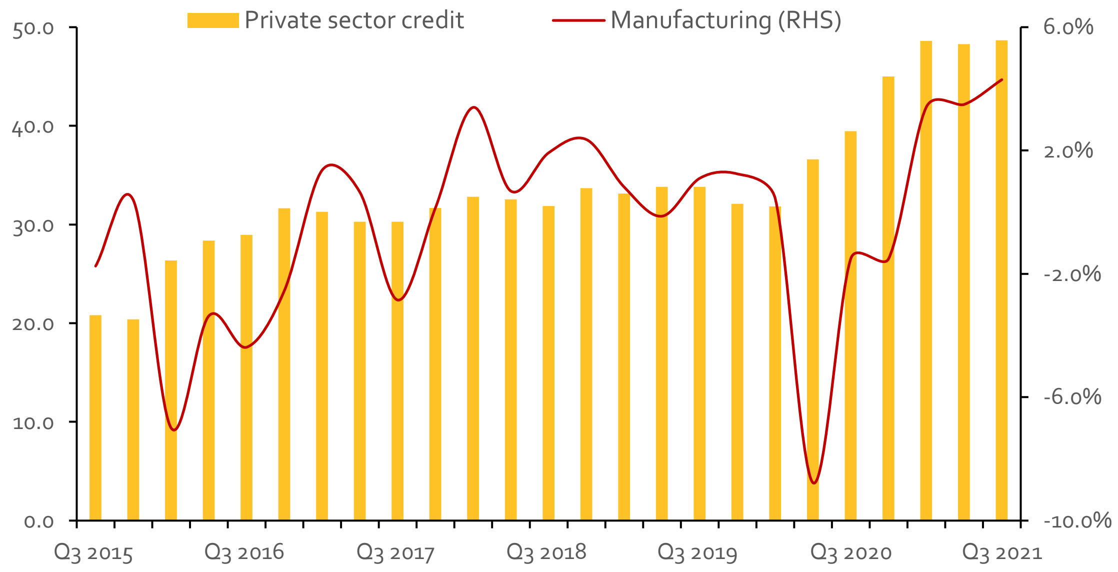


Sources: NBS, CSL Research

- Growth strengthened in 2021, supported by base effect in the non-oil sector, while the oil sector remained uninspiring. The growth in the non-oil sector outperformed expectations, as heavy-weight sectors like trade and real estate (25% of the economy) are on the path to the first full year growth in 6 years.

- While the growth in the trade sector could suggest improving domestic demand, the local labour market is yet to recover to pre-pandemic level, as unemployment remains high and double-digit inflation continues to erode purchasing power.

MANUFACTURING GROWTH TOUCHES 5-YEAR HIGH



Sources: NBS, CSL Research

- Private sector credit ballooned to a historic high of N33.8 trillion in Q3 2021, pushing manufacturing GDP to a 5-year high of 3.80%. Continued economic recovery supports the prognosis for lower non-performing loans (NPLs) and strengthens the case for higher private sector credit in 2022. Beyond this, we expect a less severe FX situation in 2022 to support local manufactures.

- Elsewhere, the completion of Dangote's refinery should boost refined petroleum exports while simultaneously offering structural tailwinds to FX liquidity.

BASE EFFECT IN THE NON-OIL SECTOR SUPPORTED GROWTH IN 2021

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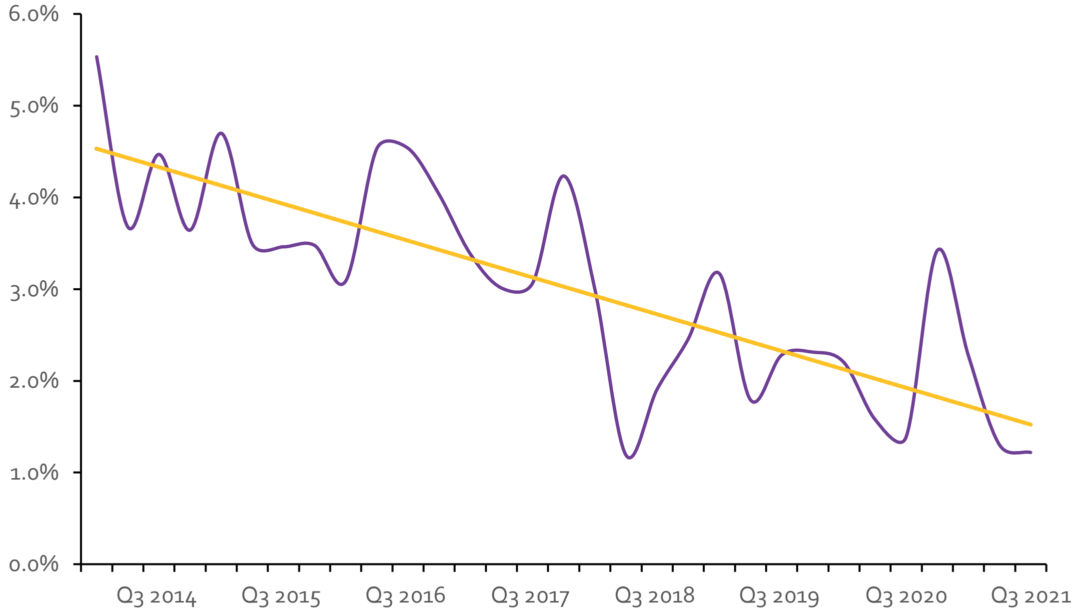
SECURITY CONCERNS CONTINUE TO DAMPEN AGRO-OUTPUT

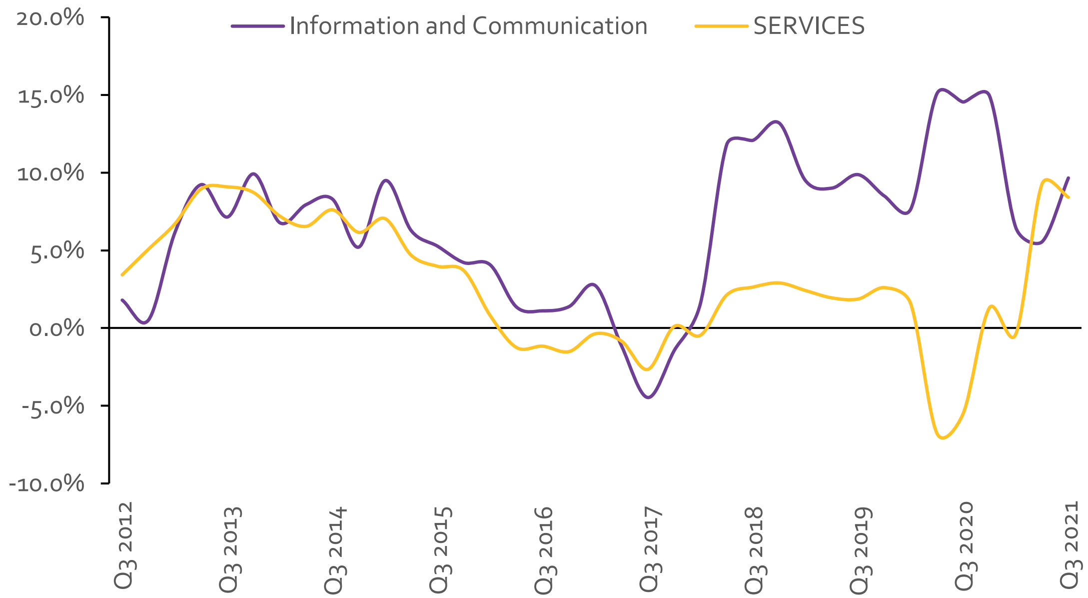


Sources: NBS, CSL Research

- The agricultural sector slumped to the lowest level since 2018, as growth settled at 1.22% in Q3 2018. The weakened output reflects persistent security challenges in the country.

- We expect the sector to remain resilient in 2022, supported by CBN Agro-interventions. Nonetheless, security concerns remain a downside risk. We project growth to settle at 2.30% in 2022.

ICT AND SERVICES GDP



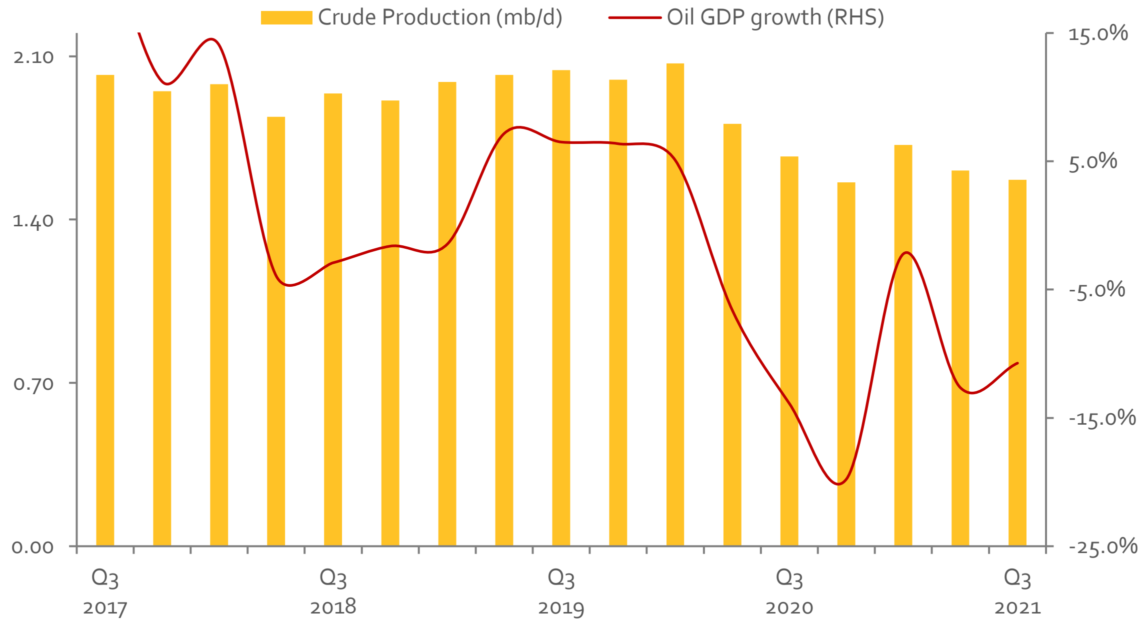
Sources: NBS, CSL Research

- Growth in the services sector settled at 8.41%, the second-highest level since 2013. The outturn was driven by both base effect and recovery in ICT output

- Growth is poised to strengthen in 2022, supported by the growth in the ICT sector driven by mobile money, 5G technology, and a higher government broadband penetration target of 70% by 2025.

OIL SECTOR TO RETURN TO GROWTH IN H2 2022

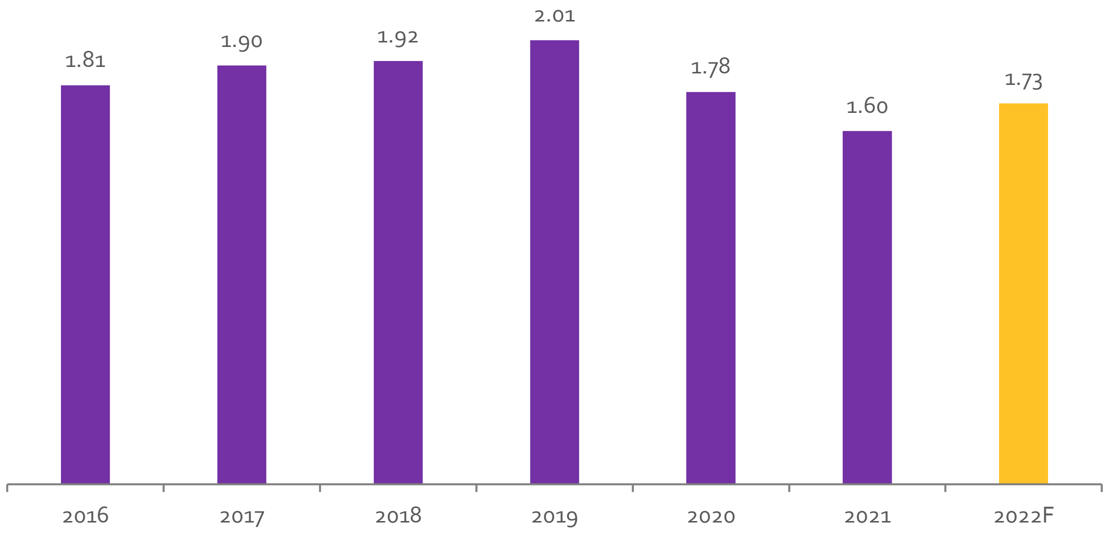
CRUDE OIL PRODUCTION AND OIL SECTOR GROWTH



Sources: NBS, CSL Research

- Crude oil production as of 9M 2021 averaged 1.57mb/d, which lags OPEC benchmark of 1.62mb/d. The uninspiring output was largely due to crude oil terminal maintenance, shutdown, and reduced investments.
- Hence, the sector growth remained in the negative terrain of 10.73% as of Q3 2021.

CRUDE OIL PRODUCTION TO REMAIN BELOW SHORT-RUN AVERAGE

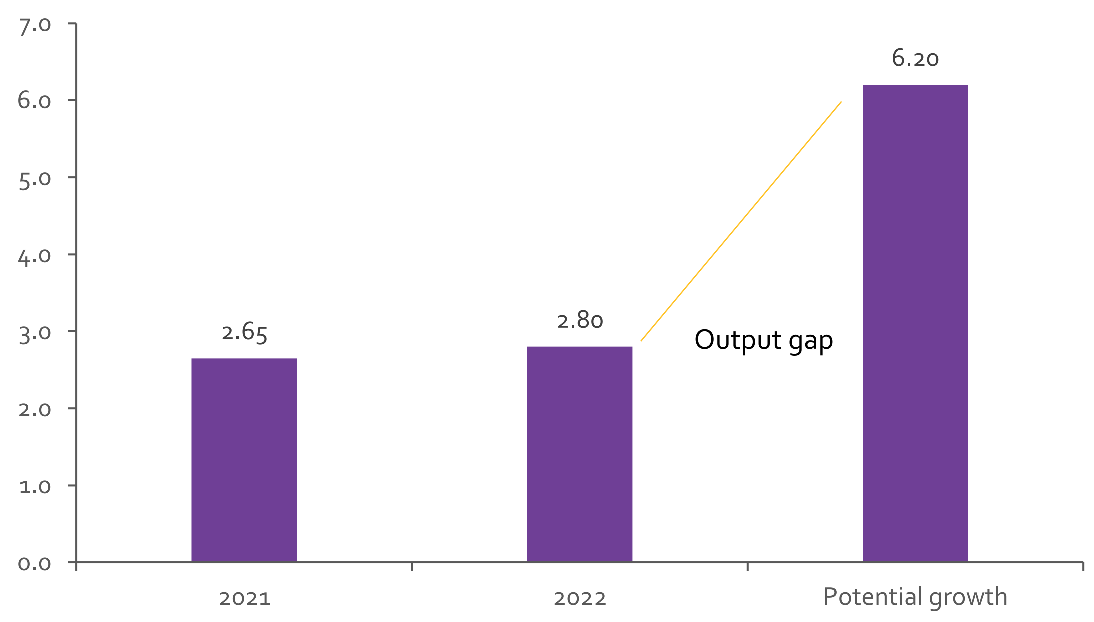


Sources: NBS, CSL Research

- We project crude oil production (including condensates) to reach 1.75mb/d in 2022. While this is an improvement from 2021 levels, it still lags the 5-year average of 1.85mb/d.
- We expect the continued elevated crude oil price, coupled with the passage of the PIB, to incentivize drilling activities.
- Beyond this, we expect the commencement of 160,000 Amukpe-Escravos export terminals in H2 2022 to support crude oil production.

Growth to reach 2.80% in 2022, but per capita income to remain depressed

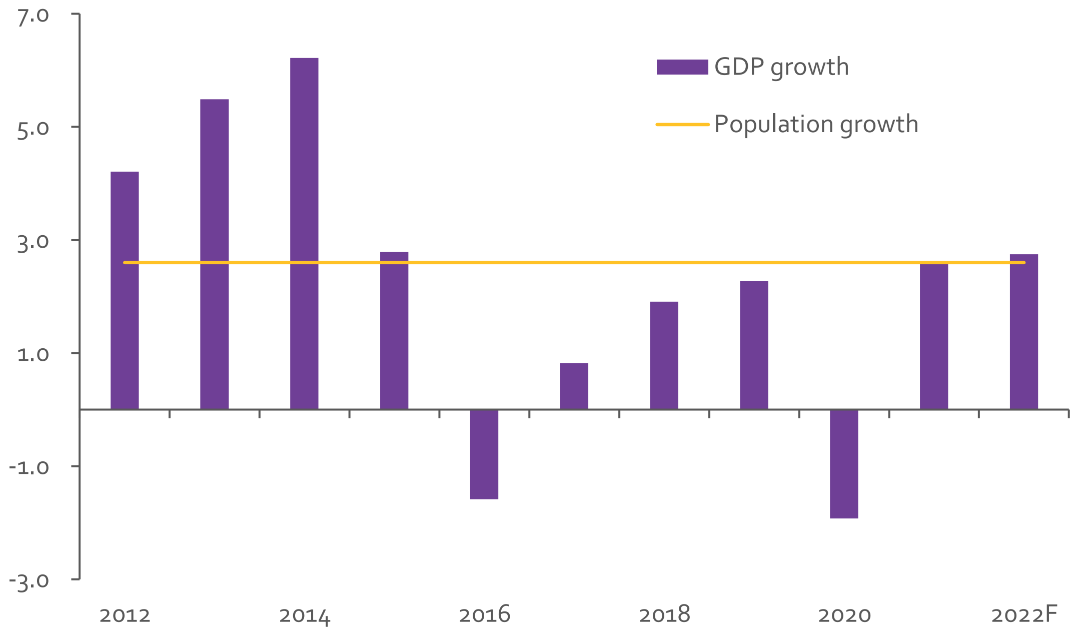
Growth remains below potential, calls for economic reforms



Sources: NBS, CSL Research

- We project growth to settle at 2.80% in 2022, supported by the oil and non-oil sectors.
- Output growth is unlikely to reach 2014 levels of 6.2%, except for economic and structural reforms that will enable private investment.
- Furthermore, the build-up to 2023 elections could amplify security risk, portending a downside to output in 2022.

Per capita income to remain stagnant in the near term

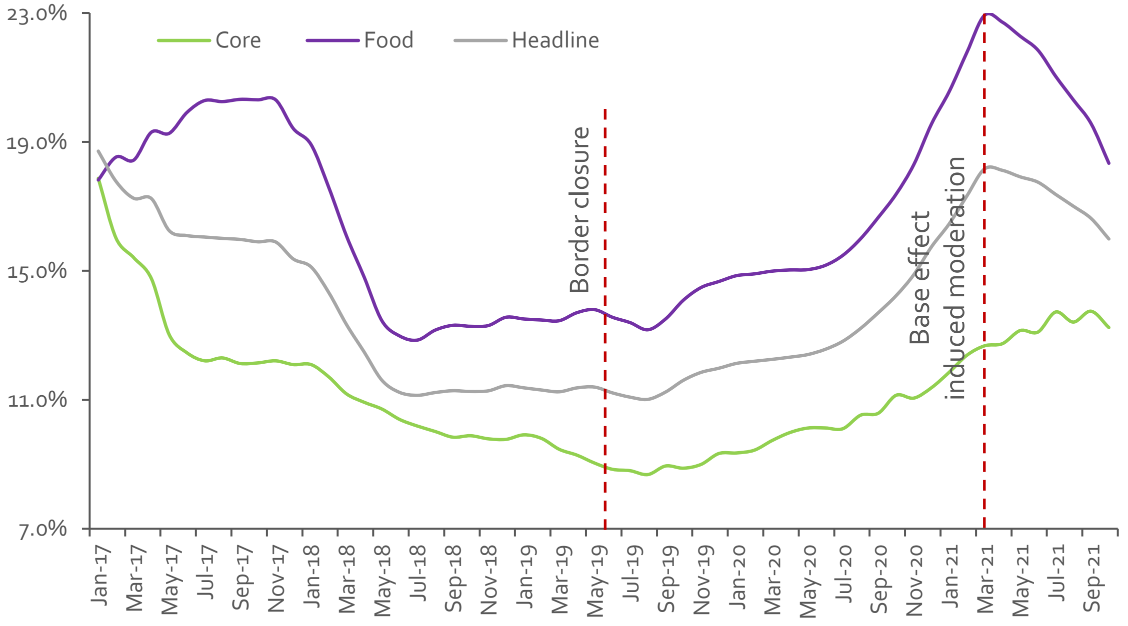


Sources: NBS, CSL Research

- Per capita income will remain uninspiring, as population growth is almost at par with economic growth.

INFLATION: SUBSIDY REMOVAL TO DICTATE THE PACE OF CONSUMER PRICES IN 2022

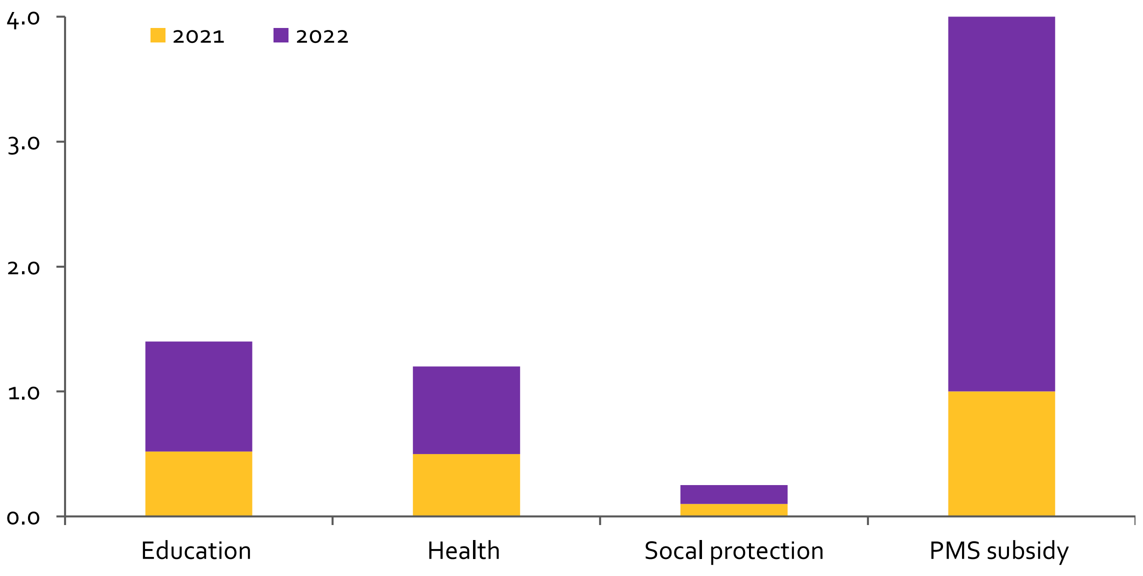
AS EXPECTED, HEADLINE INFLATION MODERATED IN H2 2021



Sources: NBS, CSL Research

- In our mid-year outlook, we argued that the base effect will support moderation of inflation in H2 2021. True to our prognosis, consumer prices moderated by 47bps to 15.40% as of November 2021.
- Despite the moderation, Nigeria's inflation is the 7th highest in Africa. This is worrisome, as estimates by the World Bank revealed that the inflation shock pushed about 8 million Nigerians into poverty in 2020 and 2021.

