



2013 Market Recap & Outlook for 2014

I. 2013 MARKET REVIEW

Summary

- End of year 2013 NSE equity market capitalization surpassed the market cap at the peak of the market in 2008 (N13.23 trillion vs. N12.62 trillion).
- The capitalization of listed equities grew by 47.33% (44.03% in \$-terms) from N8.98 trillion (\$57.49 billion) to N13.23 trillion (\$82.80 billion); the *NSE All Share Index* (ASI) gained 47.19%; and average daily turnover for equities was N4.17 billion (\$26.10 million), up 57.36% (53.83% in \$-terms).
- The Nigerian Stock Exchange (NSE) closed the year with two (2) new equity listings on the *Main Board*, while the Bond market recorded 19 new listings with a slight uptick in the value of new issues. *See pages 3 and 5 for more details.*
- The NSE successfully launched its new trading platform, *X-Gen*, which supports trading of cash equities, bonds, and ETFs), and the first-ever issuer reporting portal in Nigeria, *X-Issuer*. The bourse also re-launched its *Alternative Securities Market* (ASeM) for small and medium companies, and introduced a new market structure for trading equities, along with fixed-income market making.

2013 Recap

Macroeconomic indicators in 2013 remained mostly consistent with the second half of 2012. Key indicators such as gross domestic product (GDP), inflation and exports, as well as capital market indicators all moved in the positive direction. Nigerians were less dependent on imports¹, and while internal debt grew², so did the nation's investment in infrastructure. Oil prices, though minimally volatile, remained largely favorable, staying above the 2013 federal government budgeted benchmark of \$79 per barrel. These positive trends in the economy are despite the slowdown witnessed in several countries across the globe, including the BRICs³.

All the same, Nigeria faced her fair share of threats during the year – the oil sector suffered some disruption due to oil theft, but the nation sidestepped major setbacks

¹ N3.3tr (\$21.3b) in imports, N7.2tr (\$46.4b) in exports (H1'13)

² \$45.15bn internal debt

³ Brazil, Russia, India and China



2013 Market Recap & Outlook for 2014

thanks to the relative stability of crude oil prices. The decline of the Naira and that of Nigeria's global rating on competitiveness, while managed, contributed to the dip in the nation's foreign reserves (\$43.61 billion at year's end from \$44.18 billion).

According to the *National Bureau of Statistics* (NBS), Nigeria skated by on higher GDP growth (6.81% in Q3 2013, up 5.09% from 6.48% for the same period last year), single-digit inflation (7.90% in November), and high interest rates (MPR of 12.00% in November). Exceptional growth was recorded (YTD through Q3 2013) in the agriculture (40.33%), finance and insurance (19.25%), building and construction (14.02%), hotels and restaurants (8.93%), and manufacturing (5.29%) sectors.

In the capital market, the bullish run that began in the second half of 2012, continued with greater impetus during the first quarter of 2013, and was sustained through most of the year (except from June to September when market indices fell due to concerns of the *US Federal Reserve* tapering its *quantitative easing* (QE) policy). Performance for the period under review was manifest in the outstanding gains experienced by the market indices (being among the best performing in the world), and in the appreciation of the NSE's market capitalization.

Total market cap rose by 28.92% (26.03% in \$-terms), from N14.80 trillion (\$94.74 billion) at the start of the year, to N19.08 trillion (\$119.41 billion) on the last trading day of 2013. Equities market capitalization ended the year at N13.23 trillion (\$82.80 billion), a significant milestone in the Nigerian capital market's recovery from the 2008 "bust". Similarly, May 30, 2013 marked the first time since May 2008, that equity market capitalization rose above N12 trillion (\$75.09 billion), and the *NSE ASI* crossed 38,000 points, closing at 38,016.80; and, for the first time in the history of the Exchange, the share price of a listed company crossed the N1,000 mark. June 01, 2013, also recorded the largest single transaction on the NSE trading floor valued at N45.75 billion (\$286.31 million).

