



Power

Comment on recent news – this page

Today's headlines – page two

Recommendations and valuations – page three

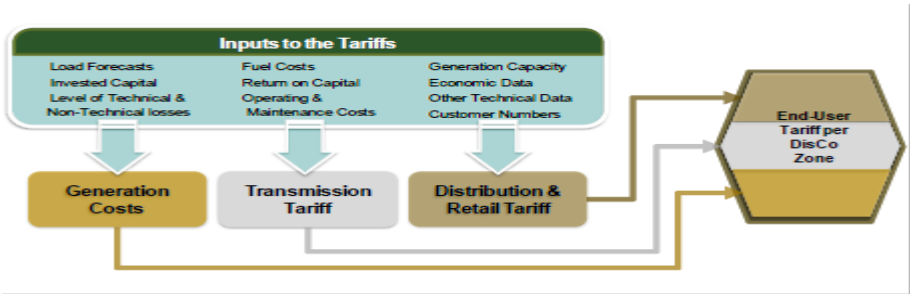
Discos still battling liquidity challenges.

Based on a This Day news report, the Nigerian Electricity Regulatory Commission (NERC) in its Q2 2022 report, noted that power Distribution Companies (Discos) were only able to collect N188.29bn as revenue out of the total of N265.68bn billed between April and June 2022, implying an average billing efficiency of 78.17%, representing an increment of 0.79% from the 77.38% recorded in Q1. "Many customers continue to default in payment of their billed amounts in part due to a lack of willingness to pay (including unsatisfactory Disco services). This has led to mounting commercial losses recorded by Discos," the NERC stated. The commission emphasised the imperative for Discos to employ technologies NER operational procedures to increase both billing and collection performances, in order to forestall long term financial challenges.

We had noted that the most potent factor driving the liquidity squeeze in the power sector stems from the non-cost reflective tariffs charged by the Discos. This has remained a major clog in the wheel for the Discos, making most of them technically insolvent. The cash flow generated from end consumers (in a case where they get paid for all they distribute) significantly falls short of the breakeven point needed to keep operations running due to poor pricing. Matters worsen when we factor in payment defaults, power theft and Aggregated Technical Commercial and Collection (ATC&C) losses. We note that the Federal Government has had to intervene on different occasions to keep the industry on its feet. The problem of cost-reflective tariffs stems from the MYTO framework used to guide pricing. The framework's cost assumptions are far from current realities.

Besides the non-cost reflective tariffs, the huge metering gap for end-use customers is still a key challenge in the industry. According to NERC, of the 12.54m registered energy customers as at March 2022, only 4,740,114 (37.79%) have been metered. This implies that a total of 7,802,467 power users are without meters and receive estimated electricity bills. However, according to a recent punch news report, the Federal Government has said that 6mn meters are to be deployed nationwide in the first and second quarters of this year to reduce the number of unmetered electricity consumers in Nigeria.

MYTO II METHODOLOGY



Source: CSL Research

MARKET UPDATE

	1 year	30-Dec-22	1 day
NSE - Index*	44,604.74	51,251.06	52,048.85
Naira / US\$	416.50	461.50	461.17
Brent, US\$/bbl	84.47	85.91	84.03
MPR %	11.50	16.50	16.50

Source: NGX Exchange, Central Bank of Nigeria, Bloomberg. *NGX Exchange All-Share Index.

CONTACT INFORMATION

Head of Research: Gloria Fadipe

+234 (1) 448 5436 ext.4516

gloria.fadipe@fcbm.com

Banks: Gloria Fadipe

+234 (1) 448 5436 ext.4516

gloria.fadipe@fcbm.com

FMCGs & Brewers: Edgar Ebinum

+234 (1) 448 5436 ext.4457

edgar.ebinum@fcbm.com

Industrials: Mustapha Umaru

+234 (1) 448 5436 ext.4512

mustaphaumar@fcbm.com

Research Team: cslresearch@fcbm.com

Retail Team: cslsu@fcbm.com

Sales Team: cslrmt@fcbm.com



News headlines:

\$2.5bn lost monthly to oil production – NECA: The Nigeria Employers’ Consultative Association has stated that the country has been losing about \$2.5bn monthly for failing to meet the 1.8m barrel per day crude oil production allocation by the Organisation of Petroleum Exporting Countries. In a statement, the Director-General of NECA, Adewale-Smatt Oyerinde, claimed that though the country’s crude oil production grew by 4.2 percent to 1.23 million barrels per day in December 2022, it was still short. He stated that there is still a 0.57 million barrel per day shortfall, which translated to about \$2.5bn monthly loss for the country. According to him, oil theft seemed to continue unabated and the unsustainable subsidy on petroleum products had joined to reduce the government’s revenue, leading to absurd debt accumulation. Source : Punchng.com