NEGATIVE PASS-THROUGH FROM THE ELIMINATION OF FUEL SUBSIDY TO PRESSURE CONSUMER PRICES

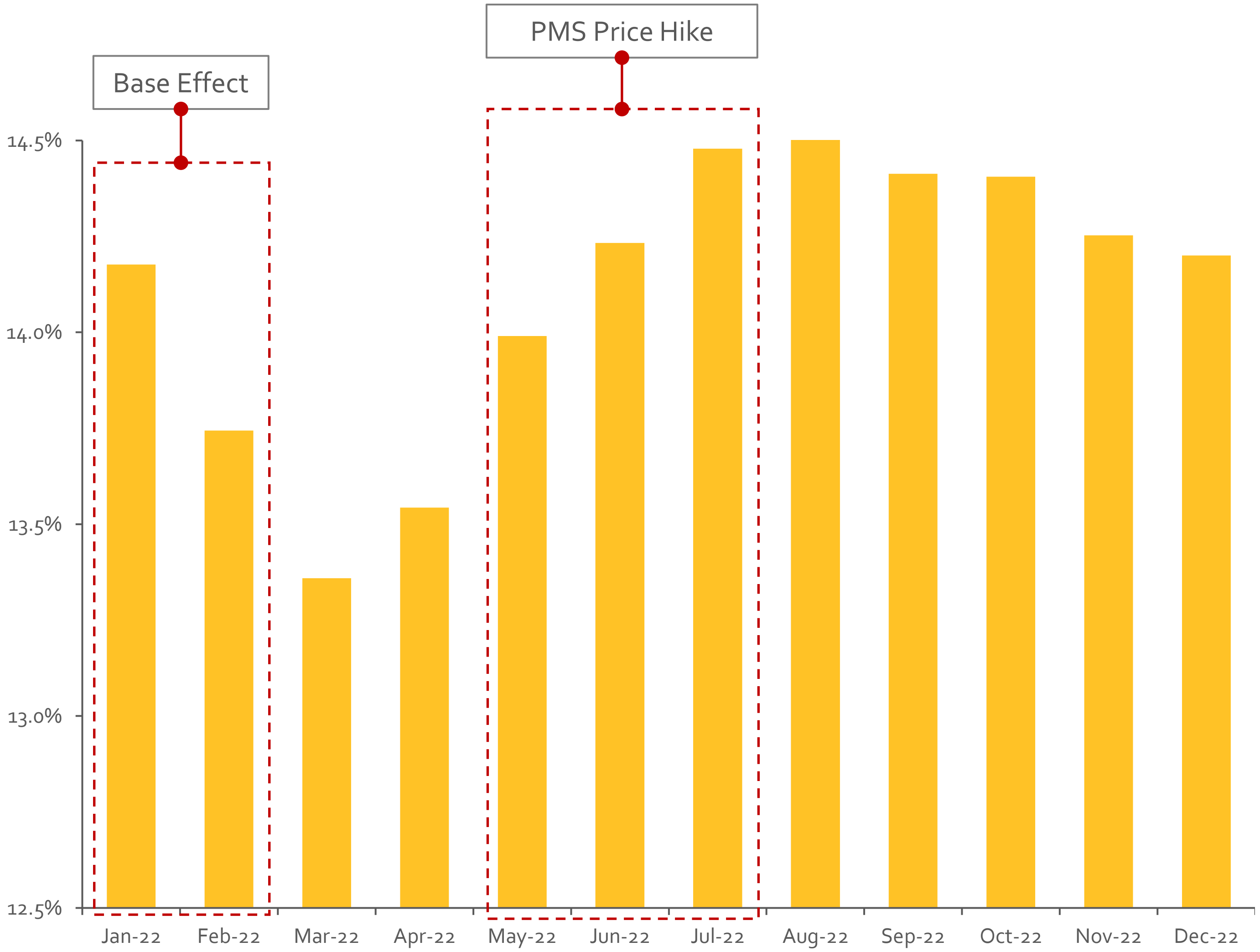


Sources: NBS, CSL Research

- PMS could sell as high as N320 to N340, as the Minister of Finance, Zainab Ahmed, indicated a likely elimination of subsidies by H2-2022. While the elimination of subsidies will support FGN's fiscal position, we expect kickback from the labour unions and a likely delay due to elections. Hence, we project about 20% to 35% subsidy elimination.
- While the PMS adjustment will pressure the headline inflation, the government plans to implement a N5,000 transport subsidy will help cushion the impact.

INFLATION: SUBSIDY REMOVAL TO DICTATE THE PACE OF CONSUMER PRICES IN 2022

INFLATION EXPECTATION FOR 2022



Sources: NBS, CSL Research

- Beyond the PMS adjustment, our expectation for a moderate currency devaluation and a likely electricity price hike are expected to add an additional layer of pressure on consumer prices.

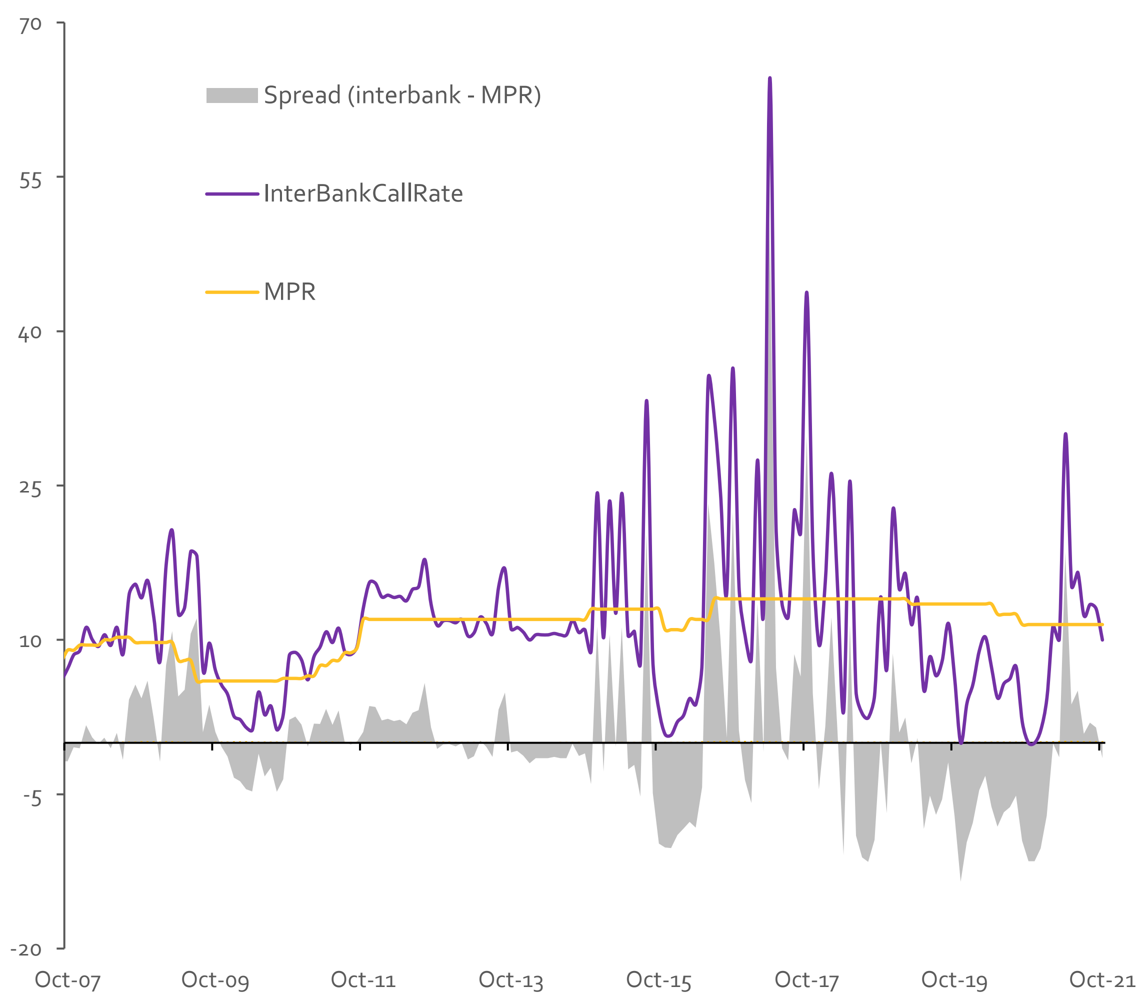
- Outlook: In the first quarter, we expect inflation to wane, supported by the continued base effect from 2021. However, price pressure will emanate in Q2 and Q3 due to PMS adjustments, before moderating slightly in Q4. Overall, we expect headline inflation in 2022 to average 14.35% and close the year at 14.20%.

- Across the inflation sub-components, we expect food inflation to moderate by 4.oppts to 15.01%, supported by favourable weather and base effect. However, the rate is unlikely to moderate to 2019 levels of 13.50%, as we expect PMS adjustment to have a negative pass-through effect on food prices from higher transport costs.

- We expect spillover effect from PMS adjustment and currency depreciation to pressure the core inflation. We project the core inflation rate to increase by 100bps to 14.11%.

MONETARY AUTHORITY TO TURN HAWKISH IN 2022

POLICY AND INTERBANK RATE

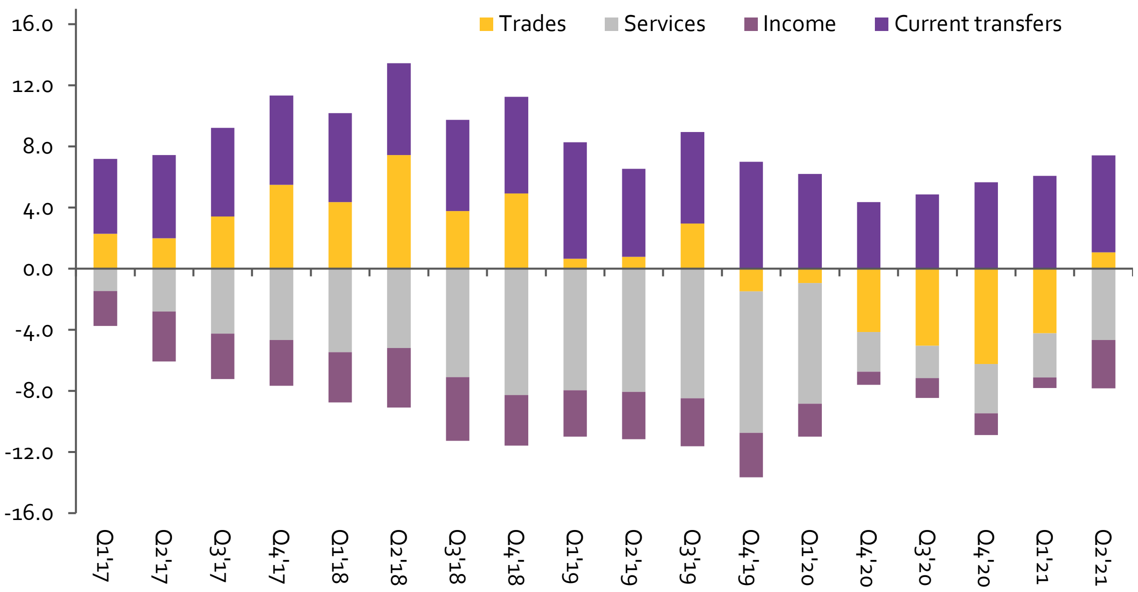


Sources: CBN, FMDQ, CSL Research

- In line with our expectations, the monetary authorities kept interest rates unchanged at 11.5% in 2021 to consolidate economic recovery.
- While the CBN remained dovish in 2021 by net-repaying N4.2 trillion in OMO bills, the CRR debits have been recently aggressive, suggesting that unorthodox monetary approaches are likely to persist.
- We envisage a rate hike in mid-2022 as the economy becomes more resilient. However, the risk of an earlier hike is possible if faster than expected subsidy elimination is orchestrated, which will amplify inflationary pressures.
- Alongside the use of the MPR, we are likely to see continuous ad hoc measures to support economic activity further and address the FX imbalances.
- The risk of FX depreciation will likely persist next year due to capital reversal from emerging markets (EMs) and frontier markets (FMs) as inflation continues to bite harder in developed markets. As such, to reduce the risk of capital flight, the CBN will have to increase the rate and enhance carry trade opportunities to reflect the country's risk. The carry trade in Nigeria is estimated at 4.0% compared to countries like Egypt (12.3%) and Ghana (11.0%).
- Pre-election year in 2022 will add another layer of pressure to already existing risks like FX, security concerns, etc.

External imbalances to persist in 2022, albeit lower than last year

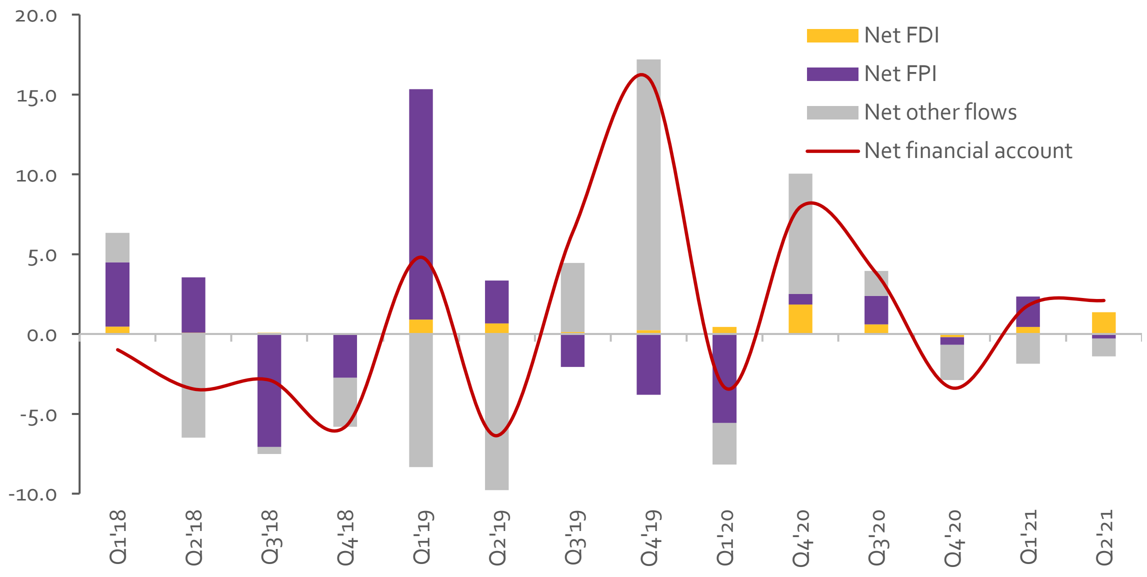
Current deficit ($ billions) to narrow in 2021



Sources: CBN, CSL Research

- External imbalances improved in Q2-2021, as the current account deficit narrowed to 0.44% of the GDP. The outturn was supported by both higher crude oil prices and improved remittance inflows.
- Nonetheless, Nigeria could not maximize the surge in oil prices, as oil crude production remained perpetually below the OPEC benchmark due to terminal shutdowns and low investment.
- We project the current account deficit to close 2021 at 2.7% of the GDP

Financial account ($ billions)

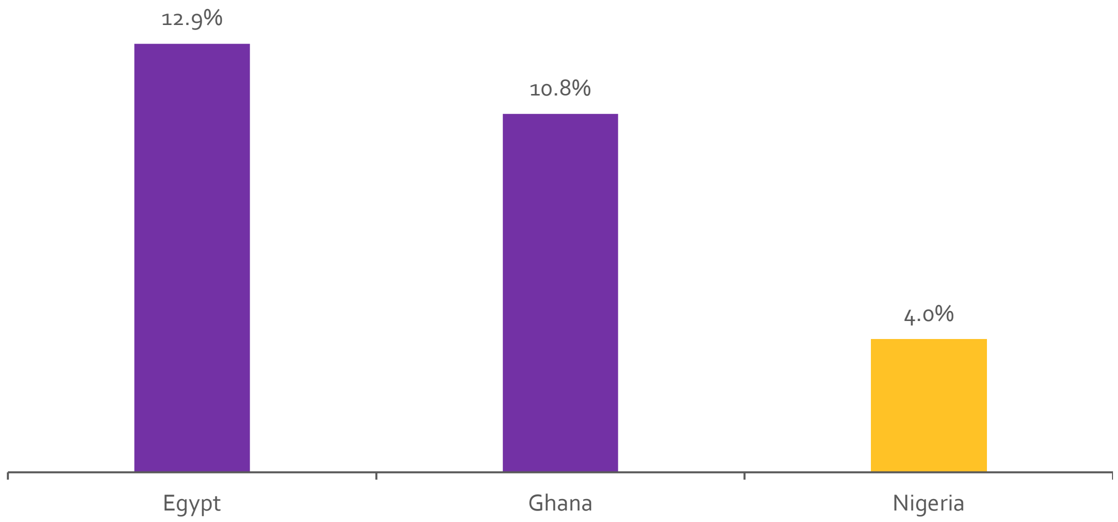


Sources: CBN, CSL Research

- The current account is poised to remain in deficit in 2022, albeit lower than the 2021 level. We project import to grow by 30.0%, supported by improving domestic consumption and continued FX liquidity supply by CBN.
- Elsewhere, we expect export to grow by 24%, as our projected crude oil price of US$70 per barrel is lower than current levels of US$79.20 due to the new Omicron Covid-19 variant and increased supply from the U.S. oil producer. Nonetheless, we think that improved remittance inflow as the foreign market strengthens will help narrow the current account deficit to 2.00% of GDP in 2022 from 2.70% in 2021.

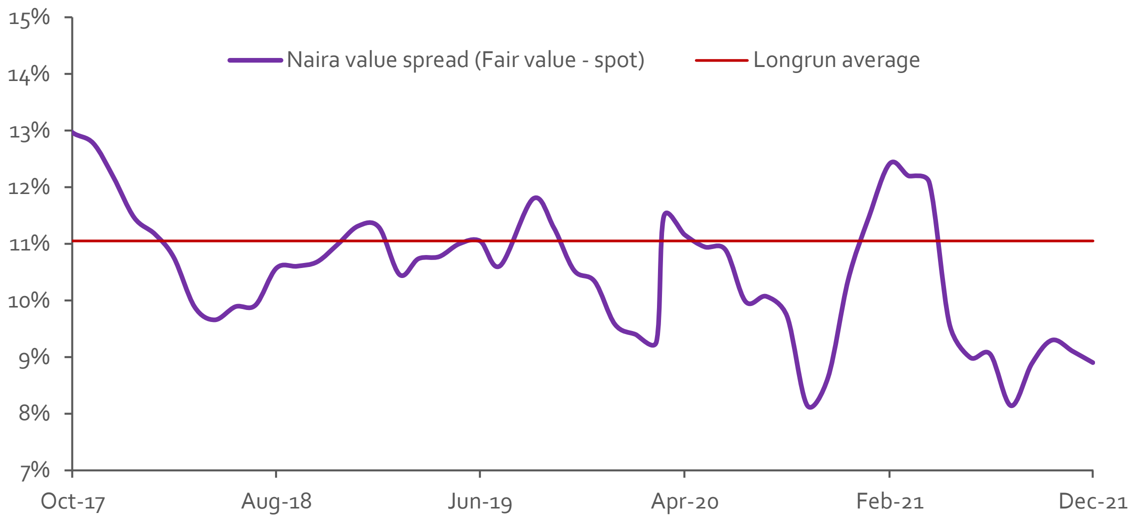
PRE-ELECTION YEAR RISK TO AMPLIFY CAPITAL INFLOWS IN 2022

CARRY TRADE IN NIGERIA REMAINS RELATIVELY LOW



Sources: CBN, Bloomberg, CSL Research

NAIRA REMAIN OVERVALUED



Sources: CBN, Bloomberg, CSL Research

- Indicators of FX valuation -- purchasing power parity, and the 12-month NDFs, suggest that the unit remains overvalued, hence we expect naira at the I&E window to weaken to an average of NGN455.00/USD in 2022 from NGN415.00 in 2021

- While a weaker currency regime is a step in the right direction in addressing overvaluation concerns, foreign interest will likely remain tepid, as capital importation slumped to a 22-quarter low of $876 million in Q2'21 (vs $1.2 billion in Q2'20). These factors may have driven down average turnover in the I&E Window to $108.7 million in 2021 from $345.0 million in Q1'20.

- We believe investors will consider – (1) pre-election year risk, (2) carry trade level, (3) clarity on FX repatriation policy, and (4) the CBN's strategy to clear existing backlog – before making a big bet on Nigeria in 2022.

FX INTERVENTIONS UNLIKELY TO RETURN TO PRE-COVID LEVELS

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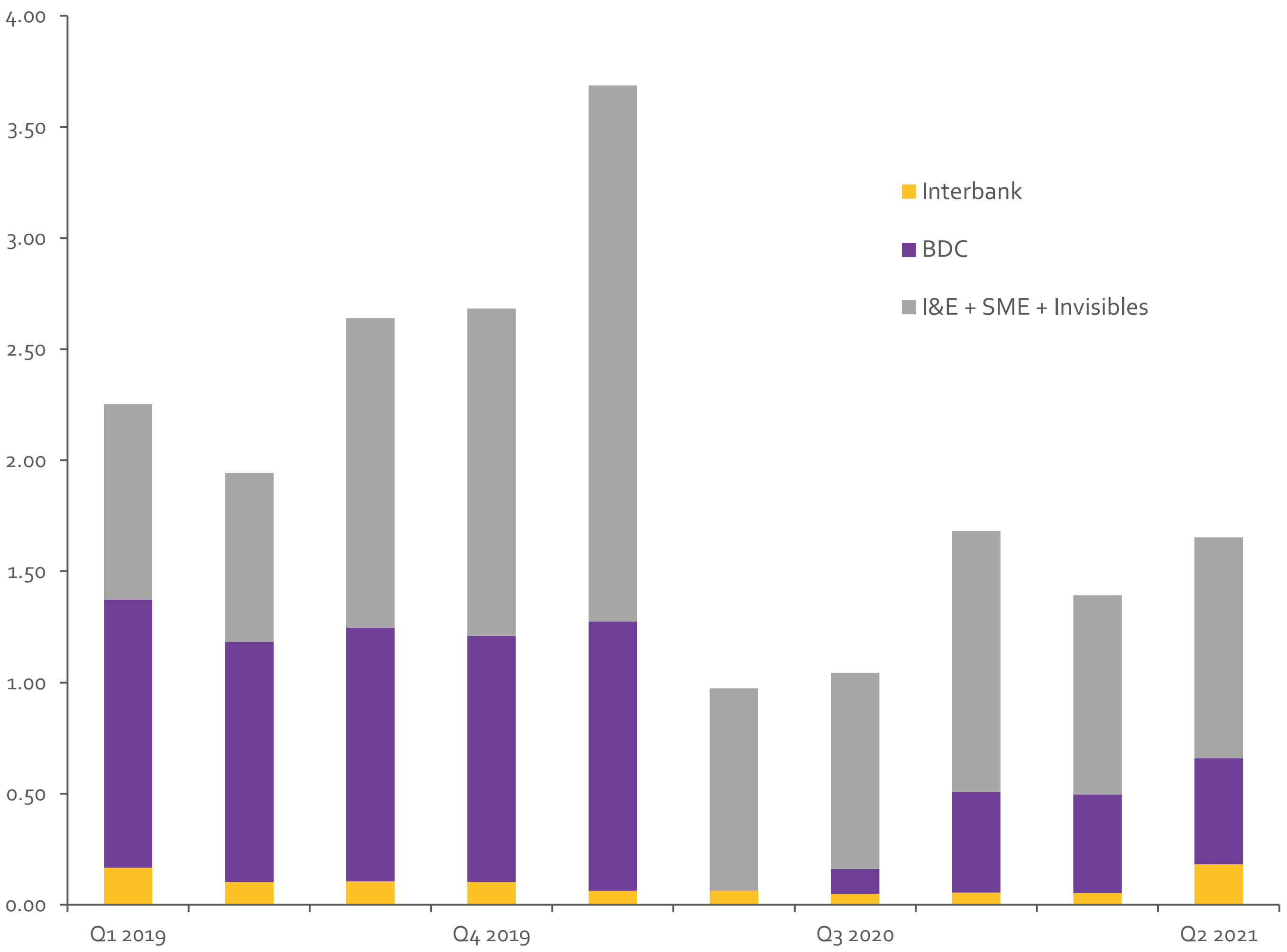
CBN'S INTERVENTION ACROSS THE FX STRATA (US$' BILLION)



Sources: CBN, Bloomberg, CSL Research

- CBN is unlikely to ramp up intervention to pre-pandemic levels in the near term as inflows remain tepid. We project the FX reserves to deplete to US$35.00 billion (currently level: US$40.59 billion) by the end of 2022, translating to goods and services import cover of 5.4x.

- With that reserve level, we expect the CBN to maintain its current monthly intervention in the FX market of US$1.9 billion, which is 1.6x lower than the average for Q1-2021 (pre-pandemic level).

- Meanwhile, the parallel market premium of 32.53% continues to fuel arbitrage opportunities while FX rationing at the IEW has magnified the demand pressure at the parallel market.

- Our prognosis is for the premium to remain widened, as the CBN is yet to resume FX sale to the BDCs. Beyond this, corporates and individuals who import items restricted by the CBN will continue to source FX from the black market.