Key contributors to the upward movement of share prices include: (i) strong corporate earnings by blue chip companies, such as banks and manufacturers of fast moving consumer goods (FMCG), (ii) increased capital inflow and portfolio investments, and (iii)



2013 Market Recap & Outlook for 2014

tight regulatory oversight, aided by stronger enforcement by the *Securities and Exchange Commission* (SEC) and the NSE.

On-going reforms in various sectors of the Nigerian economy also yielded positive results. In the banking sector for example, measures such as financial inclusion, cashless banking, implementation of *International Financial Reporting Standards* (IFRS), risk-based supervision, and sustainable banking practices imposed by the *Central Bank of Nigeria* (CBN), continued to have an impact on the economy – no deposit money banks (DMB) reported losses for the year 2012, making them attractive in early 2013.

Notwithstanding certain national and market-specific challenges, along with the *NSE ASI* closing the year with its strongest performance since 2008, almost all NSE indices topped their performance pre-global financial meltdown. Compared to other global indices⁴ the *NSE ASI* gained 47.19% in 2013. More impressively, the *NSE Oil/Gas Index* soared 122.26%, the newly-introduced *NSE Industrial Index* grew 81.43%, and the *NSE Lotus Islamic Index* rose 61.84%. The *NSE 30 Index* appreciated 42.75%, the *NSE Banking Index* added 31.86% to its 2012 value, and the *NSE Consumer Goods* and *NSE Insurance Indices* both expanded by 31.14% and 29.01%, respectively. The *NSE ASeM Index* was the only index to buck the trend, shaving 0.24% off its 2012 value. (Refer to **TABLE 1** on page 4 for the '2013 Market Snapshot').

The number of listed companies and the number of listed equities at the end of 2013 were 190 and 198, respectively. The market for initial public offerings (IPOs) and new equity listings was flat with no IPOs recorded, and only two (2) new listings on the *Main Board*, while six (6) companies were delisted in 2013.⁵

Small-cap stocks experienced the greatest growth, recording a 56.34% increase, followed by mid-cap stocks which were up 53.67%, and large-cap stocks, 31.61%.⁶ The

⁴ FTSE 100 +14.43%, DJIA +26.50%, the S&P 500 +29.60%, and the NASDAQ Composite +38.32%

⁵ Northern Bag Manufacturing Company Plc., First City Monument Bank Plc., and Crusader Nigeria Plc., due to merger & acquisition activity, with the newly formed companies remaining on the NSE main board; Nigerian Wire Industries Plc. and West African Aluminum Products Plc., for non-compliance with the Exchange's post-listing standards; and Poly Products Plc., through a voluntary process.

⁶ NSE categorizes small-cap stocks as those with a market cap of less than \$150 million, while mid-cap stocks have a market cap of between \$150 million and \$1 billion, and large-cap is over \$1 billion.



2013 Market Recap & Outlook for 2014

TABLE 1 – 2013 MARKET SNAPSHOT

	2012	2013	% Change
Total Market Capitalization⁷	N14.80 trillion \$94.74 billion	N19.08 trillion \$119.41 billion	28.92% 26.03% (\$-terms)
Equities Market Capitalization ⁸	N8.98 trillion \$57.49 billion	N13.23 trillion \$82.80 billion	47.33% 44.03% (\$-terms)
Bonds Market Capitalization	N5.82 trillion \$37.26 billion	N5.85 trillion \$36.561 billion	0.52%
<i>NSE All Share Index</i>	28,078.81	41329.19	47.19%
<i>NSE Lotus Islamic Index</i>	1,769.07	2863.12	61.84%
<i>NSE Industrial Index</i>	1403.63	2546.59	81.43%
<i>NSE 30 Index</i>	1,336.07	1907.17	42.75%
<i>NSE Consumer Goods Index</i>	838.97	1100.25	31.14%
<i>NSE AseM Index</i>	964.59	962.31	-0.24%
<i>NSE Banking Index</i>	339.63	447.84	31.86%
<i>NSE Oil/Gas Index</i>	152.92	339.88	122.26%
<i>NSE Insurance Index</i>	118.49	152.87	29.01%
Total Volume - Equities	89.15 billion	106.54 billion	19.51%
Total Value (Turnover) - Equities	N657.77 billion \$4.21 billion	N1.04 trillion \$6.51 billion	58.66% 54.57% (\$-terms)
Avg. Daily Volume - Equities	359.50 million	426.16 million	18.54%
Avg. Daily Value (Turnover) - Equities ⁹	N2.65 billion \$16.96 million	N4.17 billion \$26.10 million	57.36% 53.83% (\$-terms)
Turnover Velocity - Equities (%) ¹⁰	7.33	7.89	7.58%
No. of New Issues	12	11	
Value of New Issues	N195.36 billion \$1.25 billion	N286.76 billion \$1.79 billion	46.79% 43.50% (\$-terms)
<i>No. of Listed Companies</i>	191	190	
<i>No. of Preference Shares</i>	3	3	
<i>No. of Listed Investment Funds¹¹</i>	4	5	
No. of Listed Equities	198	198	
No. of Listed Bonds	57	55	
No. of Listed ETFs	1	1	
No. of Listed Securities	256	254	
No. of Trading Days	248	250	
Exchange Rate (Naira:USD) ¹²	156.21	159.79	