<https://punchng.com/2-5bn-lost-monthly-to-oil-production-neca/>

CBN Intensifies Nationwide Awareness on Redesigned Naira: The Central Bank of Nigeria (CBN) yesterday continued its nationwide enlightenment campaign on the redesigned N1,000, N500, and N200 banknotes, urging Nigerians to accept and respect the currencies as national symbols. Addressing market men and women during sensitisation exercise on new naira notes in major cities across the country, the banking sector regulator stressed the need to handle the nation’s currencies with respect. At the Wuse market, Abuja, CBN Abuja Branch Controller, Mr. Michael Ogbu, stressed that the new banknotes have come to stay and should not be seen as fake or rejected for transaction purposes. The exercise afforded traders the opportunity to ask questions and disabuse their minds about the negative conceptions they had about the redesigned currencies denominations. Source: thisdaylive.com

<https://www.thisdaylive.com/index.php/2023/01/13/cbn-intensifies-nationwide-awareness-on-redesigned-naira/>

Petrol: Scarcity lingers as private depots sell at N240/litre: Private depots have raised the price of petrol by 6.7 percent to N240 per litre this week, from about N225 per litre the previous week. This came as the Independent Petroleum Marketers Association of Nigeria, IPMAN, said the current petrol scarcity might continue till June 2023 when the government was expected to remove its subsidy. The Chief Executive Officer, Nigerian Midstream Downstream Petroleum Regulatory Authority, NMDPRA, Engr. Farouk Ahmed, whose agency has the responsibility to regulate activities in the midstream and downstream sectors, did not respond to Vanguard’s inquiries, yesterday on the rise in the private depots price of petrol by 6.7 percent to N240 per litre. Source: businessday.ng

<https://www.vanguardngr.com/2023/01/petrol-scarcity-lingers-as-private-depots-sell-at-n240-litre/>

Discos didn’t remit N128.3bn in six months – FG: Power distribution companies did not remit a total of N128.3bn to Nigeria’s electricity market between January and June 2022, data sourced on Thursday from separate reports of the Federal Government’s power sector regulator, showed. Figures obtained from the second quarter 2022 report of the Nigerian Electricity Regulatory Commission, which was released on Thursday, indicated that the power firms did not remit N58.32bn in the second quarter of last year. Also, findings by the Punch from the first quarter report of the commission, showed that Discos failed to remit N69.94bn to the country’s electricity market during the review period. The power sector regulator said the power firms did not make the outstanding remittances to the Nigerian Bulk Electricity Trading Plc and the Market Operator, an arm of the TCN. Source: punchng.com

<https://punchng.com/discos-didnt-remit-n128-3bn-in-six-months-fg/>

Analyst Certification

Each research analyst principally responsible for the preparation and content of all or any identified portion of this research report hereby certifies that all the views expressed in this research report accurately reflect his/her personal views about those issuer(s) or securities that the research analyst covers in this research report. Each research analyst also certifies that no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this research report.

Important disclosures

Analysts' compensation is based upon activities and services intended to benefit the investor clients of CSL Stockbrokers Limited, Lagos and the affiliates of FCMB Group, Lagos, Nigeria ("the Group"). Analysts receive compensation that is impacted by overall profitability of the Group, which includes revenues from, among other business units, Institutional Sales and Trading and Capital Markets/Investment Banking.

CSL Research Ratings Distribution

	Buy	Hold	Sell	Not Rated	Total
Coverage universe	17	10	5	3	35
% distribution	49%	29%	14%	9%	
Investment banking clients	0	1	1	0	2
% distribution	0%	50%	50%	0%	

Explanation of CSL Research's equity research rating system

Buy:	The analyst expects the stock to outperform the Benchmark over the next 12 months or the stated investment horizon.
Hold:	The analyst expects the stock to perform in line with the Benchmark over the next 12 months or the stated investment horizon.
Sell:	The analyst expects the stock to underperform the Benchmark over the next 12 months or the stated investment horizon.
Not Rated:	The rating and price target have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when CSL Capital UK or the Group is acting in an advisory capacity in a merger or strategic transaction involving the company or due to factors which limits the analysts ability to provide forecasts for the company in question.
Benchmark:	The benchmark is the trailing three-year average yield of the 12-month T-Bill plus one standard deviation rounded to the nearest percent.
Price targets:	Price targets, if discussed, reflect in part the analyst's estimates for the company's earnings. The achievement of any price target may be impeded by general market and macroeconomic trends, and by other risks related to the company or the market, and may not occur if the company's earnings fall short of estimates.
Asset allocation:	Asset allocation is the responsibility of the strategy team. The recommended weight (Buy, Hold and Sell) for equities, cash and fixed income instruments is based on a number of metrics and does not relate to a particular size change in one variable.