FISCAL POLICY AND FIXED INCOME

OIL SECTOR DRAGGED THE REVENUE PERFORMANCE IN 2021

NGN' Billion	Jan-Aug 2021 (B)	Jan-Aug 2021 (A)	Deviation
Total revenue (including Top 10 GOEs)	5,414.28	3,934.73	-27.3%
Revenue to GOEs	-899.23	-873.52	-2.9%
Retained revenue (excluding top 10 GOEs)	4,515.05	3,061.21	-32.2%
Oil	1,340.68	754.16	-43.75%
Non-oil	992.62	1,148.35	15.7%
Corporate Income Tax	454.48	547.54	20.5%
FGN Share Customs Revenue	338.85	338.66	-0.1%
Value Added Tax (VAT)	158.95	235.77	48.3%
Independent revenue	707.93	691.36	-2.3%
Other Sources of Financing	1314.87	231.57	-82.39%
Total Expenditure	9,713.84	8,144.90	-16.2%
Recurrent non-debt	3,843.53	3,186.47	-17.1%
Debt service (including sinking fund)	2,216.25	2,868.40	29.4%
Aggregate Capital Expenditure	3,323.03	1,759.01	-47.1%
Statutory transfers	331.02	331.02	0.0%
Fiscal deficit ex GOEs and project-tired loans	-4,299.56	-4,210.17	-2.1%
Deficit/GDP	-3.1%	-3.0%	
Recurrent Non-Debt Expenditure/Retained Revenue	85.1%	104.1%	
Debt Service/Retained Revenue	49.1%	93.7%	
Debt service/GDP	1.6%	2.1%	
Capex of GDP	2.4%	1.3%	
Revenue/GDP	3.9%	2.8%	
Expenditure/GDP	7.0%	5.9%	

Sources: DMO, Budget Office,, CSL Research

- The fiscal deficit has surpassed the target by an average of c.65% over the last 5 years due to ambitious revenue estimates and volatile crude oil prices.
- The fiscal deficit has more than doubled from 1.0% of GDP in 2014 to about 4.6% in 2021. This is significantly above 3% of GDP as recommended by the Fiscal Responsibility Act (FRA).
- As of August 2021, the fiscal deficit was estimated at N4.2 trillion due to low oil revenue mobilization, which masked the gains from the non-oil segment. The inspiring oil performance was due to production constraints and low investment in the oil sector.
- Due to economic recovery, the tax revenue outperformed expectations by 17.82%, while other revenue remained depressed, falling short of the budgeted amount by 82.39%.
- Persistent fiscal spillage has resulted in debt servicing to revenue averaging 70% over the last 5 years. This trend will likely persist and calls for fiscal consolidation.

Fiscal space to remain constrained in 2022

Breakdown of 2022 budget	N' Trillion	% of GDP
Total revenue	**10.13**	5.50%
Oil	3.15	1.71%
Tax revenue	2.06	1.12%
Other Sources of Financing	4.92	2.67%
Total Expenditure	**-17.00**	-8.89%
Recurrent non-debt	**-6.83**	-3.70%
Debt service	**-3.61**	-1.96%
Capital Expenditure	-5.35	-2.90%
Others	-0.60	-0.33%
Fiscal deficit	-6.26	-3.39%
Financing		
Domestic	-2.51	-1.36%
Foreign	-2.51	-1.36%
Privatization Proceeds	-0.09	-0.05%
Project tied loans	-1.16	-0.63%

Benchmark for 2022 budget

Description	2020	2021	2022
Oil Price Benchmark ($/b)	43.0	40.0	62.0
Oil Production (mbpd)	1.8	1.9	1.9
Exchange Rate (N/$)	379.0	379.0	410.2
Inflation (%)	13.2	15.0	13.0
Nominal GDP (N'billion)	152,324.1	168,602.6	184,382.0
GDP Growth Rate (%)	-1.9	2.5	4.2

Sources: DMO, Budget Office, CSL Research

- Government expenditure for 2022 was estimated at an all-time high of N17.12 trillion. This spending likely reflects electioneering induced spending, as we saw a similar trend in the 2015 and 2019 elections.
- Revenue projected at N10.1 trillion will likely underperform estimate due to over-ambitious other non-oil revenue (48.6% of the total revenue). Elsewhere, we expect the continued economic recovery to support tax revenues, while oil estimates seem conservative. We project the fiscal deficit to reach 3.80% of the GDP due to persistent fiscal spillage.

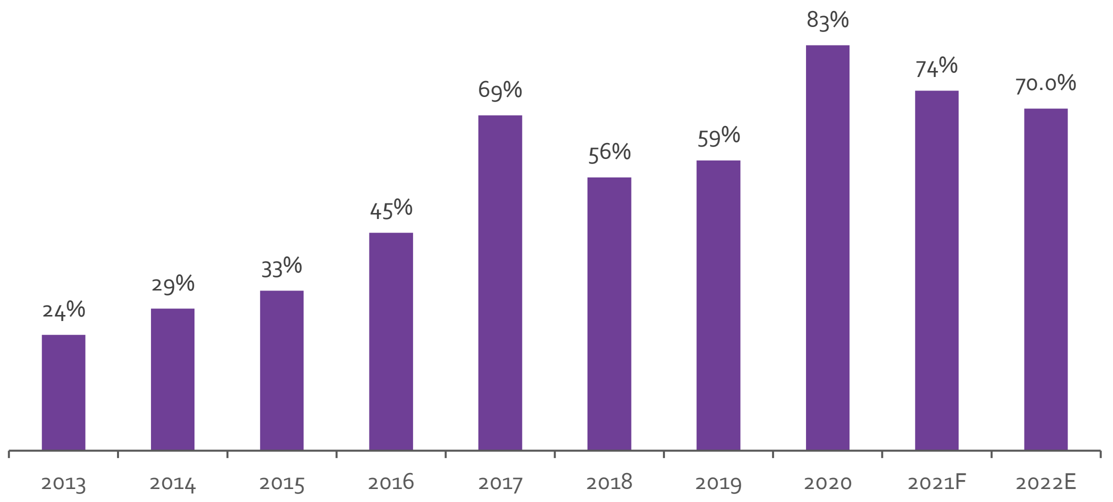
DEBT ON THE RISE AND COULD REACH IMF BENCHMARK IN NEAR TERM

Total Public debt (State & FGN)	Debt type (as of Q3 2021)	Amount (N'bn)	Amount (US$'bn)	% of GDP
DMO	Domestic debt	22,431.6	38.0	15.7%
	External debt	15,573.0	54.7	10.9%
	Total	38,004.6	92.6	26.6%
Non-DMO	Estimated AMCON debt	4,400.0	10.7	3.1%
	Net liabilities to CBN	8,559.5	20.9	6.0%
	Claims on state and local government by CBN	610.3	1.5	0.4%
	Estimated power sector tariff shortfall	2,180.0	5.3	1.5%
	Total	15,749.8	38.4	11.0%
Total public debt		53,754.39	131.04	37.7%

- The moderate debt level of the country has increasingly become vulnerable due to high-interest payments which continue to absorb a significant portion of federal government revenues. Debt to revenue is estimated at 70% for 2022 vs a 5-year average of 68%.

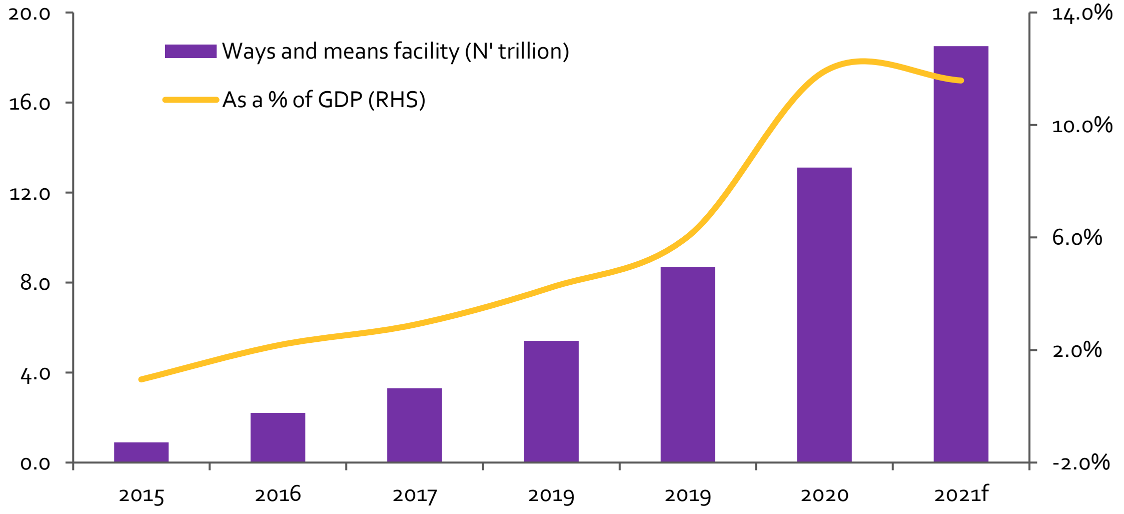
- Nigeria's total public debt (DMO and non-DMO) is projected to reach 36.9% of GDP in 2022 from 35.5% in 2020. While this remains lower than most SSA peers - Ghana (86.4% of GDP) and Kenya (70.2% of GDP), its likely to breach the 40% IMF benchmark in the medium term.

DEBT SERVICING TO REVENUE TO REMAIN ELEVATED



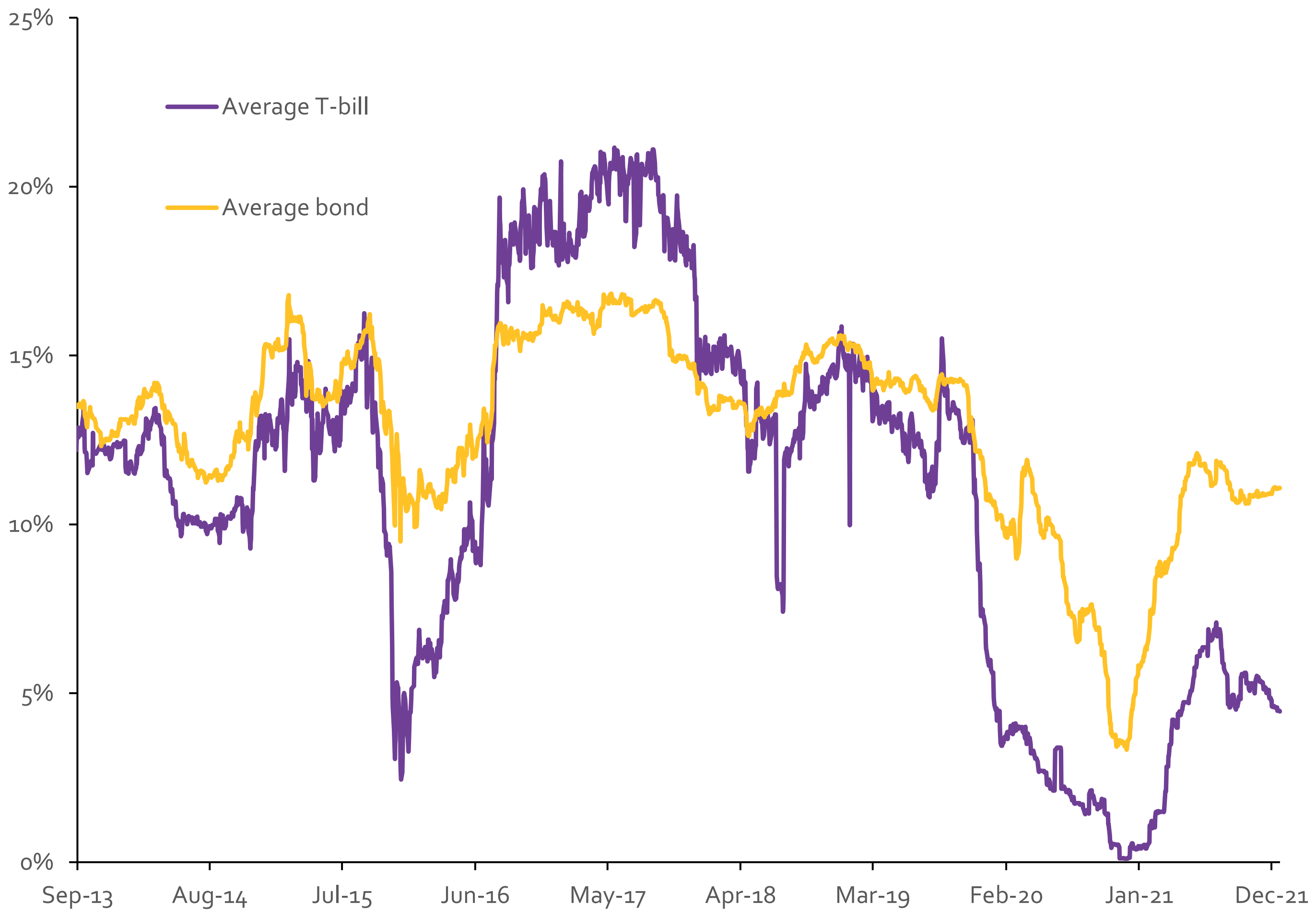
Sources: DMO, CBN, budget office,, CSL Research

FGN YET TO BACKDOWN ON CBN BACK DOOR FINANCING



FIXED INCOME: ELEVATED LIQUIDITY WETS DMO'S BORROWING APPETITE

SECONDARY MARKET YIELDS (%)



- The average naira yield curve was 525bps higher vs December 2020 level. It moderated by 112bps in Q3 2021 but was slightly bearish in Q4.

- Interestingly we saw a major shift from the DMO's usual rollover practices at the NTB auction, as ytd net-issuance is at a record level of N1.04 billion. The bond market was well bided at the auction in H2 2021, supported by the buoyant system liquidity.

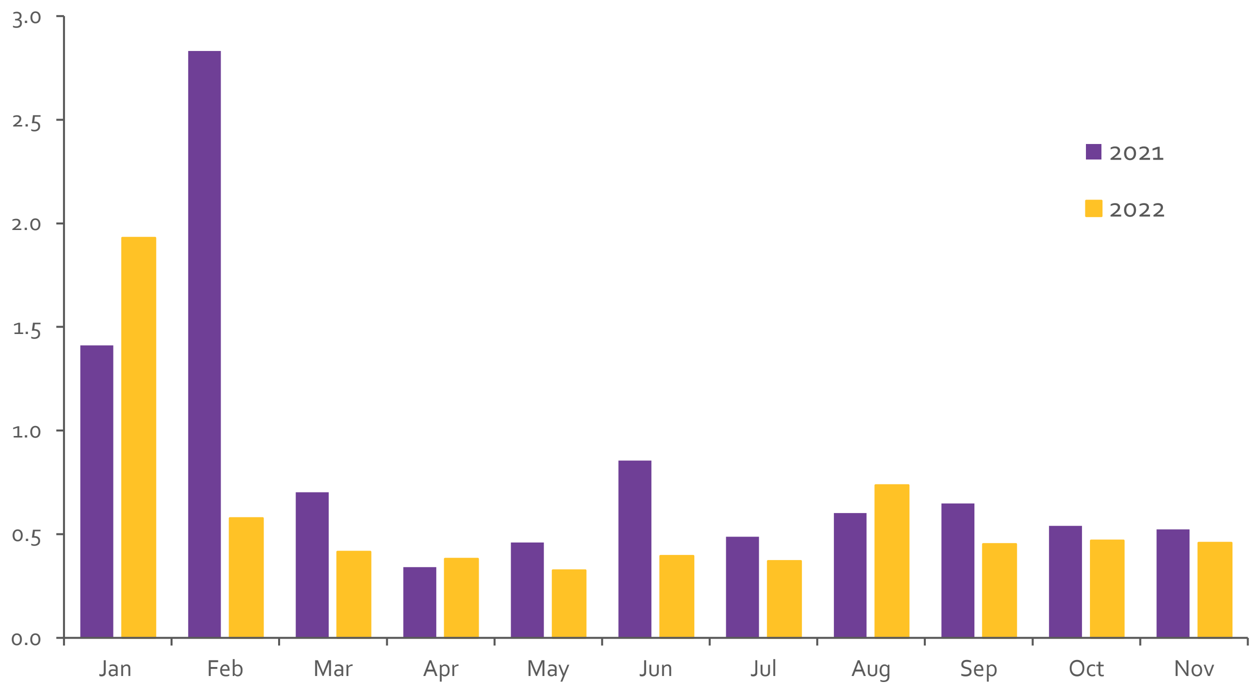
- The DMO also took advantage of the liquidity by maintaining an overselling pattern at the bond auction.

- In our view, the buoyant liquidity was partly driven by CBN's liquidity tolerance (demonstrated by the N4.6 trillion net OMO repayments year to date).

WE ENVISAGE ABOUT 200BPS YIELD INCREASE IN 2022

CSL

MATURITY FOR 2022 (NTRILLION)



- For one, fixed-income yields may contract in the first quarter of 2022 due to expected liquidity from bond maturities (N605 billion) bond coupon payment of N200billion. The question is how aggressive the CBN will be in terms of liquidity management.

- Yields are likely to rise in subsequent quarters due to a hawkish money stance and persistent fiscal spillage.

1 Monetary Policy

The CBN focusing on enhancing carry trade supports our prognosis for a 50 to 100bps increase in MPR.

2 Global rate normalization

Global hawkishness may intensify capital outflows from Ems and FMs. This may necessitate the CBN raising rates to retain market appeal.

3 Improving GDP

With the output gap expected to narrow in 2022 and inflation expect to moderate, we think that the apex bank will turn hawkish.

4 Persistent fiscal spillage

We expect an increase in paper supply next year, as the fiscal deficit is projected to reach 3.8% of GDP.

ECONOMIC TABLES (TREND & FORECAST)

	2017	2018	2019	2020	2021E	2022F
Activity						
Real GDP (% y/y)	0.8	1.9	2.3	(1.9)	2.7	2.8
Oil production (million b/d year-end)	1.9	1.9	2.0	1.8	1.65	1.8
Nominal GDP (N'bn)	113,711.6	127,736.8	144,210.5	152,324.0	164,414.7	185,296.89
Nominal GDP (US$'bn)	375.7	398.2	448.1	401.9	403.4	446.5
Real GDP (N'bn)	68,491.0	69,799.9	71,387.8	70,014.0	71,904.38	74,118.75
Fiscal balance (% of GDP)						
Fiscal deficit	(3.3)	(2.9)	(2.9)	(5.6)	(4.6)	(4.1)
Revenue	2.3	3.0	2.9	3.6	3.1	3.7
Expenditure	(5.7)	(5.9)	(5.7)	(9.2)	(8.0)	7.7
DMO debt	25.3	28.4	19.9	21.6	22.8	23.4
Debt servicing	(1.6)	(1.7)	(1.7)	(3.0)	(2.3)	2.1
Debt Service/Retained Revenue	68.6	55.9	59.4	83.4	73.6	70.0
External Balance						
Exports (US$'bn)	45.8	61.2	65.0	35.9	42.4	48.0
Imports (US$'bn)	(31.3)	(43.0)	(62.1)	(52.4)	(37.8)	50.3
Current account balance (% of GDP)	3.0	1.5	(3.5)	(4.7)	(2.7)	(2.0)
Net FDI (US$'bn)	2.2	0.6	1.9	2.7	1.8	1.6
Prices						
CPI (average % y/y)	16.5	12.1	11.4	13.2	16.9	14.4
CPI (year-end % y/y)	15.4	11.4	12.0	15.8	15.0	14.2
Interest & Exchange Rates						
Monetary policy rate (MPR), % year-end	14.0	14.0	13.5	11.5	11.5	12.5
Official exchange rate, (N/US$)	306.0	307.0	307.0	380.0	415.0	415
I&E exchange rate (N/US$)	360.3	364.0	364.5	395.0	415.0	455

SOCIO-ECONOMIC AND POLITICAL ENVIRONMENT

Socio-Economic Environment

Since 2012, the Nigerian consumer has come under severe pressure. From partial fuel subsidy removals to the free fall in naira in recent years, to the imprints left by the border closure and insecurity in food processing regions, all these have contributed to inflationary pressures. In response, the average Nigerian consumer has been trading down on the value chain, switching to cheaper alternatives as living costs rise in the face of generally low-income levels.

Electricity Tariffs

- Several attempts have been made in the past three years to effect tariff increase with the most recent one in September 2021 which eventually was halted. There were increases in tariff in November 2020 and in January 2021, but it appears the quantum of the raise remains insufficient.
- While the NERC has piped down over any electricity tariff hike in the near term, any attempt to do so will be met with severe criticisms and labour union demonstrations.
- Increasing tariffs could be a good starting point for improving liquidity while attracting investments into the power sector, yet we believe any attempt to further increase tariffs will be met with strong resistance.
- Asides that, in a pre-election year, the government is always reluctant to implement policies that will negatively impact the populace. So, we rule out any tariff hike in 2022.

Petrol Prices

- Recently, the Nigerian Petroleum Industry Act (PIA) was enacted. The act provides for the complete deregulation of the downstream sector .Contrary to the provisions of the act, the FG has continued to subsidize the pump price of PMS.
- However, in the most recent development, the Minister of Finance, Budget and National Planning, Zainab Ahmed, noted that the government will end its subsidy regime by July 2022 which will be replaced with a social intervention programme.
- In 2020, opportunely, a steep decline in global crude prices triggered by the pandemic completely wiped out the subsidy via significantly lower landing costs, paving the way for a reduction in the pump price of petrol in mid-March and for talks of deregulation once again.
- The recovery in global crude-oil prices has once again brought the subsidy conversation to the forefront and the PPRA revised the pump price of petrol higher several times between June and November 2020. In 2021, crude oil prices continued to rise, implying an increase in the landing cost of PMS.
- Undoubtedly, another attempt to revise the price to suit current realities will be strongly resisted by the populace who have been hard hit by two recessions and a pandemic in the last 5 years amid rising food and utility costs.
- Thus, we opine that the July 2022 commencement date for the full subsidy removal might not come to fruition. Besides, 2022 is a pre-election year and the government may be forced to retain the subsidy to avoid any clash with the populace. We forecast at the most, only a 20-35% subsidy elimination.

INSECURITY: THE ELEPHANT IN THE ROOM

The rising spate of insecurity has significantly weighed on local food production, making it impossible for many farmers to go to their farms for fear of being killed or kidnapped. More worrisome is the incessant attacks on the younger age brackets across the country, leaving them with unforgettable memories and fear for the rest of their lives.

Boko Haram: To remain a threat

The Nigerian Army in collaboration with Chad and Cameroon have made notable progress against insurgents over the last few years. Notwithstanding, Boko Haram continues to carry out stealth attacks with increasing frequency showing that fight against them is far from over.

The instability caused by insurgents has been an unfortunate theme for consumer-facing companies since 2012. In recent years, many of these affected companies have seen significant improvements to redistribute to these regions,

Boko Haram attacks will still be a recurring theme in 2022 in our view. However, given the continuous attacks, we see little worsening in conditions faced by consumer companies in 2022 as the nature of the threats have changed with more focus on military facilities.

Fulani Herdsmen/Bandits' attacks likely to continue

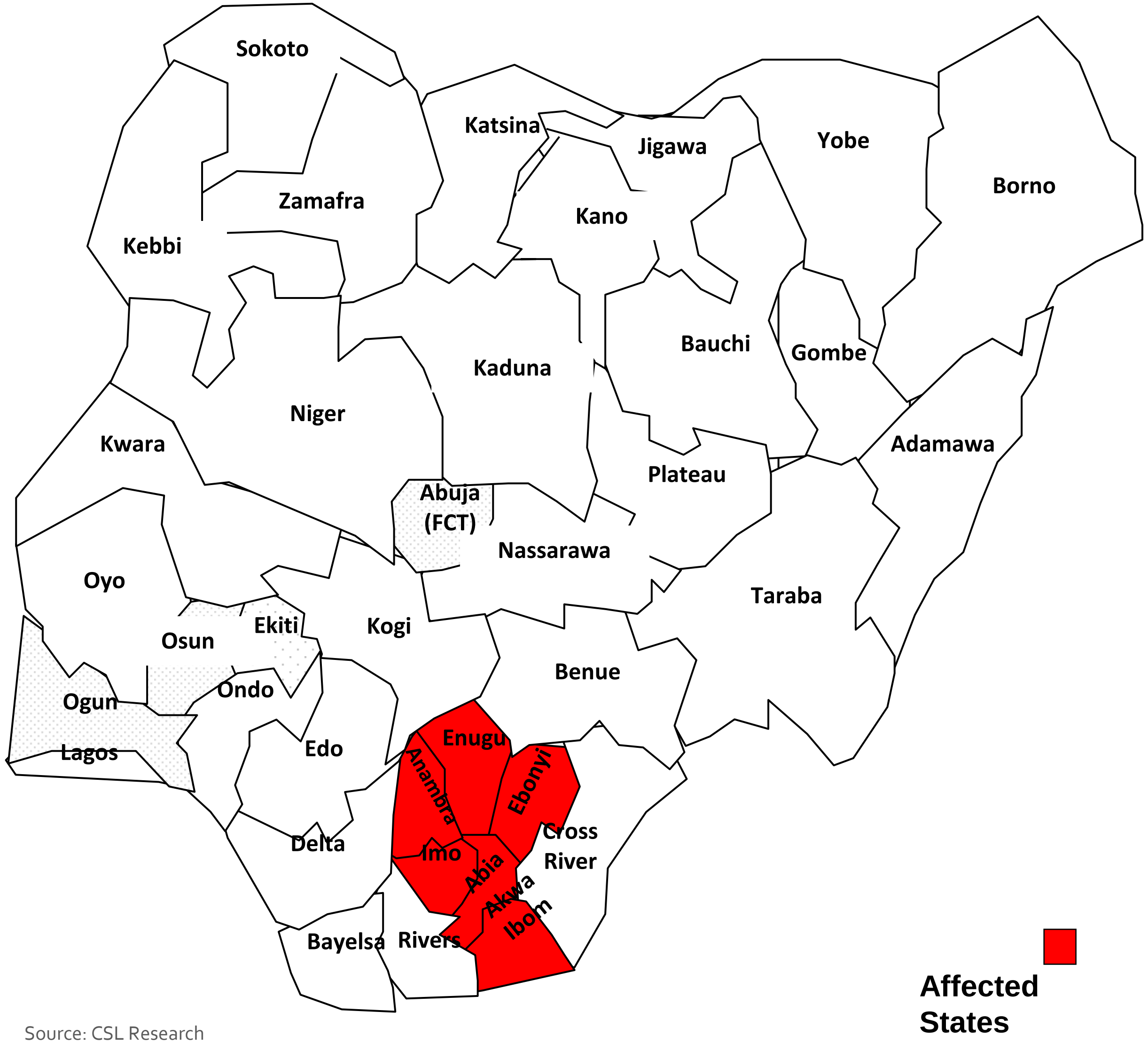
Fulani herdsmen/indigenous community conflicts span more than a decade and may likely continue into 2022, as competition for scarce grazing land causes friction.