⁷ Figure includes equities, ETFs and bonds.

⁸ Figure includes shares listed on ASeM (N4.0 billion market cap).

⁹ Total value of share trading divided by the number of trading days.

¹⁰ Total Value (Turnover) – Equities divided by Equities Market Capitalization.

¹¹ Investment funds include unit trusts, closed-end funds, investment trusts and all collective investment funds.



2013 Market Recap & Outlook for 2014

Exchange recorded an increase in the value of shares traded (turnover) in 2013 – up 58.66% to N1.04 trillion (\$6.51 billion), and significantly higher than the 3.67% reported for 2012. Average daily turnover was up 57.36%, and as at November 2013, 49.06% of all market activity was by local investors.

The bond market was stagnant in terms of market capitalization at N5.85 trillion (\$36.61 billion) with four (4) new *state and municipal bond* issues, one (1) *corporate bond* issue, one (1) *supra-national bond* issue and one (1) *government bond* issue.¹³ In the OTC market, the value of cash transactions for government bonds increased by 25.49% (22.68% in \$-terms) from N7.10 trillion (\$45.45 billion) to N8.91 trillion (\$55.76 billion) as investors continued to satisfy their appetite for fixed-income securities, following the CBN pronouncement to sterilize 50% of public sector funds. However, transactions in treasury bills (T-bills) declined by 21.55% over the previous year with N10.92 trillion (\$68.34 billion) worth of T-bills traded.

II. 2013 ACHIEVEMENTS

In 2013, the NSE's focus remained fixed on executing the “five pillars” of its transformation strategy – (1) targeted business development, (2) enhanced regulatory programs, (3) 21st century technology strategies, (4) enhanced market structure, and (5) investor protection initiatives, buttressed by vital market development efforts. Also in 2013, the NSE started work on its new medium-term strategic direction. By entrenching the bourse's core values in the organization, it was able to maintain its drive to be a modern establishment that competes effectively in the global exchange marketplace. The Exchange also formulated its *2014-2016 Corporate Strategic Plan* with clearly outlined objectives leading up to 2016.

Throughout the year, the Exchange focused its priorities on enforcing the rules that govern the market, on providing enabling platforms to operate an efficient market, and

¹² Source change 2013. Rates in preceding years provided by CBN - central exchange rate. New source: *Financial Market Dealers Association* (FMDA) and FMDQ OTC (2013 only) – spot value (offer) of the Nigerian interbank foreign exchange rate (NIFEX) on the last trading day of the year. Rates do not include commission charged by banks.

¹³ Nine (9) bonds matured and were delisted during the year.