Important Risk Warnings and Disclaimers

CSL Stockbrokers Limited ("CSLS") is regulated by the Securities and Exchange Commission, Nigeria. CSLS is a member of the NGX Exchange. CSL Capital (UK) Ltd (Firm Reference Number: 913994, Registered Number: 11818051), trading in the name of 'CSL Stockbrokers' for its activities, is authorised by the Financial Conduct Authority (FCA).

Both CSLS and CSL Capital (UK) Ltd are members of the FCMB Group ("the Group") of Nigeria, a group of companies which also includes First City Monument Bank Ltd.

RELIANCE ON THIS PUBLICATION FOR THE PURPOSE OF ENGAGING IN ANY INVESTMENT ACTIVITY MAY EXPOSE YOU TO A SIGNIFICANT RISK OF LOSS. By receiving this document, you will not be deemed a client or provided with the protections afforded to clients of CSLS and CSL Capital (UK) Ltd. When distributing this document, CSLS, or any member of the Group is not acting for any recipient of this document and will not be responsible for providing advice to any recipient in relation to this document. Accordingly, CSLS or any member of the Group will not be responsible to any recipient for providing the protections afforded to its clients.

If you are in the UK, you are a person to whom either Articles 19 or 49 of the Financial Services and Markets 2000 (Financial Promotion) Order 2005 apply or a person to whom this communication may otherwise be lawfully made.

In the United Kingdom, this document is available only to such persons described above and persons of any other description should not rely on this document. Transmission of this document to any other person in the United Kingdom is unauthorized and may contravene the Financial Services and Markets Act 2000 (FSMA). If you are not such a person or if the distribution of this document is otherwise unlawful where you are, you are required to return the document immediately to CSLS. This document is not intended for Retail Clients in the UK.

This document is not an offer to buy or sell or to solicit an offer to buy or sell any securities. This document does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The appropriateness of a particular investment will depend on an investor's individual circumstances and objectives. The investments and shares referred to in this document may not be suitable for all investors.

CSLS or any other member of the Group may effect transactions in shares mentioned herein and may take proprietary trading positions in those shares and may receive remuneration for the publication of its research and for other services. Accordingly, this document may not be considered as objective or impartial. Additionally, information may be available to CSLS, or the Group, which is not reflected in this material. Further information on CSLS' policy regarding potential conflicts of interest in the context of investment research and CSLS' policy on disclosure and conflicts in general are available on request.

This document is based on publicly available information obtained from sources which CSLS believes are reliable, but which it has not independently verified. Neither CSLS, or their advisors, directors or employees make any guarantee, representation, or warranty as to the accuracy, reasonableness or completeness of this information and neither CSLS or their advisors, directors or employees accepts any responsibility or liability whatsoever (in negligence or otherwise) for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection with this document. The opinions contained in this document are subject to change without notice and are not to be relied upon and should not be used in substitution for the exercise of independent judgment.

Past performance is not a guarantee of future performance. Investments may go down in value as well as up and you may not get back the full amount invested. Where an investment is denominated in a currency other than the local currency of the recipient of the research report, changes in the exchange rates may have an adverse effect on the value, price or income of that investment. In case of an investment for which there is no recognised market it may be difficult for investors to sell their investment or to obtain reliable information about their value or the extent of the risk to which they are exposed.



The information contained in this document is confidential and is solely for use of those persons to whom it is addressed and may not be reproduced, further distributed to any other person, or published, in whole or in part, for any purpose.

@Copyright CSL Stockbrokers Limited, 2022. All rights reserved.

CSL Stockbrokers Limited
Member of the NGX Exchange
PO Box 9117
Lagos State, NIGERIA

CSL Stockbrokers
A trading name of CSL Capital (UK) Ltd
43-44 New Bond Street
London
W1s 2SA
United Kingdom