Criticisms continue to mount against the current government for its inability to tackle the situation effectively, with accusation that it has been slow in taking actions to defuse tensions.

And with unabated attacks by the herdsmen, government's confidence to protect farmers and their properties in these communities has waned significantly.

So far, some state governors like the governor Akeredolu of Ondo state have been in the fore front in the fight against attacks by the Fulani herdsmen.

IPOB NOT BACKING DOWN



Source: CSL Research

IPOB RELATED ACTIVITIES

- Frustrations continue to build up within the camp of separatist organisation, Indigenous People of Biafra (IPOB), since the recent arrest of the IPOB leader, Nnamdi Kanu, in June 2021.
- Following the arrest which took many of the followers by surprise, the group initiated "sit-at-home" orders in various eastern parts of the country, which many described as fruitless, only many times resulting in loss of lives and properties.
- The sit at home orders disrupt economic activities within the affected regions which if allowed to continue unchecked, could negatively impact companies within our coverage.
- In our view however, as long as the court case of the arrested leader is still on, we see the activities of IPOB remaining a theme in 2022 especially with the 2023 elections in view.

2023 Nigeria's Presidential elections; who wears the crown?

- Nigeria's 2023 presidential elections will be keenly contested. Though there will be many other candidates from other parties, we expect the presidential battle to be between the candidates of the People's Democratic Party (PDP) and All Progressive Congress (APC).
- For the ruling party, APC, the power of incumbency no longer confers the advantage it should. A combination of weak macroeconomic conditions, worsening insecurity and perceived nepotism (and/or ethnic considerations) in making appointments has caused President Muhammadu Buhari's popularity to wane significantly. Only its control of agencies, including the Nigeria Police Force, confers a clear advantage to the APC.
- Nigeria's 36 states are split into 6 geopolitical zones, made up of between 5-7 states each. The electoral law requires the successful presidential candidate to obtain both a simple majority and 25% of the popular vote across two-thirds of Nigeria's 36 states and the FCT, otherwise there will be a run-off.
- Recently, former governor of Lagos State and APC kingmaker, Asiwaju Bola Ahmed Tinubu, formally declared his intentions to contest for the office of the President to succeed the incumbent Muhammadu Buhari. Given his political clout, the PDP will need a strong candidate to compete against him
- Still on the APC platform, the current governor of Ebonyi state, David Umahi, has also declared his intentions to contest the elections in a meeting with the President. Also, there are rumours that the incumbent Vice President, Professor Yemi Osinbajo, has his eyes on the ticket. All in, despite who he will be contesting against, it is popular opinion that Bola Ahmed Tinubu will most likely take the ticket.
- Though no intentions have been formally declared by any members of the PDP, a few names are being rumoured to have plans to contest such as Atiku Abubakar, Peter Obi, Olubukola Saraki, and Aminu Tambuwal. Some throw in the former President Goodluck into the mix.
- One thing the first three candidates mentioned above have in common is that they are all Northerners. Considering the current level of division in the country across ethnic and religious lines, another Northern President for 8 years (incumbents typically seek a second term), may be a tough one to pull off. The incumbent is of Fulani ethnicity in the Northern part of Nigeria.
- That said, it is still early stages and one can safely assume that the playing field will likely change before 2023. Nigerian politics is not based on competing ideology but rival interests and ambitions, making it difficult to forecast what an APC or PDP win will do for the economy. An easier way is to focus on the individuals contesting and not their party affiliations.

2023 ELECTIONS: WHO WEARS THE CROWN?

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Possible Aspirants	Party affiliation	Declared Intentions?	Chances of grass root support- our view	Brief Profile
Ahmed Bola Tinubu	APC	Yes	Strong	Former governor of Lagos state and APC national leader/king maker. Popularly known as "Jagaban"
Atiku Abubakar	PDP	No	Strong	A former Vice President of Nigeria from 1999 to 2007. Former governor of Adamawa state. He has unsuccessfully contested for the office of the President five times including the last elections
Peter Obi	PDP	No	Possibly in a VP position	A former governor of Anambra state who served for two terms.
Aminu Tambuwal	PDP	No	Moderate	A two-time governor of Sokoto state and served as the 10th speaker of the House of Representatives of Nigeria
Yemi Osinbajo	APC	No	Strong but unlikely to win the APC party ticket	Current Vice President of the country
David Umahi	APC	Yes	Weak	An engineer and current governor of Ebonyi state. Served as deputy governor to former governor of Ebonyi State, Martin Elechi, for 8 years
Yahaya Bello	APC	Yes	Weak	Current governor of Kogi state
Kingsley Moghalu	ADC	Yes	Weak	An economist and former deputy governor of Central Bank of Nigeria (CBN), a presidential candidate of the Young Progressive Party (YPP) in the 2019 elections
Goodluck Ebele Jonathan	PDP	No	Likely if an agreement is reached	Former President of Nigeria, former Vice President, a two-time deputy governor of Bayelsa state and eventually governor of Bayelsa state
Bukola Saraki	PDP	No	Moderate	A medical doctor, former Senate President, and a two-time governor of Kwara state
Uzor Kalu	APC	Yes	Weak	A business mogul, a two-time governor of Abia state and currently a senator representing Abia North zone

EQUITIES REVIEW AND OUTLOOK

INVESTMENT SUMMARY (1/2)

- We begin 2022 following a positive performance in equities (+6.1%) in 2021. Unlike in 2020, when the market delivered a 50% return largely due to CBN policies which led to increased system liquidity, we describe 2021 as broadly lethargic, with the positive close induced mainly by corporate actions. The year was characterized by a flurry of corporate actions which caused a significant rise in the prices of some tickers. Save for expectations of similar corporate actions and positive news around the heavily weighted stocks on the exchange, which could drive activities in the stock market, the narrative for 2022, to a great extent, tilts towards a bearish performance in our view.

- Foreign investors have in the past few years shown apathy towards Nigerian equities and we do not expect any significant comeback in a pre-election year. If historical trends are anything to go by, stock market performance in the last 2 pre-election periods (2014 & 2018) has been negative, making us more inclined to anticipate a weak market in 2022, especially as FX concerns which were not there in 2018, add another layer of concern.

- The relatively unattractive carry trade in OMO bills, when compared with other African peers, may further elevate the risk of capital flight in 2022. Indicators of FX valuation suggest the Naira remains overvalued; hence, we expect naira at the I&E window to weaken to an average of NGN455.00/USD in 2022 from NGN415.00 in 2021. We also expect the parallel market premium to remain widened, as the CBN is yet to resume FX sale to the BDCs. In addition, corporates and individuals who import items restricted by the CBN will continue to source FX from the black market. Repatriation of funds has been difficult for FPIs in the last two years, and we believe favourable FX outlook and clarity on FX repatriation policy, both of which appear far-fetched in 2022 will be a major catalyst for FPIs to return to the market.

- We are, however, optimistic about the performance of some of the sectors we cover. Aggressive CRR debits, sustained LDR policies, AMCON charges, are factors that would continue to undermine the earnings of stocks in the banking sector. However, current P/BV valuations of the banks remain at historic lows and in many cases, price in the loss of all profits and of a substantial portion of equity in 2022e. By contrast, we estimate that a COR of 1.7% (forecasted average for the tier 1 banks in 2022e) will not result in any significant dent to profit in 2022e.

INVESTMENT SUMMARY (2/2)

CSL

- Since 2012, the Nigerian consumer has come under severe pressure. From partial fuel subsidy removals to the free fall in Naira in recent years, to the imprints left by the border closure and insecurity in food processing regions, the Nigerian consumer has been left impoverished. In response, the average consumer has been trading down on the value chain, switching to cheaper alternatives as living costs rise in the face of generally low-income levels. We, however, expect a positive performance from players in the food processing and FMCG subsegments. Our positive expectation for the food processors is based on the essential nature of goods produced, and the reduced level of imported substitutes despite the border re-opening in 2021. For the FMCGs, we expect the improvement seen in the performance of the players in the sector since the relaxation of lockdown measures to continue into 2022.

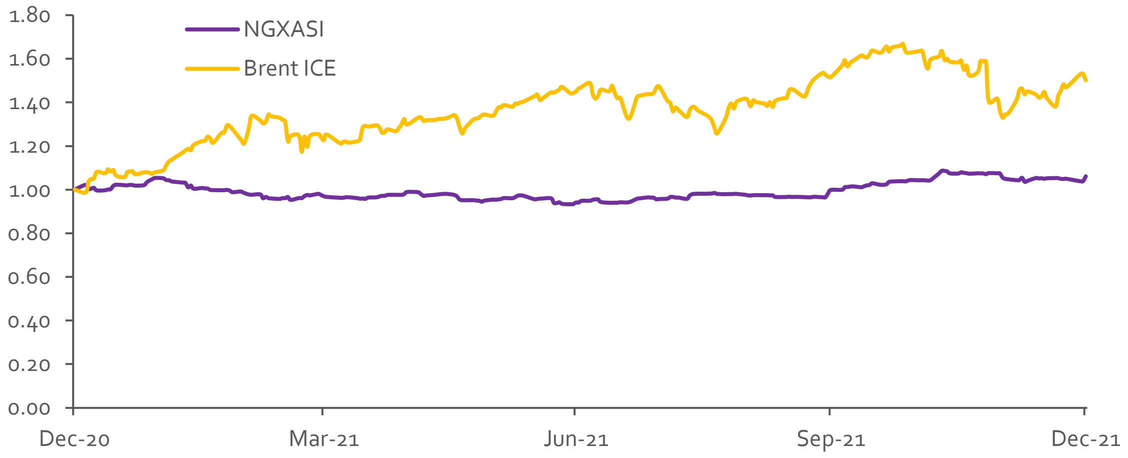
- We have also seen positive signals pointing towards robust earnings for the cement sector players, albeit growth may moderate in 2022. The Minister of Works and Housing, Babatunde Fashola, noted that the federal government may extend the implementation of capital projects components in the 2021 budget (such as the Lagos-Ibadan Expressway and 2nd Niger Bridge) into 2022. If done, we believe this bodes well for the cement sector amid the gradual shift to cement paved roads. In addition, the establishment of the PPP Infra-Co to bridge the infrastructural gap in the country will benefit the players in the cement sector. We also expect private sector investments in real estate to remain strong.

- The pandemic had adverse effects on many sectors, yet it was positive for the telecoms sector, which has remained the bright spot in the Nigerian economy. The news of the receipt of approval-in-principle (AIP) by the two telecom giants (MTNN and Airtel Africa) in November brought the year to a close with a reminder that the sector is still scratching the surface of its potentials given the opportunities in the payment business. Also, Airtel Africa received a super-agent approval in principle, all of which point to a good year for the sector.

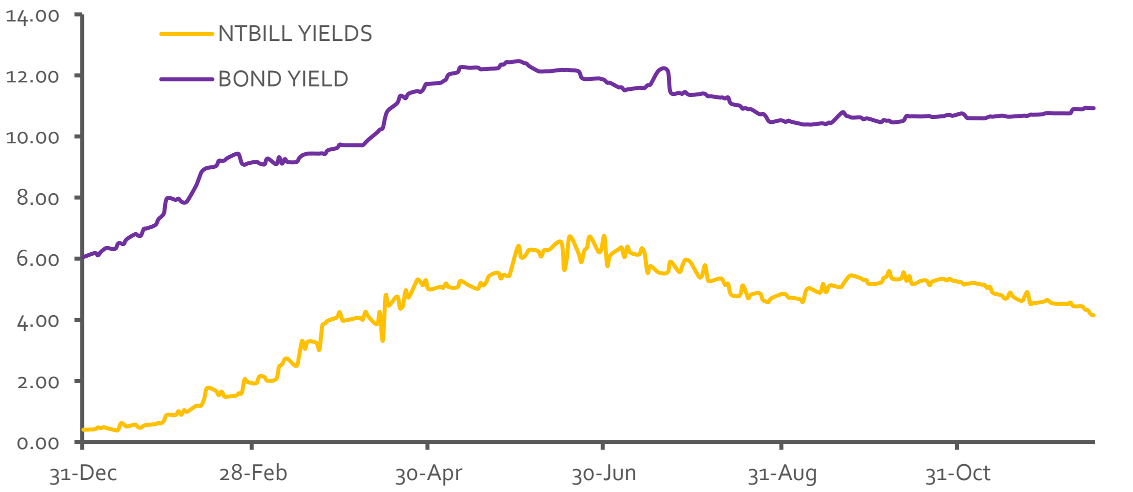
- Barring heightened security risks in the run-up to the elections, the key determinants of Nigerian capital markets remain oil price, the smooth running of the banking system, and ample liquidity. Though, we expect oil prices to remain relatively high, CBN policies continue to undermine banking sector profits and we do not expect ample liquidity in the stock market in 2022. That said, we believe the valuations of many stocks remain very attractive. Within our coverage universe, we have Buy ratings on UBA, Access, Zenith, Guaranty Trust Bank, Dangote Cement, Lafarge Africa, MTNN, Dangote Sugar and Flour Mills of Nigeria. Essentially, we believe current valuations present medium to long-term investors with attractive entry opportunities.

THE NIGERIAN EQUITIES MARKET; 2021 IN RETROSPECT

NGXASI AND CRUDE OIL TREND (2021)



AVERAGE T-BILLS AND BOND YIELDS



Source; Bloomberg, NGX, FMDQ, CSL Research

In 2021, the direction of the market was determined by factors highlighted in our 2021 outlook, surviving amidst uncertainties. These factors were;

- The direction of fixed income yields: The equities market performance in 2021 was in divergence from the direction of the Fixed Income (FI) market. As yields in the FI space began to rise earlier in the year, so did the NXGASI start to decline. Activities in the equities market culminated in a 6.1% ytd gain.

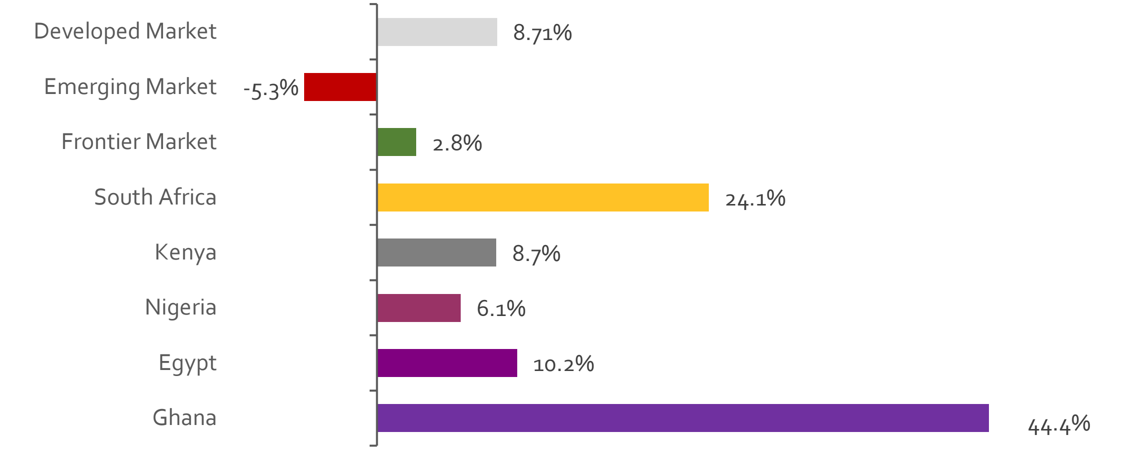
- Foreign exchange performance and external conditions: The Naira went through a series of adjustments in 2021, hampering corporate earnings performance for some companies. As of 31 December 2021, the currency at the Importer and Exporter Window was adjusted by 6.0% to N435/US$.

- External conditions: The global economy saw improved performance as many countries began to recover from the effects of the pandemic. This led to improved aggregate demand and consequently, improved energy demand. This to a larger extent spurred an increase in the international prices of crude oil and better macro-economic performance for the Nigerian economy as GDP is forecast to grow by 2.7% in 2021e compared with -1.9% in 2020.

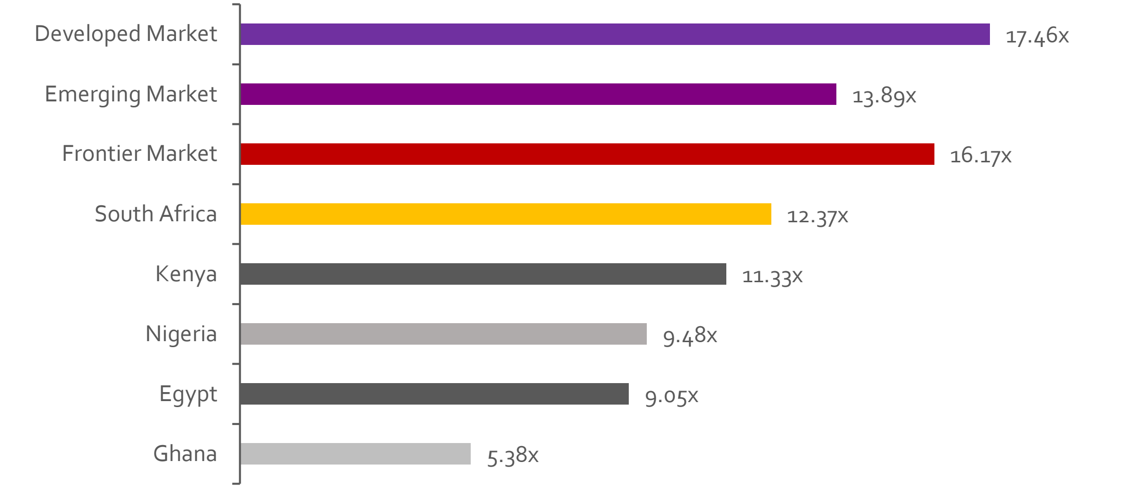
- Hunt for dividends and other corporate actions: These two variables, in addition to the momentum set by the expectation of a further dip in the yield environment drove the end of year activities seen in the equities market.

Performance and Valuation Across Markets

Equities Market Performance (2021)



Equities Market Valuation (P/E) (31-12-2021)



Sources: Bloomberg, CSL Research

- Compared to other comparable markets in Africa, the Nigerian Equities market underperformed in 2021, as Kenya (Up 8.7% ytd), Egypt (up 10.2% ytd), Ghana (up 44.4% ytd), and South Africa (up 24.1%) outperformed it.

- The Nigerian equities market however outperformed both the frontier and Emerging Market Indices which returned -5.3% ytd and 2.8% ytd, respectively. The MSCI Developed Market Index, however returned 8.71% ytd.

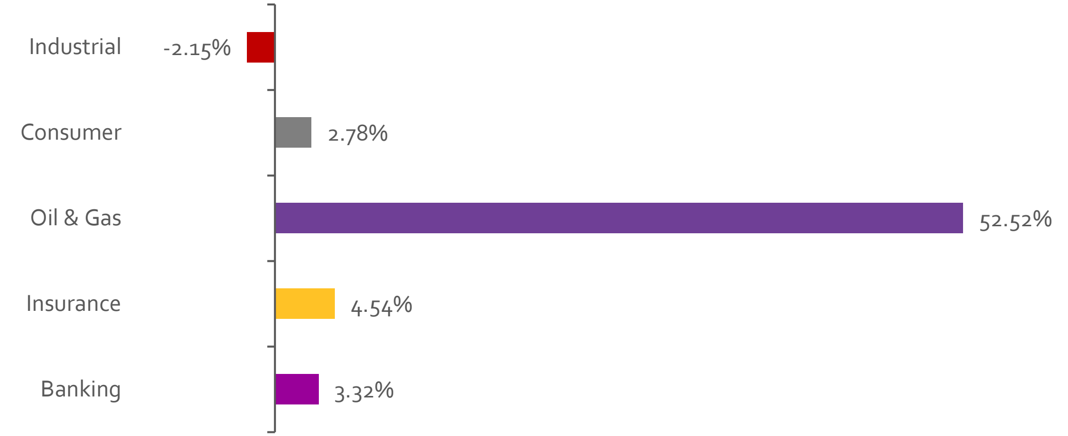
- The global equity markets were influenced by various factors in 2021, ranging from robust financial system liquidity, the performance of technology tickers, to the improving level of vaccination which has helped return some semblance of normalcy across markets.

- The Nigerian equities market as of the end of 2021 was more attractive in terms of valuation, (P/E: 9.48x) than both the Kenyan (P/E: 11.33x) and South African (P/E: 12.37x) markets. On the flip side, it lagged both the Ghana and Egypt markets that closed at a Price-Earning of 5.38x and 9.05x, respectively.

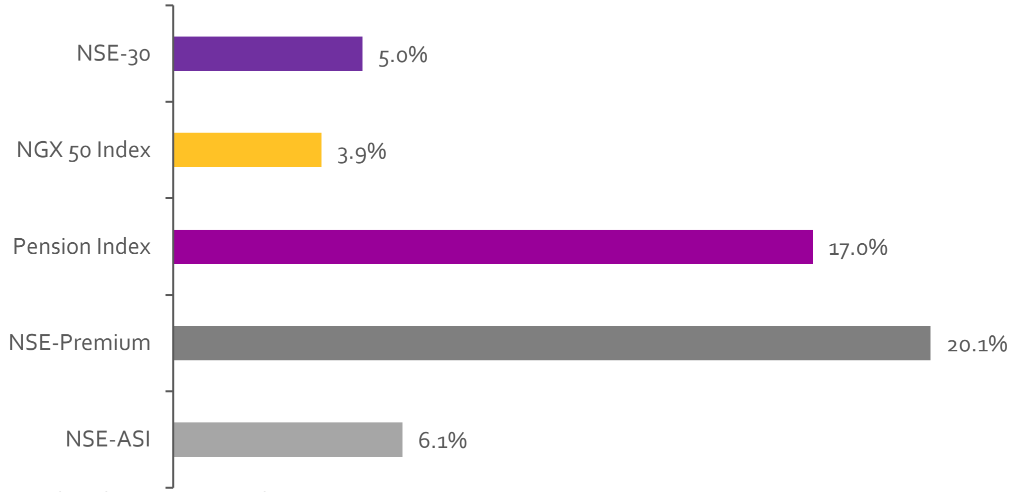
- We compared the market performance to the developed (P/E: 17.46x), frontier (P/E: 13.89x) and emerging market indices (P/E: 16.17x) and the Nigerian market appears more attractive in terms of valuation (P/E: 9.48x).

Mixed Sectoral Performances

Sectoral Indices Performance (2021)



Generic View of Sectoral Performance (2021)



Sources: Bloomberg, CSL Research

Sectoral Performances were mixed in the year.

- The oil and gas sector recorded a significant dip in 2020, occasioned by the advent of the corona virus, making for an attractive entry point for some fundamentally sound tickers. The surge in the index was an offshoot of the significant rise in the value of TOTAL (up 71.0% ytd), SEPLAT (up 62.0% ytd), and OANDO (Up 19.0% ytd).

- The growth of the insurance index came on the back of the series of corporate actions such as share reconstructions that have characterized the sector recently, which led it to post a 4.54% ytd return.