2013 Market Recap & Outlook for 2014

on providing a higher level of transparency in the marketplace. The NSE's 2013 key achievements include:

Targeted Business Development

Issuers – In early 2013, the NSE signed an MOU with *Thomson Reuters* to provide investor relations services to companies listed on the NSE as part of the *NSE Value-Added Services* program, *X-Value*. In April, the Exchange re-launched the *ASeM* for emerging companies with high potential for growth. Heralding the launch was the announcement of fourteen (14) designated advisers (DAs). All companies listed on *ASeM* are required to have a DA who will ensure their success as listed companies.

Products – During the year under review, the market witnessed the issuance of Nigeria's first *sukuk* by the Osun State government, making it the first regulated Sharia'h compliant fixed-income product available to investors in Nigeria. The Exchange, along with the SEC and *Central Securities and Clearing Systems Plc* (CSCS), also initiated a transaction cost analysis study which is slated for completion in Q2 2014.

Enhanced Regulatory Programs

Compliance – To increase the level of compliance and integrity in the market, the NSE launched the first-ever electronic issuers' portal, *X-Issuer*, in the Nigerian capital market. Today, issuers submit financial and other material information to the market quickly and efficiently from the comfort of their offices.

Regulation – In 2013, the Exchange revised key rules for dealing members¹⁴ which have been approved by the SEC. The Exchange also developed several rules for issuers that are currently pending SEC approval. In October 2013, the NSE and the *Economic and Financial Crimes Commission* (EFCC) entered into an MOU for the purpose of better policing the Nigerian capital market through enhanced information sharing between, and capacity building within both organizations.

21st Century Technology Strategies

¹⁴ *Rules and Regulations Governing Dealing Members (Amendments and Additions - Part I) and Rules Governing Registration as a Dealing Member of the Nigerian Stock Exchange.*



2013 Market Recap & Outlook for 2014

During the year, the NSE welcomed MSCI and *S&P Dow Jones* as key market data “partners”, and executed an agreement to provide hosting services to the *National Association of Securities Dealers* (NASD) OTC market. Trading commenced in the NASD market in July 2013. In September, the NSE successfully rolled out its next generation trading platform, *X-Gen*, which supports trading of cash equities, bonds, and ETFs. *X-Gen* is FIX protocol version 5-enabled, and provides wide market access, while improving market transparency. *X-Gen* has also brought about the advent of mobile trading technologies to the retail and institutional segments of the Nigerian capital market.

Enhanced Market Structure

In January 2013, the NSE launched secondary market fixed-income trading, and introduced six (6) *fixed-income liquidity providers* to provide liquidity in the market. To complete the phased roll out of equities market making (commenced September 2012), the NSE announced 13 *supplemental market makers* (SMMs) to encourage competition among equity market makers, and further enhance market maker liquidity provision.

Following the *X-Gen* launch, to ensure better market quality, the NSE introduced the opening and closing rotations with *Pre-Open* and *Pre-Close Adjust* sessions, providing a window for primary market makers to supplement liquidity during the opening and closing auctions.

Investor Protection Initiatives

In 2013, in collaboration with *Greenwich Trust Ltd.*, *Stanbic IBTC Asset Management Ltd.*, *FBN Capital Ltd.*, *CSL Stockbrokers Ltd.*, *Capital Asset Ltd.*, and *CFA Society Nigeria*, the NSE hosted two separate *Investor Clinics*; one for professional bodies such as the *Institute of Chartered Accountants of Nigeria* (ICAN), and the other for religious bodies. Similarly, the Exchange organized 287 other workshops for retail investors in various parts of the country, as part of the bourse’s financial literacy program to educate investors and enhance their potential to save, invest and build wealth, while managing risk. In July 2013, the NSE together with organizations such as the CBN, SEC, *National Insurance Commission* (NAICOM), *Federal Ministry of Finance*, *Federal Ministry of Education*, *Pension Commission* (PENCOM) and the *National Communications*



2013 Market Recap & Outlook for 2014

Commission (NCC) amongst others, joined the *Financial Literacy Steering Committee (FLSC)*, to develop and implement the *Financial Literacy Framework for Nigeria*.

In October 2013, the rules for operating the *Investor Protection Fund (IPF)* were drafted and submitted to the SEC; they are currently pending approval. Meanwhile, a claims verification exercise is underway, in anticipation of the operation of the fund.

Market Development

The NSE recently joined the *United Nations' (UN) Sustainable Stock Exchanges (SSE) Initiative* which is co-organized by the *UN Conference on Trade and Development (UNCTAD)*, the *UN Global Compact*, the *UN Environment Programme's Finance Initiative* and the UN-supported *Principles for Responsible Investment*. Partnering with the UN on this initiative is in line with the NSE's commitment to create sustainable value for capital market stakeholders, and to embed sustainable business practices in the market, especially among listed companies.

In March 2013, the NSE submitted an application for full membership in the acclaimed *World Federation of Exchanges (WFE)* and consequently, an inspection of the Nigerian capital market by a WFE inspection team is anticipated in Q1 2014. The application for membership in the WFE closely followed the admission of the NSE as an affiliate member into the *International Organization of Securities Commission (IOSCO)*.

The NSE is committed to the integration of African exchanges and thus, plays an active role in the *West African Capital Markets Integration (WACMI)* program. The integration will occur in three (3) phases, with the first phase (the *Sponsored Access Phase*) slated for March 2014, which will accommodate trading among WACMI members via sponsored access.

III. 2014 OUTLOOK

Global economic growth is set to be on an uptrend in 2014, at 3.6% from 2.8% in 2013. This will be primarily driven by developed economies, particularly the US. Recent projections put the US on track for 2.6% GDP growth in 2014 from 1.6% in 2013, while



2013 Market Recap & Outlook for 2014

Europe's GDP is expected to grow by 1.0% in 2014, thanks to economic recovery in southern Europe. In Asia, China will continue to slow from 7.6% in 2013 to 7.3% in 2014 while emerging markets (India, Latin American and other developing Asian countries) will experience slight growth improvements over 2013¹⁵.

In Africa, despite global headwinds that restricted sub-Saharan Africa's performance in 2013, growth in the region is expected to pick up in 2014, to 6% compared to 5% in 2013. This will need to be underpinned by the strong performance of oil-exporting countries, fiscal discipline, continued spending on infrastructure projects, the search for gains by global investors, and expanding economic ties with Asian economies. GDP projections by the *African Development Bank*¹⁶ for key African economies are as follows: Ghana 8.7%, Angola 7.8%, Nigeria 7.3%, Kenya 5.2% and South Africa 3.5%.

The outlook for the Nigerian economy remains promising with the likelihood of higher growth, lower inflation and wealth accumulation. The projected expansion of Nigeria's economy continues to be driven by the non-oil sector (agriculture in particular), and should increasingly be impacted by the newly reformed power sector. According to the *Outlook on the Global Agenda 2014* by the *World Economic Forum* (WEF), poverty, unemployment and income inequality are the top three (3) pressing challenges facing sub-Saharan Africa. In Nigeria, as income inequality widens the wealth gap, education, health and social mobility will continue to be at risk. This, coupled with rising unemployment, especially structural unemployment, pose challenges to the growth of the securities markets.

Ahead of the 2015 elections, government spending is expected to rise, affecting liquidity in the system. Uncertainty around monetary policy following the appointment of a new CBN governor and *Monetary Policy Committee* (MPC) also pose challenges to the performance of the market in 2014.

¹⁵ <http://www.stanlib.com/EconomicFocus/Documents/Domestic/IMFworldgrowthforecast102013.pdf>

¹⁶ <http://www.africaneconomicoutlook.org/en/outlook/west-africa-will-be-the-fastest-growing-region-in-201314/>



2013 Market Recap & Outlook for 2014

On the brighter side, inflation is expected to remain in the single-digits, and the full effects of government- and CBN-led reforms in the real sector¹⁷ should make a positive impact in 2014. Nonetheless, there is further need to push for reforms that target education, poverty, financial inclusion, capital market development and diversification, if growth is to be realized and sustained.