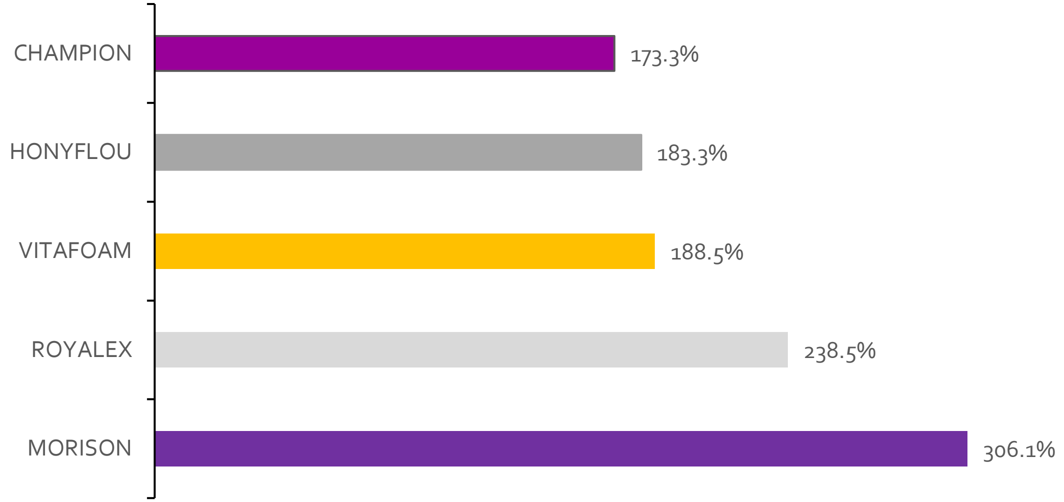
- The banking sector, which was driven by activities in stocks like FBNH and Union Bank, posted a marginal **3.3**% ytd performance.

- The industrial goods sector returned a ytd loss of 2.1% in 2021 in contrast to the ytd gain of 90.8% in 2020. This was due to mixed performance from the constituent stocks, whereby the leading stocks like BUA Cement that moved the index positively in 2020 dragged the index in 2021, posting a ytd loss of 13.3% in 2021.

- The NSE Premium (up 20.1% ytd) led the way among the generic indices, followed by the Pension Index (up 17.0% ytd). The trio of NSE-30 (Up 5.0% ytd), NGX50 (Up 3.9%) and NGXASI (Up 6.1% ytd) all ended with single digit returns in 2021.

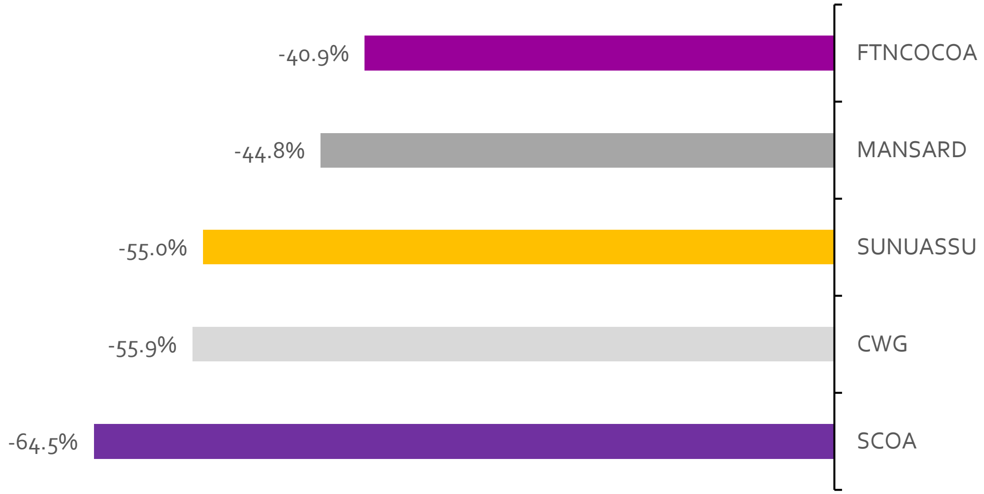
Leaders and Laggards; Corporate Actions Induced Performances

Top Five Gainers for the Year



Sources: Bloomberg, CSL Research

Top Five Losers for the Year



Sources: Bloomberg, CSL Research

- The year was laced with a flurry of corporate actions which created a significant leap in the prices of some tickers on one hand, while exacerbating the decline of others. Implying that mergers and acquisitions, share reconstruction, and bonus issues were behind most of the performances highlighted above.
- In the case of Champion Breweries , Honey Flour, and Royal Exchange Insurance, the performances were majorly triggered by strategic investments in those businesses. While Heineken NV completed the take over of Champion Breweries, Honeywell reported controlling investment from Flourmills Plc. Similarly, AfricInvest, a pan African asset management company, invested in Royal Exchange Insurance Plc.
- On the other hand, Mansard had a share reconstruction that triggered investors' apathy towards the stock leaving it with its lowest performance in the past three (3) financial years.

Nigerian Equities Outlook; What to watch out for in 2022

External Conditions

The gradual hawkish stance by advanced economies in combating inflation may induce capital flight from emerging economies, not leaving Nigeria behind. However, expected supply chain disruptions alongside improved OPEC+ production agreements supports FX earnings.

Heightened Political Risk

Even as of the time of writing, political discussions have begun in earnest, raising questions among investors on who the polls will favour. This seemingly political conversation will be factored in vis-à-vis increased risk premium with attendant impact on cost of equity.

Corporate Actions & Announcements

The equites market performance in 2021 showed that we can not overemphasize the impact of corporate actions & announcements on market's direction. Positive announcements such as final approval for MTN and Airtel's PSB license can be an upside risk that can lead to a positive close for the year.

FX Shocks

While we expect a moderate devaluation in 2022, a drastic fall in oil prices or a faster than anticipated hike in interest rates by systemically important central banks will not bode well for the economy and could further elevate FX back logs..

Fixed Income Yields

The chief driver of the equities market performance is majorly the direction of yields at the fixed income market. We expect further retracing of yields to alter the current trajectory in the market.

Muted Banking Profits

Aggressive CRR debits, sustained LDR policies, AMCON charges, are factors that would continue to undermine the earnings of stocks in the banking sector.

Market in a Pre-Election Year…Tracing History

Year	Prior Year-End Points	Year-End Points	Yearly Return (%)
1998 (Pre 1999 Election)	6,440.51	5,672.76	-11.9%
2002 (Pre 2003 Election)	10,963.11	12,137.72	10.7%
2006 (Pre 2007 Election)	23,921.60	33,189.30	38.7%
2010 (Pre 2011 Election)	20,827.17	24,770.52	18.9%
2014 (Pre 2015 Election)	41,329.19	34,657.15	-16.1%
2018 (Pre 2019 Election)	38,243.19	31,430.50	-17.8%
2022 (Pre 2023 Election)	**42,716.44**	**???**	**???**

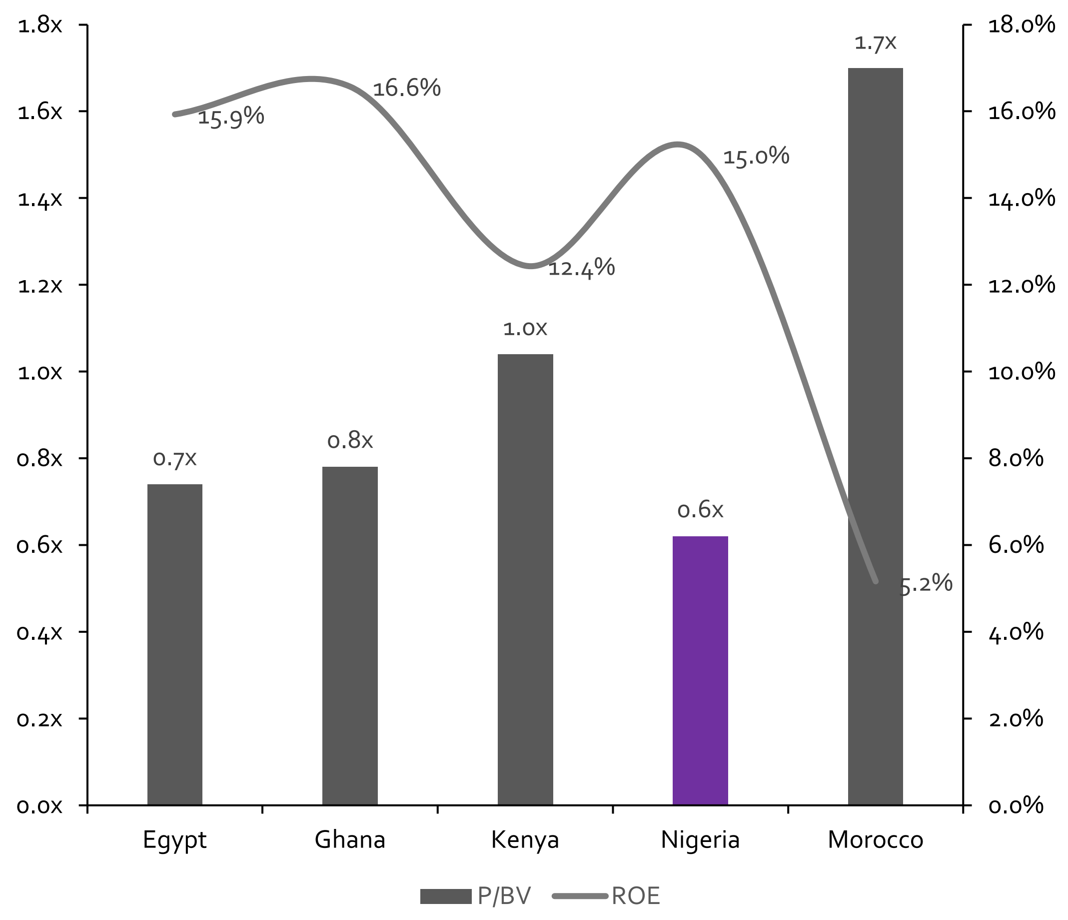
Heading For The Fourth Negative trend In A Pre-Election Year?

- We have had 6 pre-election years in Nigeria, of which 3 consecutive periods closed positive (2002, 2006, 2010) while the remaining closed negative (1998, 2014, 2018), putting us in a dicey scenario on what the pattern of growth will be in 2022. The positive close in 2006 was driven by growth in banking sector assets post consolidation.
- Notwithstanding, the average return over these periods stood at 3.8%.
- Farther out, the last 2 pre-election periods (2014 & 2018) have been negative, making us more inclined to anticipate a negative close in 2022 especially as FX concerns which were not there in 2018 add another layer of concern.
- Added to this is the relatively unattractive carry trade in OMO bills when compared with other African peers, elevating the risk of capital flight in 2022. Save for corporate actions and positive news around the heavily weighted stocks on the exchange, the narrative for 2022, to a great extent, tilts towards a bearish performance.

BANKING SECTOR REVIEW AND OUTLOOK

Banking Sector; Valuations Still Attractive Despite Expectations of Strained Earnings in 2022

P/BV ratio and ROE (Nigerian Banks vs Selected African Peers



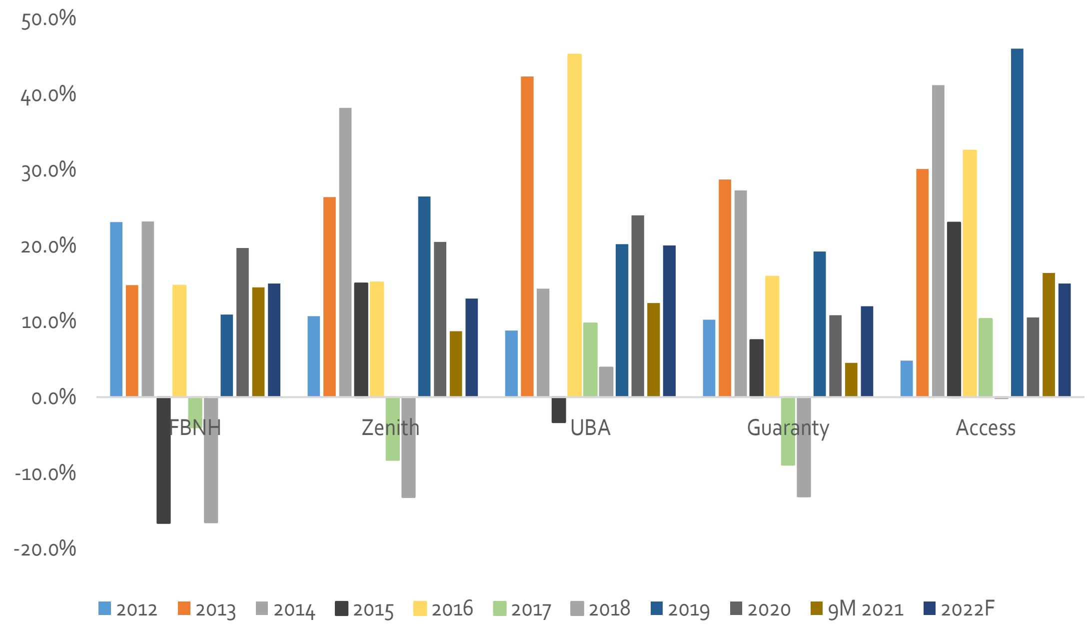
Source: Bloomberg, CSL Research

2022 Outlook- Earnings to be pressured but no disaster in view

- We expect only a marginal increase in average yields in 2022 as we expect the continuous CRR debits by the CBN which sterilizes funds which otherwise should be earning Interest to continue to weigh on asset yields. We also expect an increase in funding costs as banks have begun to reprice deposits to reflect current market realities.
- Banks have invested significantly in digital channels, and we expect banks will continue to look to Non-Interest Revenue to enhance earnings despite stiff competition from Fintechs and Telcos.
- Cost of risk (COR) has been low since 2020 reflecting regulatory forbearance due to the coronavirus pandemic which allowed banks to restructure loans to a few sectors impacted by the pandemic. The forbearance by CBN was extended for another year in 2021 following the expiration of the initial tenor. We expect a rise in COR in 2022e, especially if CBN does not further extend the forbearance.
- We believe banks will continue to struggle to improve efficiency to support bottom line growth and so, we forecast sub inflationary growth in opex in 2022e.
- Based on the aforementioned factors, we downgrade 2022e earnings marginally for some of the teir 1 banks but, prompted by adequate capital and relatively stable asset quality, we maintain a Buy recommendation on Zenith, GTCO, Access and UBA,
- Current P/BV valuations of the banks remain at historic lows and in many cases price in the loss of all profits and of a substantial portion of equity in 2022e. By contrast, we estimate that a COR of 1.7% (forecasted average for the tier 1 banks in 2022e) will not result in any significant dent to profit in 2022e.

LOAN GROWTH; LOANS TO RISE MODERATELY

LOAN GROWTH



LOAN GROWTH: EXPECTED TO RISE MODERATELY

- In the 9 months of 2021, based on released numbers, Zenith Bank recorded a net loan growth of 8.7% relative to December 2020. Also, Access (+16.4%), UBA (+12.4%), GTCO (+4.5) recorded net loan growths when compared with December 2020. We forecast average loan growth of 15% for the tier 1 banks based on a confluence of factors.

Factors that will limit loan growth

- Basel III requirements provide for additional oversight over lending arrangements which we believe will make banks cautious to extend loans. Again, an additional tier 1 capital is required for a Capital Conservation Buffer (CCB1) of 1.0% of TRWA. A Countercyclical Capital Buffer (CCB2), to be determined by the CBN periodically taking into consideration the prevailing macroeconomic conditions and developments within the financial sector may also be required.

- Demand for quality loans remain low as project finance has been slow due to covid-19 while many existing loan transactions are being refinanced through issue of debt instruments.

- The new variants of covid may have an impact on the macro economy and further reduce demand for quality loans.

Factors that will promote loan growth

- Strained yield on money market instruments will force banks to lend.
- Growth in digital loans and competition from fintechs will likely spur retail loan growth.

DEPOSIT GROWTH- DEPOSITS EXPECTED TO RISE

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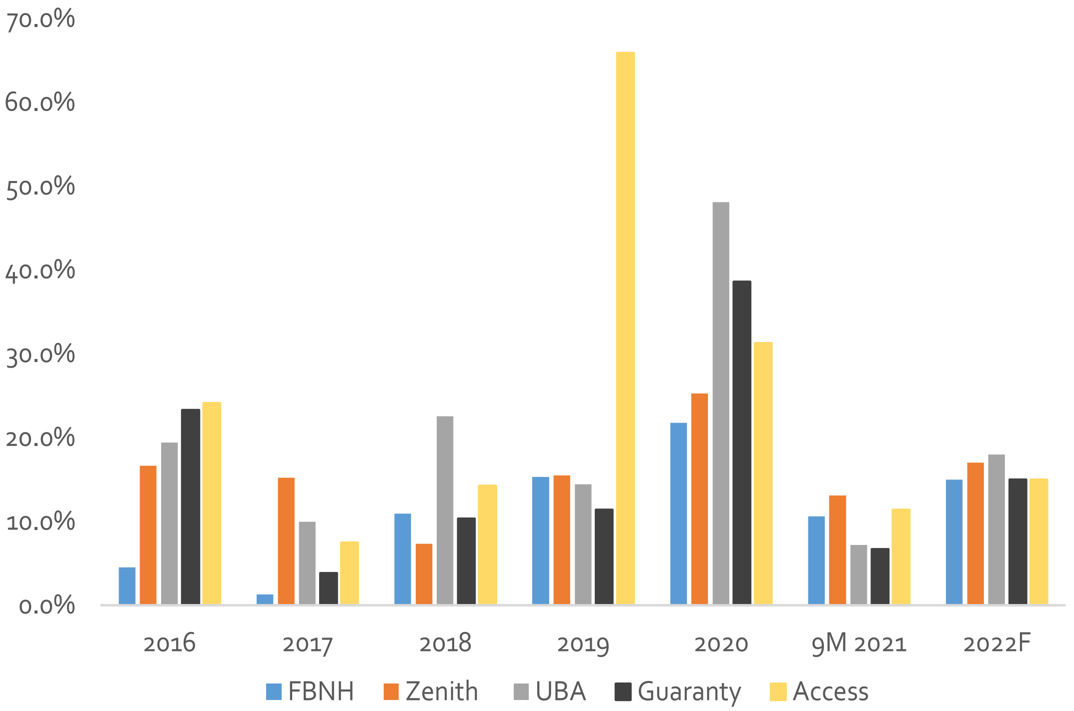
DEPOSIT GROWTH

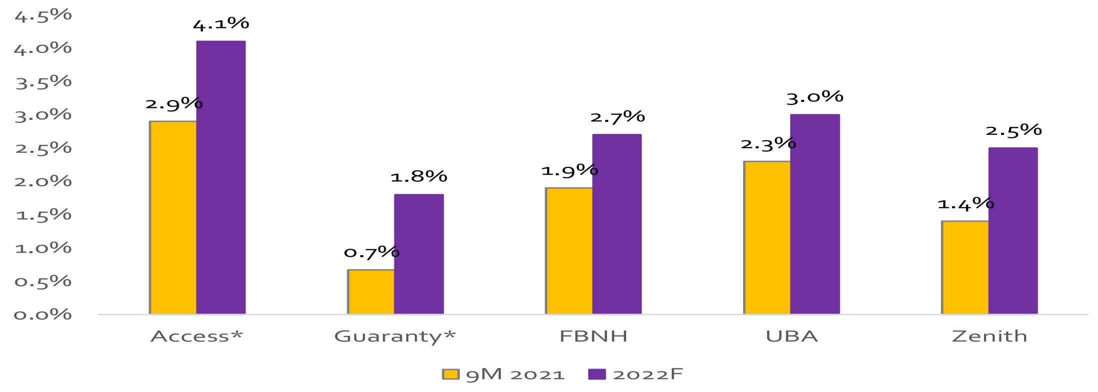


DEPOSIT GROWTH: REASONABLE GROWTH EXPECTED

- The CBN's minimum LDR policy and the policies that brought down yields in 2020 meant that banks were not enthusiastic about sourcing deposits, resulting in a significant decline in deposit rates.
- The CBN's discretionary CBN debits which were very frequent in 2021 however caused some liquidity problems for many banks, making them approach the SLF window and the interbank window with rates between 11-15% in 2021 for the latter. This made banks began to reprice deposits in 2021 in the second half of the year.
- The tier 1 banks grew deposits moderately by an average of 9.8% in 9M 2021.
- We expect that CRR debits will continue in 2022e, and banks will need to increase deposits.
- We also expect that Pre-election spending will drive up cash in circulation and increase money supply given that 2022 is a pre-election year.
- .Overall, we forecast average deposit growth rate of 16.0% for the tier 1 banks.

UPTICK IN COST OF FUNDS ANTICIPATED; MARGINAL INCREASE IN ASSET YIELDS EXPECTED

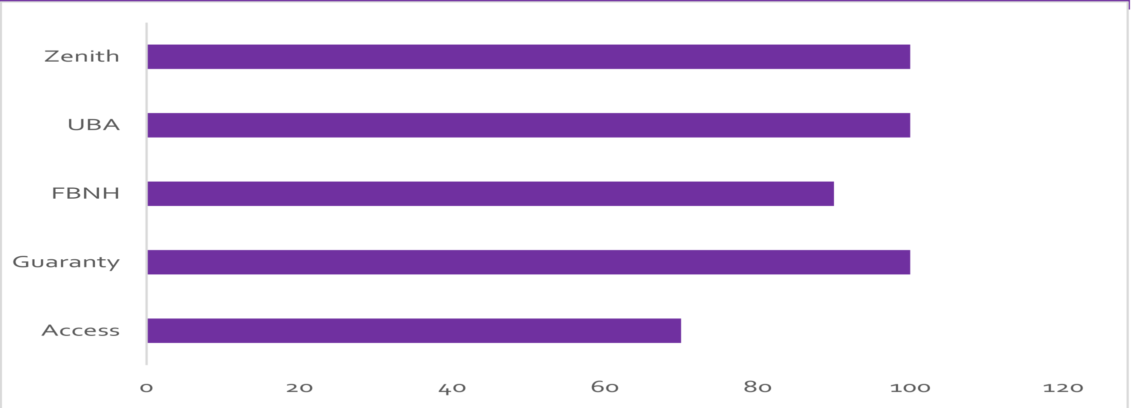
COST OF FUNDS – MODERATE UPTICK EXPECTED



Sources CSL Research

- Continuous CRR debits in 2021 left many banks with intermittent liquidity problems forcing banks to source for deposits.
- Bonds were also being issued (including Sukuk) at more attractive rates taking deposits away from banks. Consequently, banks needed to revise rates to retain and attract more deposits.
- Cost of funds declined in 2020 due to CBN's policies but rose gradually from H2 of 2021e as banks began to reprice deposits. Many banks also approached the Standing Lending Facility (SLF), interbank window and interbank rates were on average 11-15%.
- For the nine months of 2021, average cost of funds for the tier 1 banks was 1.8%. We forecast average cost of funds for the big banks will rise to 2.8% in 2022e.

MARGINAL INCREASE IN AVERAGE YIELDS EXPECTED



Sources: CSL Research

- Yields on money market instruments began to rise towards the end of Q1 2021 and we expect current levels can be sustained into 2022.
- We expect the continuous CRR debits by the CBN which sterilises funds which otherwise should be earning Interest to continue to weigh on asset yields.
- We also do not expect huge OMO maturities which could drive up NT-bills yields in 2022.
- However, we do not envisage any further decline in yields on fixed income securities.
- We model an average 92pbs rise in assets yield of the big banks above FY 2021 levels.

NON-INTEREST INCOME: TRANSACTION VOLUMES TO INCREASE BUT PSB LICENSE REMAINS A THREAT; NET INTEREST MARGIN EXPECTED TO REMAIN PRESSURED

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NON-INTEREST INCOME- PSB LICENSE; A THREAT

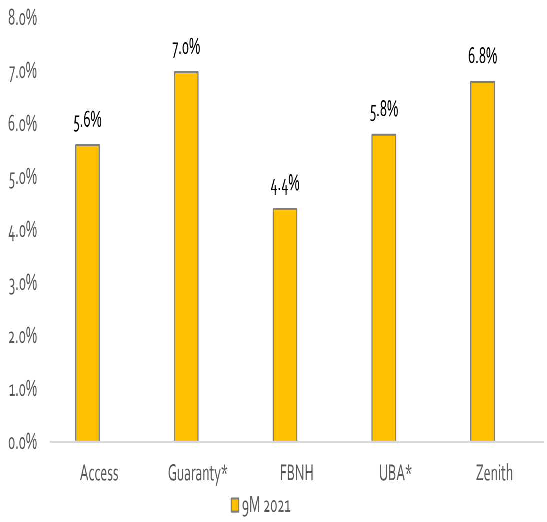
The CBN in January 2020 published a revised fee guide for banks, reducing fees for several transactions including e-banking related transactions. This significantly impacted banks' e-banking income in 2020 but banks have been working to improve transaction volumes to make up for the decline.

Again, the growing investment by many banks in digital technology and the onset of the covid-19 pandemic which has made many customers opt for online transactions have significantly contributed to growth in Non-Interest Income.

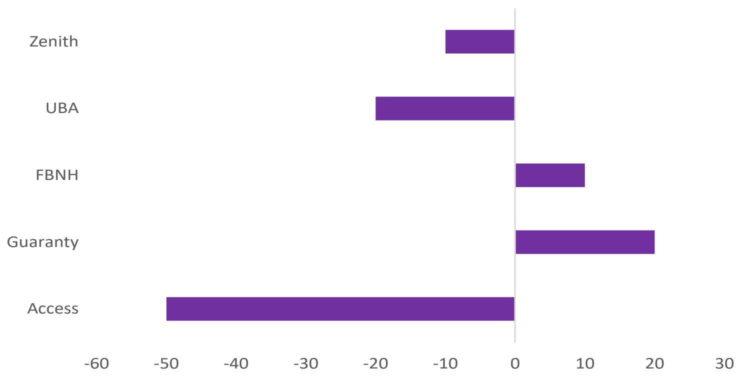
We believe banks can increase non-interest income from increased treasury and capital market activities. Also, considering the historical penchant for completing projects during a pre-election year, we expect banks can increase non-interest revenue through bonds, guarantees, LCs etc.

Though we expect the PSB licenses to be issued to two new telcos (MTN and Airtel Africa) to be a threat, we believe banks can take advantage of their competitive advantage in terms of scale and customer history to compete effectively though heavy overhead which telcos do not have can work against the banks.

NET INTEREST MARGINS – TO REMAIN PRESSURED



EXPECTED CHANGE



Sources: CSL Research

Banks' NIMs were significantly pressured in 2021 mainly due to weak assets yields exacerbated by a phenomenal increase in CBN's discretionary CRR debits.

We do not envisage any further decline in yields on fixed income securities .Our base case is that yields on NT-Bills will likely rise marginally within the year..

Overall, we believe Net Interest Margins (NIMs) in the short to medium term will shrink slightly as we expect cost of funds to grow faster than assets yield. However, we forecast a marginal increase in NIMs for GTCO and FBNH.

BANKS TO MANAGE OPEX BETTER TO SUPPORT BOTTOM LINE BUT REGULATORY COSTS REMAIN THE STICKING POINT

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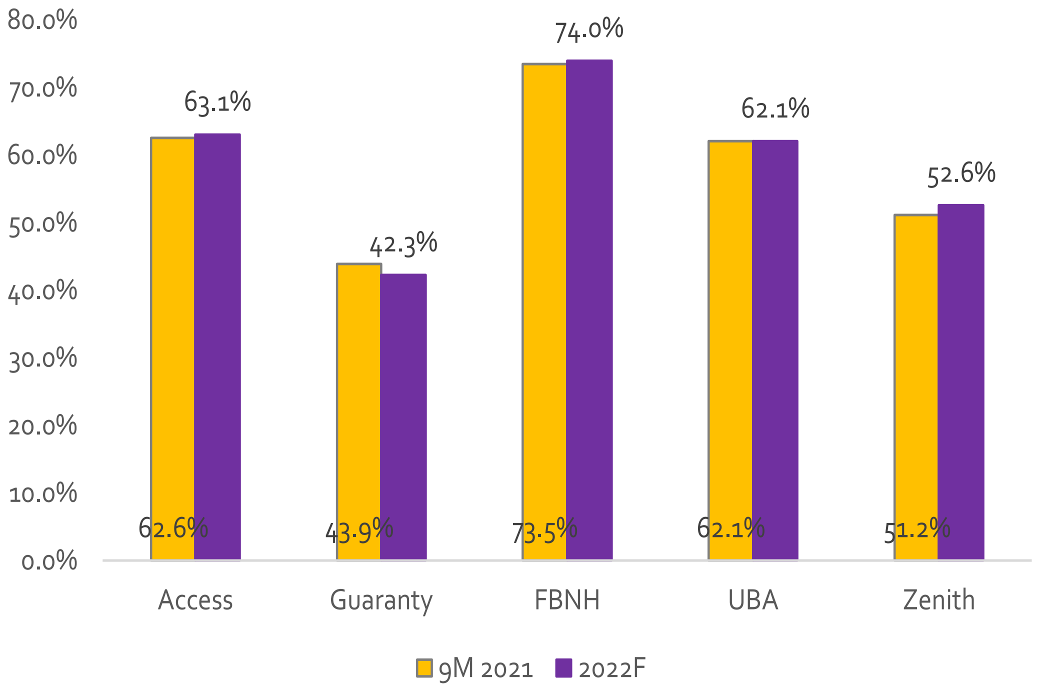
COST TO INCOME RATIO

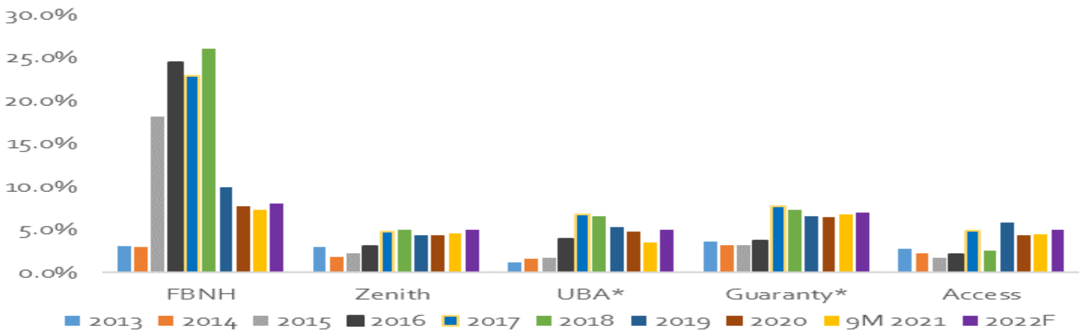


REGULATORY COSTS TO PRESSURE EARNINGS

- The tier 1 banks reported an average cost to income ratio of 58.7% as of 9M 2021.
- Nigerian banks have all been making concerted efforts to reduce costs. Though GTCO saw a deterioration in its cost to income ratio (CIR) due to reduced income as a result of reduced assets yield, it still retained its position as the bank with the lowest CIR with CIR ex- provisions of 43.9% as of 9M 2021.
- FBNH's cost to income ratio ex provisions of 73.5% as of 9M 2021 was the highest of the tier 1 banks.
- Though we expect regulatory costs (AMCON and NDIC) to continue to pressure earnings, we believe banks will continue to make efforts to reduce the opex lines under their control.

Asset Quality to Deteriorate Moderately in 2022

Non-Performing Loans Ratio



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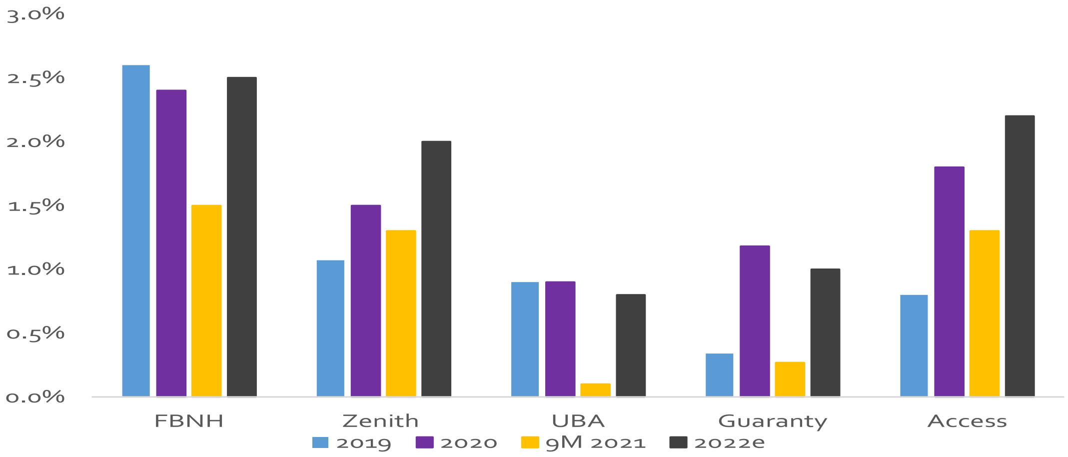
GTCO and UBA Nigeria 9M as of H1 2021

Cost of Risk



Source: Company data, CSL Research

No major disaster expected in the short term, but impairment charge sets to rise

- Cost of risk (COR) was an average of 0.9% for the tier 1 banks in 9M 2022. The low ratio mainly reflects regulatory forbearance due to the coronavirus pandemic which allowed banks to restructure loans to a few sectors impacted by the pandemic. The forbearance by CBN was extended for another year in 2021 following the expiration of the initial tenor.
- We expect some deterioration in asset quality in 2022 especially if CBN does not extend the forbearance. We forecast an average COR of 1.7% for the tier 1 banks in 2022e.
- We also expect lower recoveries as collateral sale will prove more difficult in the face of weak economic growth, We expect this deterioration in asset quality to impact liquidity position of some banks.

CAR– EXPECTED TO BE PRESSURED FROM NEW BASEL REQUIREMENTS

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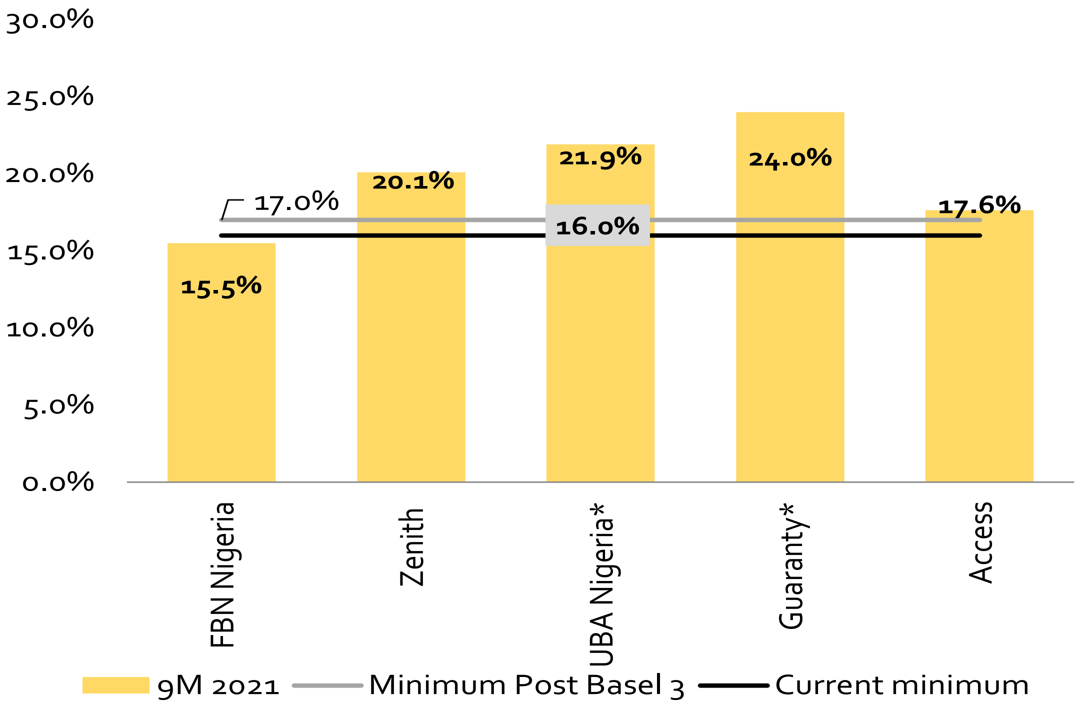
CAPITAL ADEQUACY RATIO 9M 2021



*
GTCO and UBA Nigeria as of H1 2021

CAR– EXPECTED TO BE PRESSURED FROM NEW BASEL RULES

- Capital adequacy is a persistent issue for several Nigerian banks. The CBN requires that banks with international subsidiaries maintain a capital adequacy ratio (CAR) of 15.0% while banks without international subsidiaries maintain a CAR of 10.0%. The minimum requirement for systemically important banks is 16.0% (although CBN is still giving a forbearance).

- Following the implementation of BASEL III, an additional tier 1 capital is required for a Capital Conservation Buffer (CCB1) of 1.0% of TRWA. A Countercyclical Capital Buffer (CCB2), to be determined by the CBN periodically taking into consideration the prevailing macroeconomic conditions and developments within the financial sector may also be required.

- Impact on capital adequacy also comes from expectations of further currency devaluation if oil prices begin to decline again. However, we expect relative currency stability and expect only a moderate devaluation. So, we expect little impact on CAR. Moreover, many banks make windfall revaluation gains whenever there is a currency devaluation which make up for the impact of RWAs.

- Poor asset quality can also affect CAR value. If a bank suffers an unexpected rise in cost of risk (COR) that exceeds the capacity of one year's profits to absorb it, then that bank will be looking at writing down capital. For the banks we cover, we estimate that they will make sufficient profit to absorb Impairments within the year and would not require any write down in capital.

PROFITABILITY: PROFITS TO BE DRIVEN MAINLY BY NON-INTEREST REVENUE GROWTH

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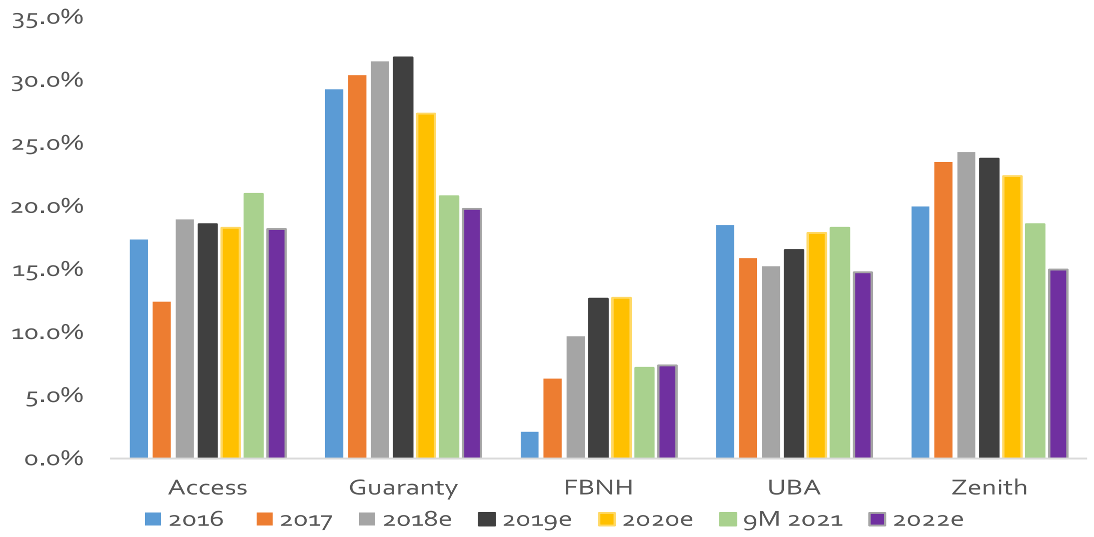
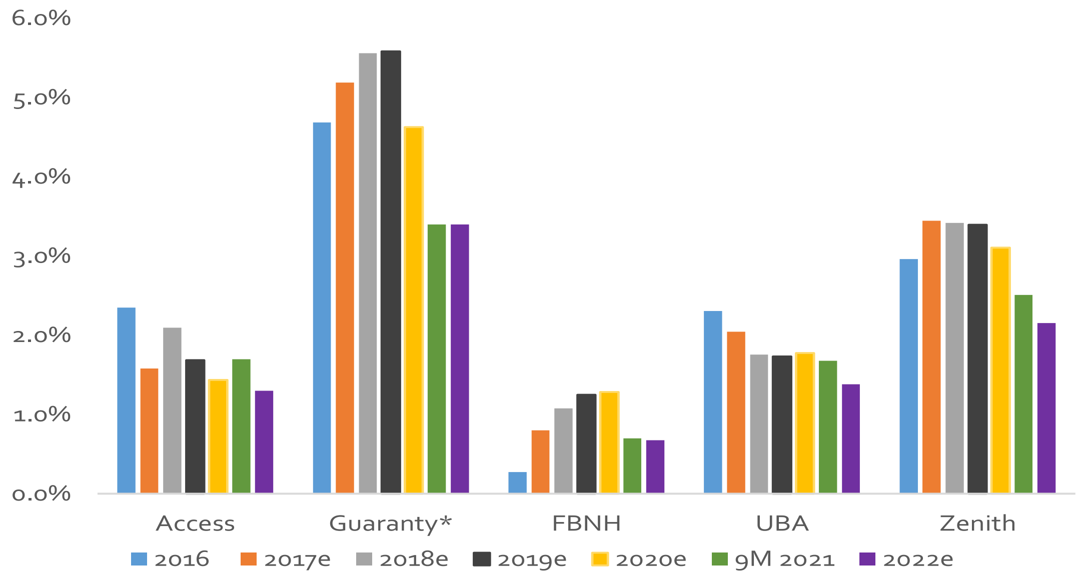
ROAE



Sources: CSL Research

ROAA

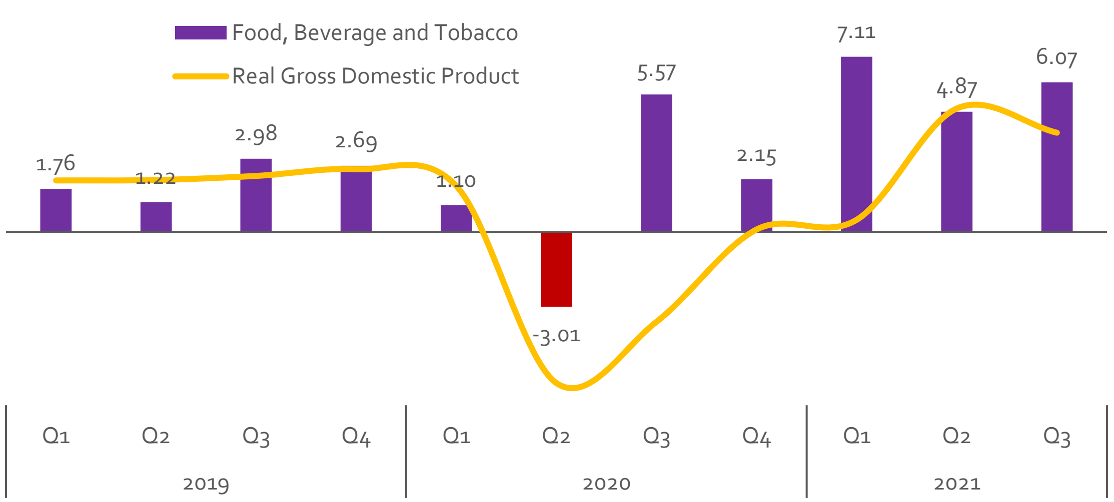


We model an increase in Pre-tax profits for Guaranty Trust Bank and FBNH in 2022e but expect a marginal decline of an average of 3.8% for the other Tier 1 banks. In our view, earnings from the newly created subsidiaries of GTCO should gradually contribute to earnings and we expect a decluttered FBNH balance sheet to translate into improved earnings in 2022e.

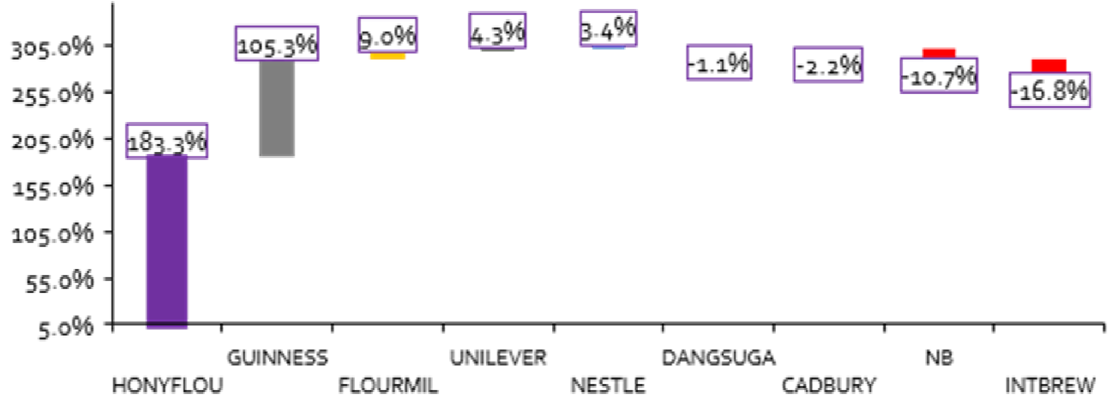
CONSUMER GOODS SECTOR REVIEW AND OUTLOOK

CONSUMER GOODS SECTOR: EMERGING FROM THE WOODS

FOOD, BEVERAGE AND TOBACCO (2019- 2021)



RETURNS ON COVERED COMPANIES



Source; NBS, Bloomberg, CSL Research

Food, Beverage, and Tobacco segment lead

- The Food, Beverages, and Tobacco sub segments of the manufacturing segment of the Nigerian economy has continued to hold the fort in the manufacturing space despite several macro-economic headwinds since 2015. Recovering from the 3.0% dip recorded in Q2 2020, the segment recovered to post an average growth of 5.2% between Q3 2020 to Q3 2021. We attribute this to improved economic conditions, a backdrop of the relaxation of the stringent economic lockdown that permeated the market in early 2020. Noteworthy also is that the segment has continued to outperform the Gross Domestic Product (GDP) In the period, proving its continued relevance in an ailing economy .

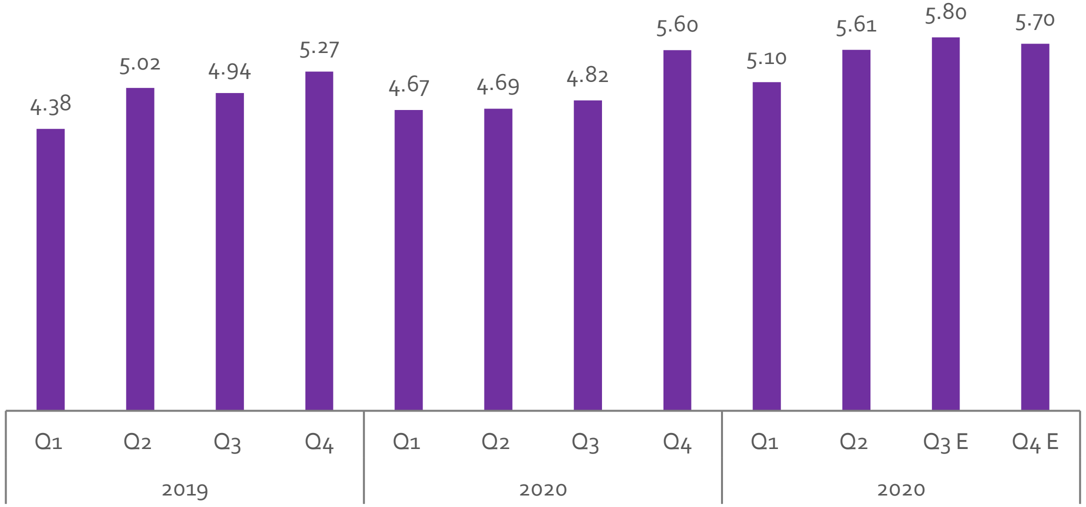
A sector characterized by mixed returns

In the period, there were mixed performances across our coverage universe, with some recording gains while others reported a decline in price.

- Honey flour's significant surge in price was due to the corporate action on the ticker as Flourmills completed plans to acquire the firm in a deal that pushed the ticker's price towards it book value. For context, whenever such acquisition is about to take place, it is common practice to consider the netbook value of the firm per issued share capital as the base price of the acquisition.
- Guinness, Flourmills, Unilever and Nestle, rode on improvement in their performances, hence the increase in price in 2021
- Conversely, DangSugar, Cadbury, Nigerian Breweries, and International breweries recorded negative ytd performances.