Nigerian Capital Market and the NSE

Projections for the Nigerian capital market are largely positive for the coming year in spite of our concerns about Nigeria's political, currency and interest rate risks. We expect Nigeria to be a key beneficiary of the MSCI 2013 annual market classification review, which will see Qatar and UAE (together accounting for 30%), transition from the *MSCI Frontier Markets Index* to the *MSCI Emerging Markets Index*. Cautiously, we will watch for the effects as Nigeria's weight in the *MSCI Frontier Markets Index* shifts from the current 13.8% to 19.7%, making it the second largest market in the index.

On the flipside, emerging markets are more vulnerable to market sentiment than they were 5-10 years ago, and Nigeria is not immune to the negative implications of higher yields, globally. The decision by the *US Federal Reserve* to start cutting its monthly bond purchases, initially to \$75 billion from \$85 billion, is expected to have a residual effect on the Nigerian equity, bond and currency markets later in 2014, affecting foreign portfolio investment (FPI) and the strength of the naira against the dollar.

On the bond side, the heightened appetite for sovereign debt is expected to resurface in 2014, as the federal government seeks to reduce its domestic debt, flattening the bond market for states. However, as Nigerian government bonds have historically offered high yields, this will remain an attraction for investors seeking those high returns. Meanwhile, we anticipate that the corporate debt market would continue to struggle as the cost of issuing corporate debt (long term) remains higher than accessing short-term debt from the banks.

¹⁷ The *Power and Airlines Intervention Fund (PAIF)*, the *Nigerian Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL)* and the *Entrepreneurship Development Centres (EDCs)*.



2013 Market Recap & Outlook for 2014

NSE Objectives and Key Initiatives for 2014

In line with the federal government's reforms, we anticipate achieving greater strides in our objective to support development of the real economic sector as a result of our new corporate strategic direction. Our five (5) strategic objectives for 2014 - 2016, derived from the NSE's *new* corporate strategic plan are: (i) increase the number of new listings across five (5) asset classes; (ii) increase order flow in the five (5) asset classes; (iii) operate a fair and orderly market based on just and equitable principles; (iv) champion the development of enabling laws and policies to drive capital market development; and (v) diversify income streams.

In 2014, the Exchange's primary focus will be on growing the capital market in preparation for achieving emerging market status. The NSE will:

1. facilitate access to and participation in the market;
2. increase our footprint on the continent; and
3. deploy a risk framework to safe-guard the market venue.

TABLE 2 – KEY INITIATIVES FOR 2014

Pillars for Growth	Key Initiatives
1) Increase the number of new listings across 5 asset classes	<ul style="list-style-type: none"> • Product Launches (Premium Board, NDRs, Derivatives) • Competitive Fee Structure • African Listings Drive
2) Increase order flow in the 5 asset classes	<ul style="list-style-type: none"> • 'Generation Y' Trading Tools • Transform Market Operators
3) Operate a fair and orderly market based on just and equitable principles	<ul style="list-style-type: none"> • World-Class Surveillance Program • Rules Portal • Operation of the IPF • Risk-Based Supervision Framework
4) Champion the development of enabling laws and policies to drive capital market development	<ul style="list-style-type: none"> • Corporate Governance / Corporate Social Responsibility • Enhanced Government Relations • Integrated Investor Education • Capital Market & Economic Development Program
5) Diversify our income streams	<ul style="list-style-type: none"> • Co-Location, Co-Hosting & Disaster Recovery Services • Online Data Shop

IV. CONCLUSION

As countries in developed markets emerge from their economic troubles, the Nigerian capital market, and indeed our business, will be impacted by shifts in investor demand. Achieving competitiveness and enhancing the NSE's value proposition are important to our success in 2014, however safe-guarding against potential shocks, both local and international, and maintaining a high level of attractiveness with a strong regulatory framework, are equally critical to the *Nigerian Stock Exchange*.

While the NSE's focus from 2011 to 2013 has been on restructuring, improving technology, product development, and advocacy for changes to policy, in 2014, we will shift gear to drive innovations centered on increasing global visibility into the Nigerian capital market, developing a larger footprint on the continent, and ultimately, targeting emerging market status. We believe that these steps are critical to NSE becoming the foremost securities exchange on the continent.