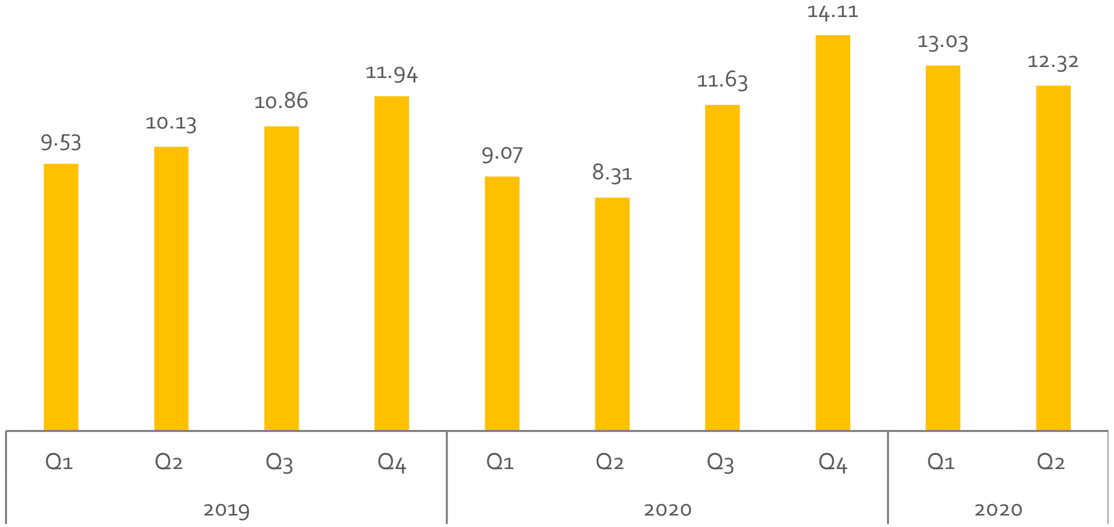
Consumer Goods Sector: Emerging from the Woods…(cont'd)

Household Income in trillions of Naira (2019 – 2021)



Source; NBS, CSL Research

Household Consumption in trillions of Naira (2019 -2021)



Source; NBS, CSL Research

Improved household income in 2021:

- In 2021, the level of household income improved in Q1 and Q2 compared to the corresponding period in 2020. While the growth in Q2 could be attributed to a low base due to the economic lockdown in the corresponding period of 2020, the Q1 performance showed optimism. Compared to Q1 2019 also, the Q1 and Q2 2021 performances were stronger.
- Powered by the inspiring turn of event for household income, household consumption improved over 2020 levels in 2021. Importantly, Q1 and Q2 figures showed significant improvement in 2021 when compared with 2020. We expect this to continue into 2022 as he economy gradually picks up, with our only concern being the likely impact of a complete deregulation of the Nigerian downstream segment. A development which could significantly slow down the current optimism that has energized consumption.

Erosion of Purchasing Power and Unabating Cost Concerns

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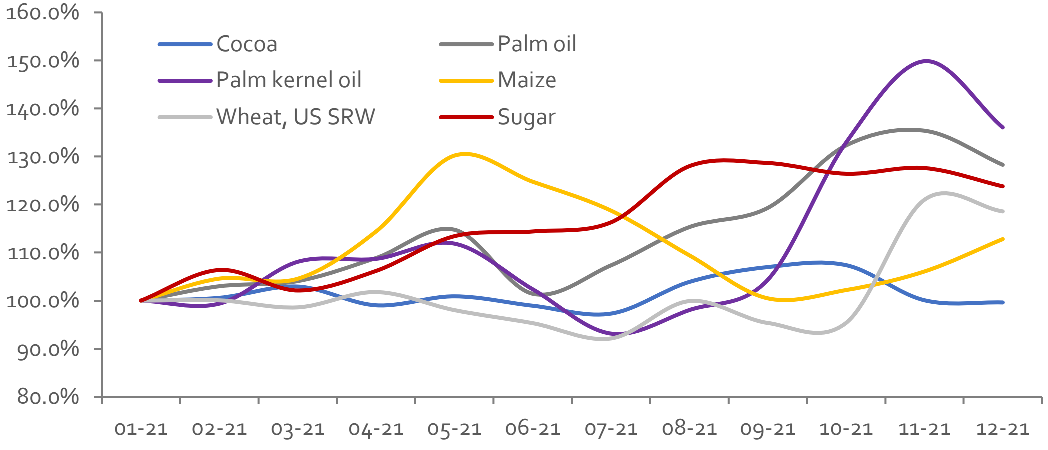
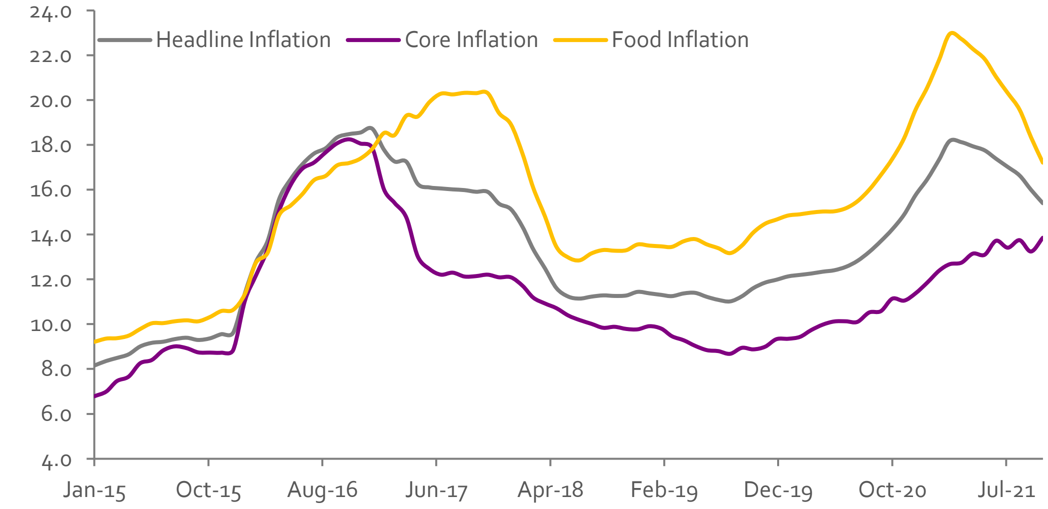
Commodities Spot Prices for 2021



Consumer Price Variation (2015 -2021)



Source; World bank, National Bureau of Statistics, CSL Research

Slowdown in food prices not enough

- In 2021, consumers have had to contend with high prices despite the continued decline in headline inflation which as of November was down to 15.4% y/y. This has resulted in erosion of purchasing power and although the impact of supply chain disruptions in 2020 added some layers of worries, the very issues behind the Nigerian consumer price variation remains structural. Despite the slight optimism that has followed the recent disinflations, core inflation seems to be rearing an ugly head, growing from an 11.4% y/y rise in December 2020 to 13.9% in November 2021. Conversely, food inflation has slowed from 19.6%y/y in December 2020 to 17.2% in November 2021.
- In recent months, there have been adjustment to electricity tariffs and there is a likelihood that PMS prices may go up if the fuel subsidy regime is ended.

No respite in sight for surging cost of sales

- As seen in the chart above, the spot prices for most of the products that go into the production of most consumer items rose in 2021. We traced the futures for most of the raw inputs such as sugar, Wheat, Cocoa, Barley, and Palm oil and found that the prices quoted are beyond the current prices, implying a possible rise in prices.
- Exchange rate concerns are also still rife and some more adjustments appear to be on the horizon, and we expect this to influence cost of production.
- There is also the concern around rising energy cost which could lead to significant increase in the cost of manufacturing, especially for firms that can not adequately transfer the cost burden to consumers without hurting volumes.

2022 CONSUMER GOODS OUTLOOK

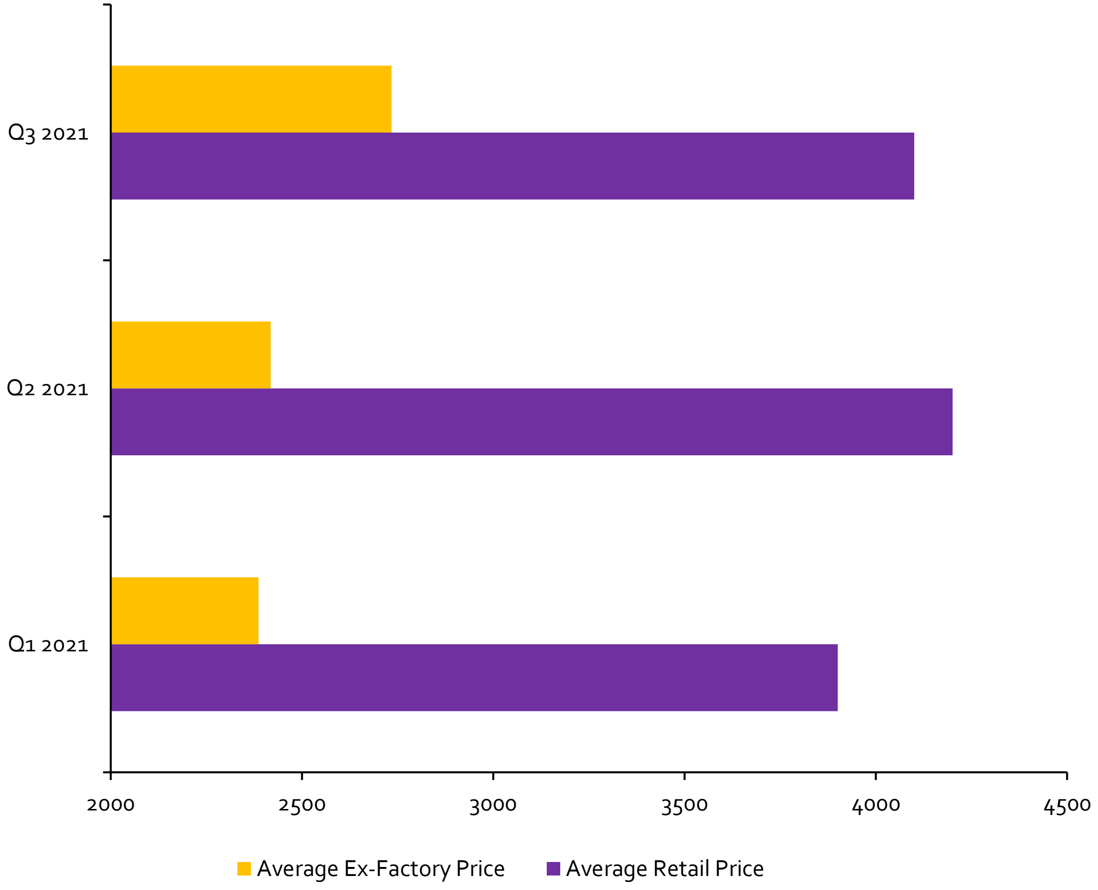
		Topline	Volume Growth	Bottom Line
Food processors	- The players in this segment are expected to have a good year in 2022. We hinge this expectation on the recent turn around that has engulfed the segment, leaving it with decent volume, topline and bottom-line growths. Our expectation for the segment is particularly based on the essential nature of goods produced, and the reduced level of imported substitutes despite the border re-opening in 2021.			
Brewers	- The concern for the brewers remains their inability to drive the required volume. The three prominent players in the space are not reporting sufficient contribution towards fixed cost. This, we attribute to the myriad of cost concerns that the firms have been unable to manage due to discretional nature of their produce. While we note the impact of premium brands in managing the issues raised so far, the product mix is not premium-heavy, making for a protraction of the problem			
FMCGs	- As the relaxation of lockdown measures continues and the consumption capabilities improve, the FMCGs have begun to show decent performances. The elephant in the room, however, remains the concern around exchange rate and how it impacts the cost structure of players in the segment. Seeing that the players have shown resilience in the past year, we are optimistic that the segment will see improved performance in 2022			

Legend: Decline Moderate Growth Higher (over the next 12-month)

INDUSTRIAL SECTOR REVIEW AND OUTLOOK

2021 In Retrospect

Strong demand, elevated transport costs contributed to the hike in retail price



Sources: Company data, retailers' price list, CSL Research

An impressive 2021 sets tone for 2022

- The resilient demand for cement despite the significant increase in prices was the major theme that distinguished 2021 from recent years.
- Unlike in 2020, where volume was the major driver of revenue performance, the double whammy of inflationary pressures and FX depreciation in 2021 created the opportunity for the Nigerian cement players to increase prices, which helped them to deliver robust earnings.
- While DANGCEM also increased prices, better realized prices anchored the topline growth of Lafarge and BUA as of 9M 2021.
- Some aspects of the year were originally as we had expected, namely i) the strong demand for cement through H2 2020, extended into 2021 ii) the continued focus by African countries on securing vaccines, left no room for aggressive pursuit of AfCFTA despite implementation in 2021, and iii) the low interest-rate environment which was favourable for real estate investments.
- However, what we did not expect was the significant premium between ex-factory and retail prices during the review period. This in our view, was due to the high logistics costs incurred, and supply chain challenges faced by distributors and retailers which were priced in.

2021 In Retrospect

The stronger hand of pricing…

	Price per tonne (9M 2021): Growth	Price per tonne (9M 2021): Closing price	Volume (9M 2021): Growth	Volume (9M 2021): Closing volume
Dangote Cement	14.8% ↑	N51,584	18.7% ↑	14.1MT
Lafarge Cement	17.0% ↑	N51,127	3.2% ↑	4.2MT
BUA Cement	12.7% ↑	N46,224	6.0% ↑	4.0MT

Sources: Company data, CSL Research

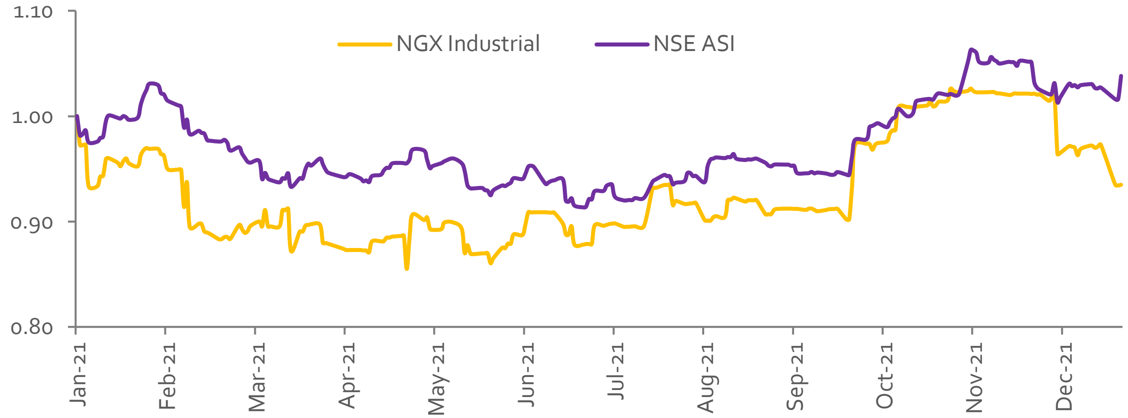
2021 In Retrospect

A Year of Inclusive Growth

Sources: NGX, CSL Research

- For cement GDP growth, the 2021 growth pattern trailed the H2 2020 pattern.
- In 2021, the first quarter (Q1: +11.20%) showed significant growth. While Q4 data is yet to be released as of time of writing, it is certain the cement sector will close the year positive, benefitting from catalysts such as the low interest rate environment, and resumption of delayed construction activities.
- Similarly, related sectors such as the real estate and construction sectors, recorded positive growth in all quarters of the year, an improvement over the negative pattern in the past 5 years (5-year average growth of -4.1%).

Don't be put off by the Index Movement

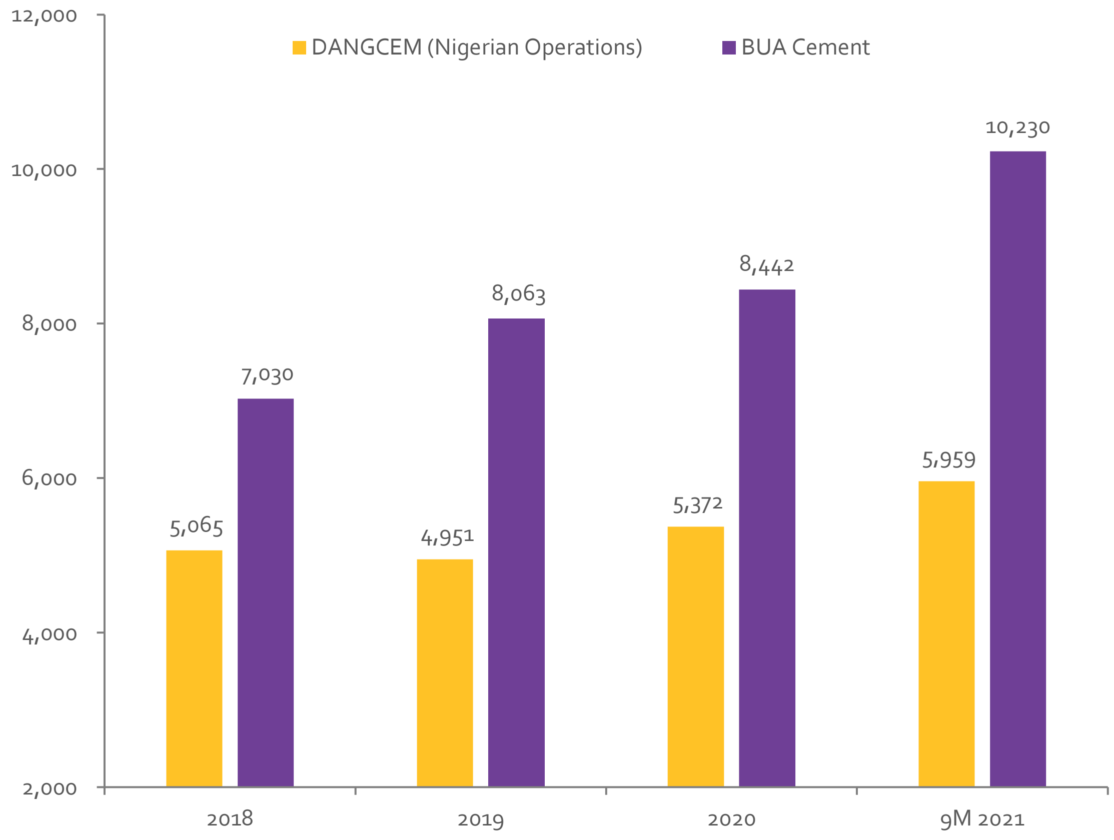


Sources: NGX, CSL Research

- In contrast to an all-time high return of 90.8% delivered in 2020, the NGX Industrial sector returned a 2.1% loss, underperforming the NGX ASI index gain of 6.1%.
- Following the ytd gain of 1.4% in January 2021, the NGX Industrial index lost the upward momentum in the following months to August due to increasing yields in the fixed income market, which triggered switch to safer investment assets.
- However, in September, the industrial sector index charted into the positive territory and remained positive till December, when it turned negative (Sep: 1.8%, Oct: 6.1%, Nov: 6.9%, Dec: -2.1%).
- Despite the robust earnings by the sector bellwethers, the ytd loss was on the back of sell-offs in BUA Cement (ytd; -13.3%) as DANGCEM and Lafarge reported gains of 4.9% and 13.8%, respectively.

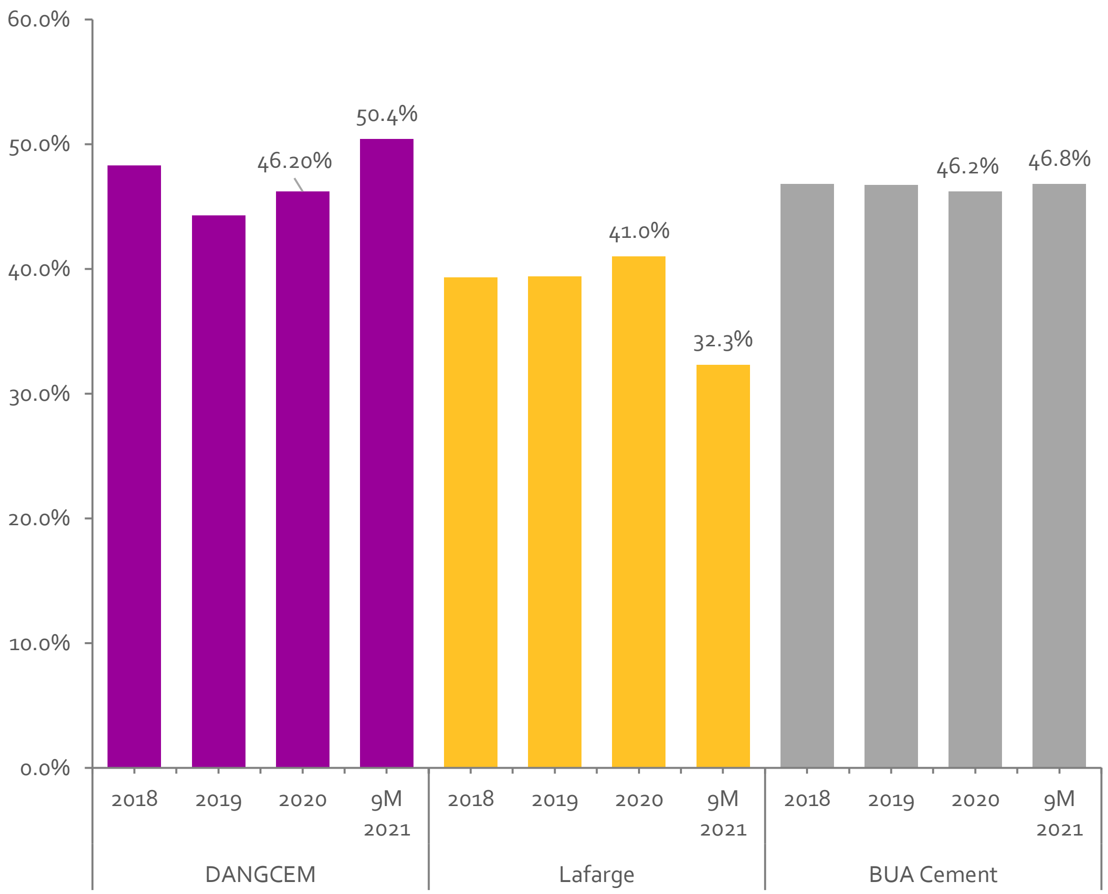
2021 In Retrospect

Energy Cost Per Tonne (N): Despite the elevated costs, DANGCEM remains the cost leader



Sources: Company data, CSL Research

EBITDA Margin: the spike in prices could not rescue Lafarge's margin



Sources: Company data, CSL Research

2021 In Retrospect

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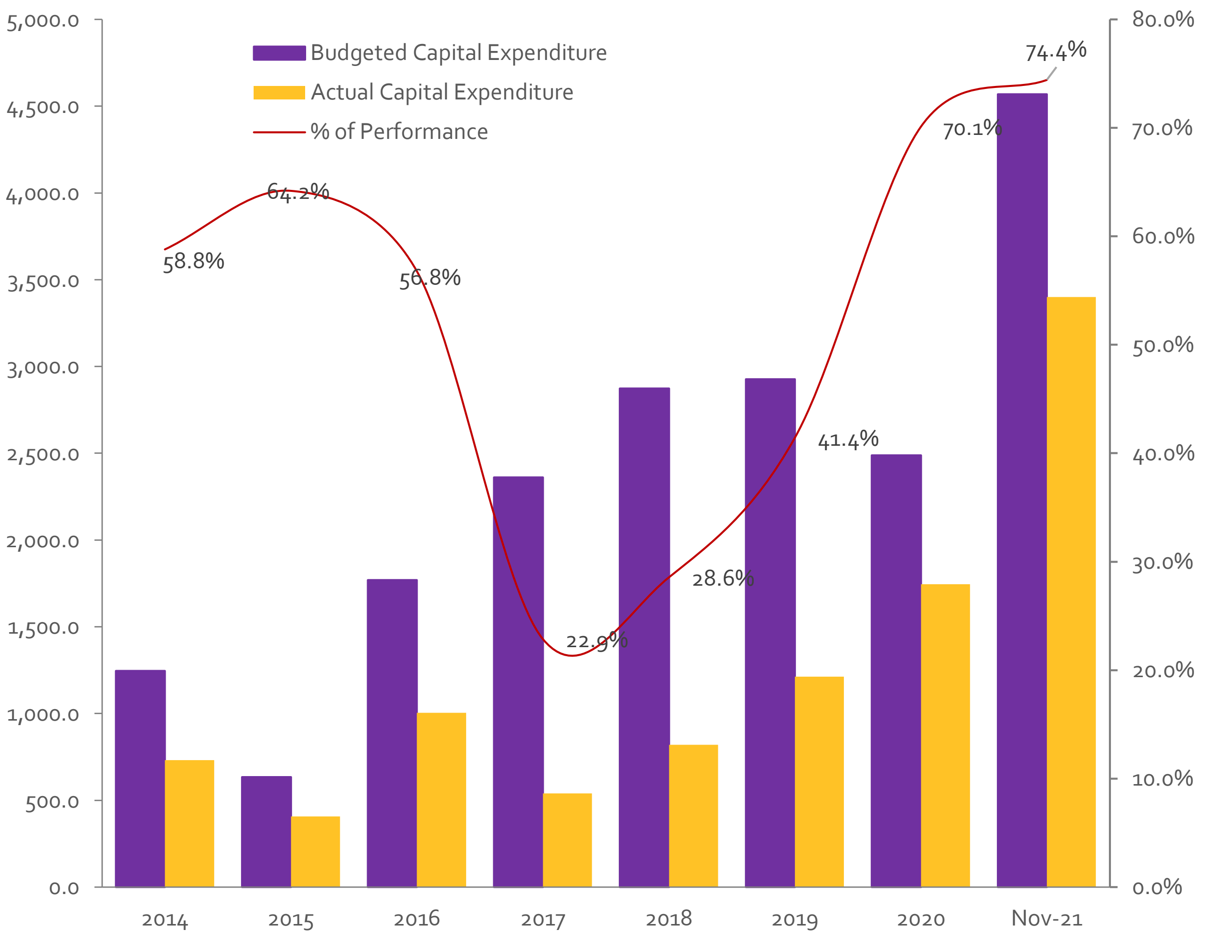
Capex (NTrn) & Implementation Rate (RHS)



Sources: Budget Office, CSL Research

- On capex spending, the government realized a rapid increase in implementation rate at 74.4%, on an annualized basis in November from a modest 52.9% in August 2021, indicating a pick-up in infrastructure projects within 3 months.
- The rising cost of governance and past debt commitments continued to weigh on capital projects in the country even as oil prices reached pre-pandemic levels.
- Also, within the review period, private sector investments were strong, and the cement players noted that the segment was the major driver of cement demand in H1 2021.
- It is enthralling to see that despite the stretched consumer wallet, real estate investments seemed not to portray that narrative and we attribute this to possible investment of CBN's OMO net repayments which stood at N4.6tn as of November 2021 in the real estate market amidst the dearth of alternative investments.
- 2022 is a pre-election year and we expect to see increased infrastructure spending, to appease the electorate.

Outlook for 2022

- We have seen positive signals pointing towards robust earnings for the cement sector players, albeit growth may moderate in 2022. Though the highly ambitious government CAPEX spending proposal in 2022 (N5.5tn) is not sufficient to underscore our positive tone as we do not expect implementation to improve significantly, we highlight a few catalysts behind our positive outlook.
- The Minister of Works and Housing, Babatunde Fashola, noted that the federal government may extend the implementation of capital projects components in the 2021 budget into 2022. If done, we believe road and rail infrastructure projects bode well for the cement sector amid the gradual shift to cement paved roads. Also, he hinted on the full completion of the Lagos-Ibadan Expressway alongside 2nd Niger Bridge in 2022.
- In addition, the establishment of the PPP Infra-Co to bridge the infrastructural gap in the country bodes well for the cement sector.
- That said, the main downside risk is that 2022 is a pre- election year and pre-election years are usually characterized by heightened election campaigns which could be to the detriment of capital spending. However, we note a variety of factors that can make 2022 better than 2018, and other pre-election years namely;
    - early assent of the 2022 budget (January) unlike 2018 where approval was in June, affecting budget implementation. It is noteworthy to mention that 2022 is the first pre-election year to see the full year budget cycle
    - the prospects associated with the newly established Infra-Co,
    - the continued involvement of the private sector in federal road infrastructure and
    - the gradual end of President Buhari's 8-year Administration, which we believe will be a motivating factor to ramp up infrastructure in order to appease the electorate in favor of his party.
- The faster economic recovery in 2021 positively impacted the private sector segment evidenced by the positive growth pattern in the real estate sector in all quarters of the year, a situation last seen in 2015. Looking ahead, we still expect sustained growth in 2022 and scope for improved private spending. However, a major downside risk is the impact of a possible subsidy removal on cement prices, a backdrop of increased transport costs as suppliers will have no option but to pass some cost increments to the consumers.

OUTLOOK FOR THE PERFORMANCE OF THE LISTED PLAYERS

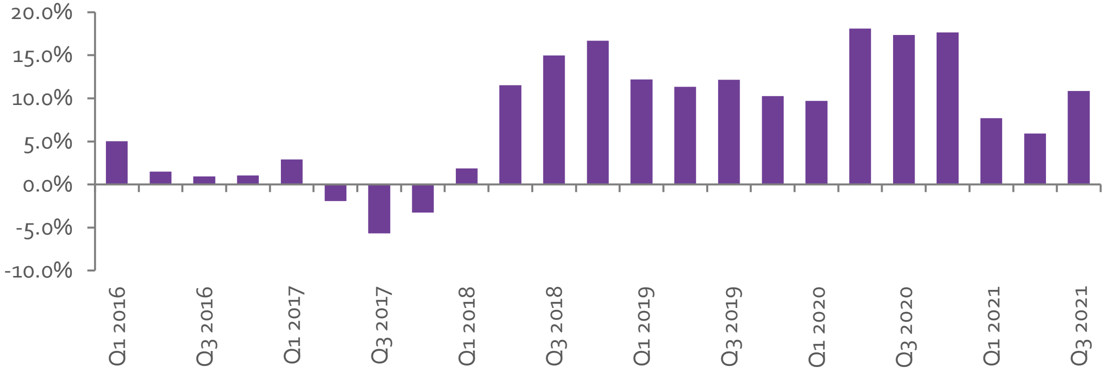
- Coming off a year where prices largely contributed between 14.8%, 17.0%, and 12.7% to the topline growth of DANGCEM (Nigerian Operations), Lafarge and BUA, respectively as of 9M 2021, we still expect price increases to support earnings in 2022.
- As promising as 2021 was for the players, inflationary pressures and FX shocks led to increased costs. Due to our expectations of a further FX depreciation in 2022, the narrative on pricing will not be far from what was witnessed in 2021, as margin protection remains a key focus.
- As of the time of writing, we gather from channel checks that Lafarge plans to raise prices, which in turn translates to increased retail price for the end users going forward.
- Added to this is the possible removal of subsidy in 2022, a development that will trigger spike in transport and related costs for players in the value chain.
- Despite the pricing outlook, we do not rule out the possibility of pressure on margins for the players, against the backdrop of elevated costs vis-à-vis continued inflationary pressures and pass-though impact of FX devaluation, which price increments may not totally rescue.
- Although, the players have intensified efforts on alternative fuel project , DANGCEM is relatively ahead of its peers.

TELECOM SECTOR REVIEW AND OUTLOOK

2021 In Retrospect: Flying high over cloudy skies

CSL

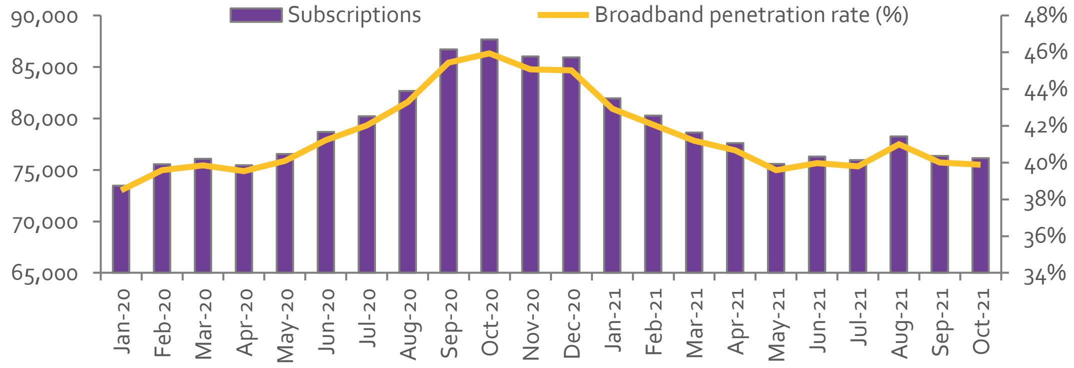
Telecommunications sector: a strong driver of GDP growth in 2021



Source: NBS, CSL Research

- The telecoms sector was the belle of the ball, benefiting from its essential role in keeping the economy moving as the need to stay connected during the pandemic was imperative (Q3 2021 GDP: 10.87%).
- The pandemic had adverse effects, yet it was positive for the sector as seen in the surge in data traffic which partly offset the decline in subscribers caused by the NIN-SIM Integration exercise (MTNN: down 7.5m to 67.5m subscribers in 9M 2021 and Airtel Nigeria: down 1.6m to 40.4m subscribers in H1 2022.
- Despite regulatory headwinds, MTNN recorded a 23.6% y/y increase in revenue as of 9M 2021 while Airtel Nigeria delivered a revenue growth of 24.7% y/y in H1 2022.

Broadband penetration rate has been declining since the NIN-SIM Integration exercise

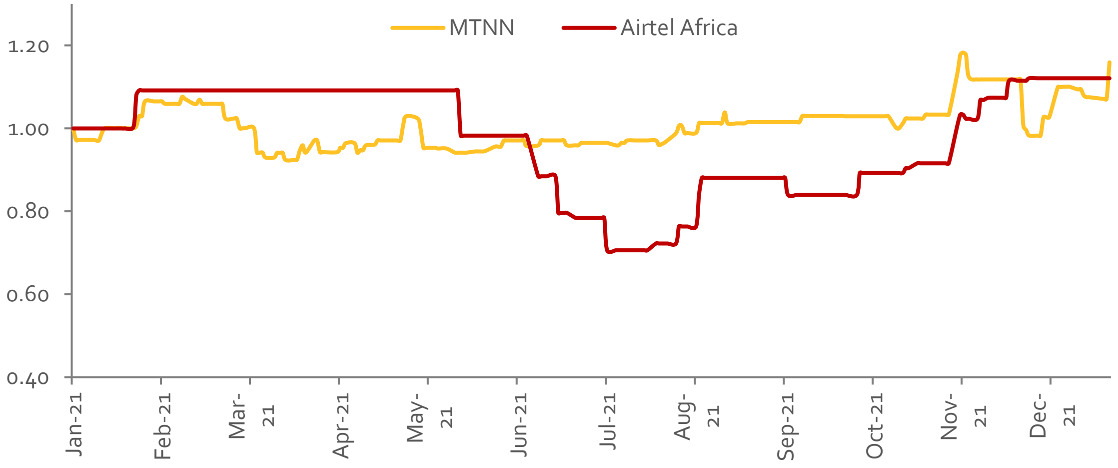


Source: NCC, CSL Research

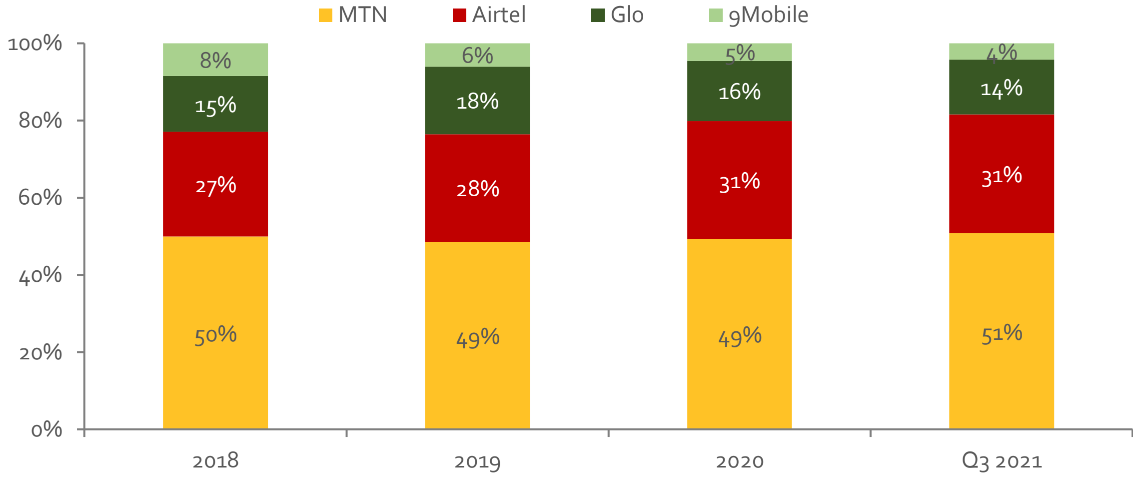
- We anticipated some of the happenings in the sector in the year, namely i) the growing contribution of data revenue to the revenue of the players and ii) the decline in broadband penetration owing to the issues associated with the ongoing NIN linkage.
- The news of the receipt of approval-in-principle (AIP) by the two telecom giants (MTNN and Airtel Africa) in November brought the year to a close with a reminder that the sector is still just scratching the surface of its potential given the opportunities in the payment business.
- Also, Airtel Africa received a super agent approval in principle, all of which should contribute to promoting financial inclusion upon approval of the final licenses.

2021 In Retrospect

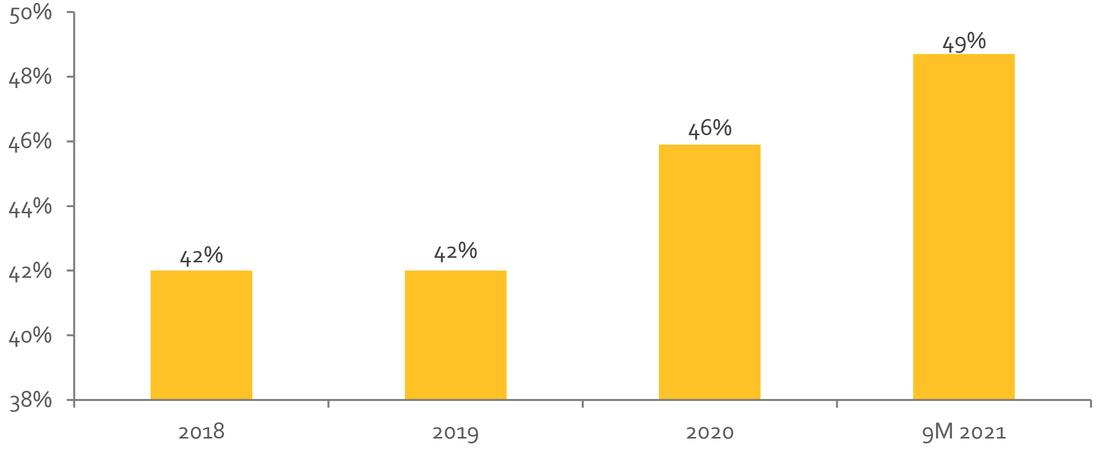
MTNN's share sale improved the stock liquidity



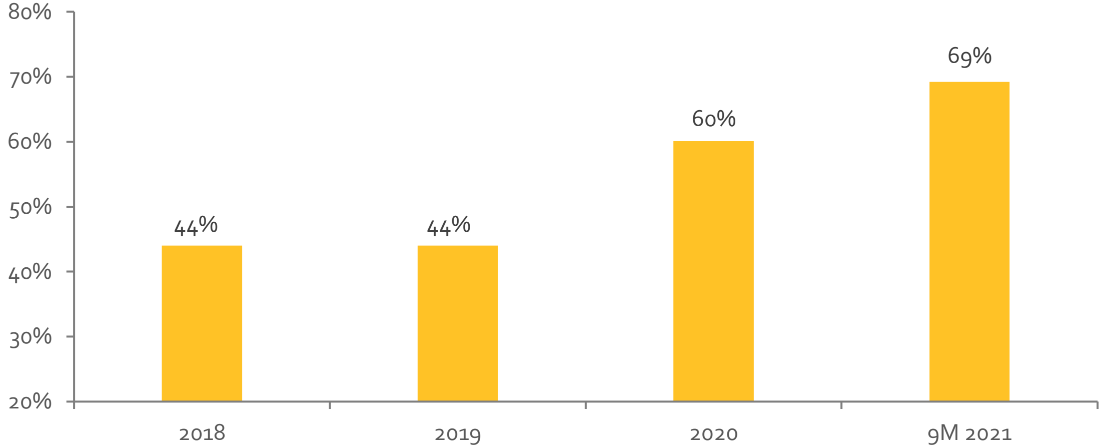
Market share by mobile subscribers across MNOs



MTNN: Friendly prices and influx of MTN phone brand drove smartphone penetration



Accelerated rollout of sites and conversion of 3G SIM cards drive MTNN's 4G population coverage



Sources: Company data, NGX, CSL Research

2022 Outlook

CSL

NIN-SIM Linkage: Neither a 1-year nor a 2-year journey

- We still expect to see the conversation around the NIN-SIM integration for the most part of 2022 even though the deadline is March 2022.
- Currently, only 71 million Nigerians have enrolled for NIN, implying a large percentage of subscribers are at risk of disconnection should the 31 March deadline remain in place.
- The largest telecom operator, MTNN, indicated that 58% (39m) of its total subscribers have linked their NIN to the network as of September 2021. Similarly for Airtel Nigeria, 66% (26.7m) of its active subscribers have also been verified.

Data: The next frontier of growth

- The country is gradually moving from a voice centric market to a data driven one, further accelerated by the pandemic. A fallout of increasing reliance on social media platforms and video conferencing tools to maintain communication and entertainment.
- Accordingly, for MTNN, we forecast data will contribute 36% to the total revenue in 2022 from 30% in 2021e.

Mobile Money Market: PSB license

- Focus has intensified for the eventual approval of the PSB license since the approval-in-principle received by the two largest players (MTNN and Airtel Africa) in November 2021.
- Given the 6-month window to augment all necessary infrastructure, the least possible time to get the final approval is in May 2022.
- We estimate about 10% contribution from Fintech revenue to the total revenue of MTNN in the medium term.

5G technology: Of not much impact in the year

- 2022 marks the commencement of the use of 5G network in the country as directed by the government. However, in the near term, a number of factors will limit the extent of usage in the year.
- Only MTNN is partly ready for launch given the minimum requirement for a Unified Access Service License (UASL) for launch. Mafab communications limited does not have a UASL despite winning the bid for 100 MHz in the 3.5 GHz band for 5G.
- Among other things, the unaffordability of 5G enabled phones, poor fibre optics in the suburban and rural areas, and high cost of deployment are factors that may hinder effective usage in the year.

BUY RECOMMENDATIONS

Buy Recommendations (1/4)

CSL

Zenith Bank: compelling valuations; Rated Buy

Zenith's 9M 2021 Capital Adequacy Ratio (CAR) of 20.1%) remains comfortably above the regulatory minimum of 15.0% and 16% for systemically important banks. Though like many of its peers, income growth has been pressured, operating performance remained strong. We find the valuation of the shares compelling (PBV: 0.68x, PE: 3.46x). The bank rates well relative to peers based on capital sufficiency, asset quality, and sustainable long-term dividend yield. Asset quality also remains strong with an NPL ratio of 4.5%, Cost of Risk (COR) 1.3%, and coverage ratio of 112.4% as of 9M 2021. Though we expect Impairments to rise in 2022, we believe the bank will make sufficient profit to cover the 2.0% COR we project for 2022e. We maintain a Buy recommendation on the stock and a price target of N37.20/s. Current price: N25.50/s as of 17 January 2022

GTCO: Prompted by a steep drop in share price, stock is cheap. Holdco to aid revenue growth

We find valuation attractive at current levels (PE 3.81x, PBV 0.95x) and see limited risk to the bank's capital from potential provisions arising from subdued macro conditions. One of the highest capital adequacies among our coverage (Capital Adequacy Ratio of 24.0% as at H1 2021 with the full impact of IFRS 9).

In the event of a significant deterioration in asset quality (which we think unlikely in the short term), we see little impact on the bank's capital adequacy. Though the cost to income ratio deteriorated in 2021 due to poor revenue growth because of significantly lower yields on treasury bills, we expect CIR to moderate gradually as Interest Income improves. The bank still ranks high in efficiency as CIR ex-provisions was still moderate at 43.9% and remains the lowest among the tier 1 banks. Guaranty's asset quality remains strong (9M 2021 annualized Cost of risk - 0.3%). We maintain a BUY rating on the stock. In our view, GTCO stands to benefit from the decision to operate as a holding company as this gives the bank opportunity to diversify its revenues away from the increasingly competitive commercial banking business revenue. The bank rates well relative to peers based on capital sufficiency, asset quality and sustainable long-term dividend yield. We have a BUY rating on the stock with a target price of N43.03/s. Current price: N25.15/s as of 17 January 2022

BUY RECOMMENDATIONS (2/4)

CSL

ACCESS: COMPELLING VALUATIONS. HOLDCO TO AID REVENUE ACCRETION

We believe the bank's decision to adopt a holdco structure will be broadly positive for earnings. Capital adequacy remains modestly above regulatory minimum at 17.64% for the Nigerian Bank and the bank successfully issued the first Additional Tier 1 (AT1) Eurobond out of Nigeria, which should enhance the bank's capital ratios,. Asset quality ratios also show stable asset quality 9M 2021 annualised Cost of Risk (COR) of 1.3% and non-Performing loans (NPL) ratio of 4.4% for 9M 2021. This, according to the bank's management was due to intensified recovery drive by the bank. Annualised RoAE of 21.0% is an improvement over FY 2020 RoAE of 18.3%. Trading at PBV of 0.42x, PE 2.70x, we believe valuations are still compelling. We have a BUY rating on the stock and a target price of N19.14/s (current price of N9.50/s as of 17 January 2022).

UNITED BANK OF AFRICA: HEALTHY FUNDAMENTALS; BUY RATING REITERATED

The bank reports healthy asset quality ratios with annualized Cost of Risk (COR) of 0.1% for 9M 2021 and an NPL ratio of 3.5% as of H1 2021. Though we expect impairments to rise in 2022e, we model FY 2022e COR of 0.8%. Growing contribution from its Pan African subsidiaries gives some versatility to the business and helps protect margins. Valuations remain compelling (PE 2.10x, PBV 0.39x). We have a BUY rating on the stock with a price target of N19.40/s, current price: N8.15/s as of 17 January 2022).. Overall, Pre-tax Profit was up 36.5% y/y to N123.4bn in 9M 2021 while Profit after Tax was up 35.6%y/y to N104.6bn, bringing annualized ROAE to 18.3% compared with 17.2% for FY 2020. UBA Nigeria's CAR of 21.9% as of H1 2021 is also comfortably above current regulatory minimum of 15% and 16% for systemically important banks.

DANGOTE CEMENT PLC: SOLID FUNDAMENTALS

The Nigerian cement market has continued to show promising growth, seeing Dangote Cement record 34.2% y/y increase in revenue. It is interesting to note that the company had already achieved its 2020 earnings amount of N276.1bn as of 9M 2021, even beating it by additional 1%. Going forward, we see no reversal of movement in the cement market as the government remains keen in intensifying infrastructure spending and the outlook for real estate investments remains positive. We have a Buy rating on the stock with a target price of N294.42/s. Current price: N270.00/s.

BUY RECOMMENDATIONS (3/4)

CSL

MTNN: THRIVING ON EVERYWHERE YOU GO

MTNN delivered revenue growth of 23.6% y/y as of 9M 2021 with net income growth of 52.7% y/y to N220.3bn in 9M 2021. The need to stay connected amidst favourable demographics, coupled with rising smartphone penetration, and increasing internet penetration, has proved supportive. Even as the country plans to launch the 5G network in 2022, MTNN appears to be the only telecom player ready as of the time of writing, putting itself in a good position to take advantage of the opportunities this presents. We have a BUY rating on the stock with a price target of N221.22/s. Current price: N190.00/s.

DANGOTE SUGAR: DESPITE SHAKY Q3 2021 PERFORMANCE, PROSPECTS REMAIN PROMISING

Dangote Sugar has recovered volume growth following the closure of land borders in Q3 2019, as the influx of cheap and smuggled inferior sugar vacated shelves in its key markets. Although the borders are now re-opened, the measures are far stricter compared to pre-2019 levels leaving enough market share for the firm. In this light, the company is expected to continue to post decent Revenue driven by both volume and price growth. Although concerns abound on the Q3 2021 results, especially on the surge in finance costs, the prospect of the firm still encourages optimism. We have a BUY recommendation with a target price of N22.68/s. Current price: N17.00/s.

FLOUR MILLS OF NIGERIA PLC: CONSOLIDATING GROWTH FRONTIERS

Flour Mills is another business that benefitted significantly from the closure of the border. The border closure has been significantly positive for volumes which are reflected in the growth across all product segments in Q2 2022. In addition, the company has implemented more price increases on sugar with smuggled sugar now considerably muted, which has helped ease the recent cost pressures. The pasta business has continued to benefit from the increase in the price of rice. Furthermore, the company kept the trajectory of increased market share in the feeds business. Fertilizers and Oils have seen considerable improvement in sales volume. We have a BUY recommendation with a target price of N61.97/s. current price: N28.25/s

BUY RECOMMENDATIONS (4/4)

CSL

LAFARGE AFRICA: RISING THROUGH THE TIDES

Following the liquidation of its major debts in June 2021, the leverage position of Lafarge Africa has remained low. In its 9M 2021 results, it delivered a 21.9% y/y increase in revenue, benefiting from better price per tonne (+17.0% to N51,584) and modest volume growth of 3.2% y/y to 4.2MT. Meanwhile, despite the increase in prices, EBITDA margin declined, taking a hit from elevated cost pressures. Nevertheless, we believe the promising growth in the Nigerian cement market bodes well for its earnings outlook even as the firm intensifies its efforts in the use of alternative fuel. We have a BUY rating on the stock with a target price of N34.87/s. Current price: 25.60/s.

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