



**THE Nigerian
STOCK EXCHANGE**

2018
MARKET RECAP

2019
OUTLOOK

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1. 2018 ECONOMIC REVIEW

The Nigerian economy continued its moderate path of recovery, growing by 1.81% year-on-year (YOY) in real terms as at Q3 2018 (Exhibit 1). The recovery was aided by improved stability in the macro environment as the CBN continued to pursue a relatively tight monetary policy stance in an effort to curtail inflation¹, holding the monetary policy rate steady at 14.00%; effectively maintained liquidity and stability in the foreign exchange market during the year.

Supported by the economic recovery, YOY growth in capital importation to Nigeria increased by 114.33% as at September 2018, from the corresponding period of the previous year. However, policy normalization in the US, political uncertainties due to upcoming elections in Nigeria, and risk averse sentiments for emerging and frontier markets saw foreign portfolio investment (FPI) flows drop steadily during the year, with FPI inflows decreasing from N4.57Tn in Q1 2018 to N1.72Tn in Q3 2018 (Exhibit 2).

While the Nigerian economy recovered slightly during the year, the decline in the Nigerian capital market mirrored bearish sentiments observed globally in 2018. Despite a positive start to the year, global markets experienced an average monthly decline in market capitalization of -1.3% in H1 2018 according to the World Federation of Exchanges (WFE), in contrast to the previous year's positive average monthly growth rate of 1.5%². Wall Street's flagship index, the Dow Jones Industrial Average (DJIA), also ended the year in negative territory, posting a return of -7% (Exhibit 3). The downward trend was most notable in emerging and frontier markets. Across the MINTs³, market capitalization declined by 18% on average, while leading emerging and frontier market indices such as the MSCI Emerging Markets Index and MSCI Frontier Market Index also posted negative returns (17% and 16% respectively), along with several major African equity market indices. Several factors, including a global stock market correction, strengthened US dollar, geopolitical tensions and apprehensions regarding impending global trade conflicts impacted performance throughout the year.

Exhibit 1

Economic Recovery Enhanced by Macro Stability

Real GDP Growth (%)

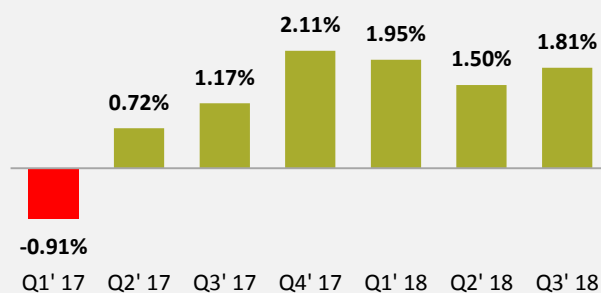


Exhibit 2

Capital Importation In 2018

Capital Importation (US \$Bn)

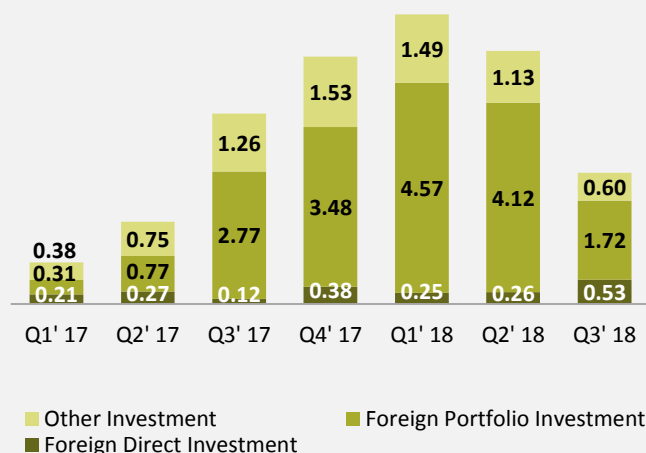
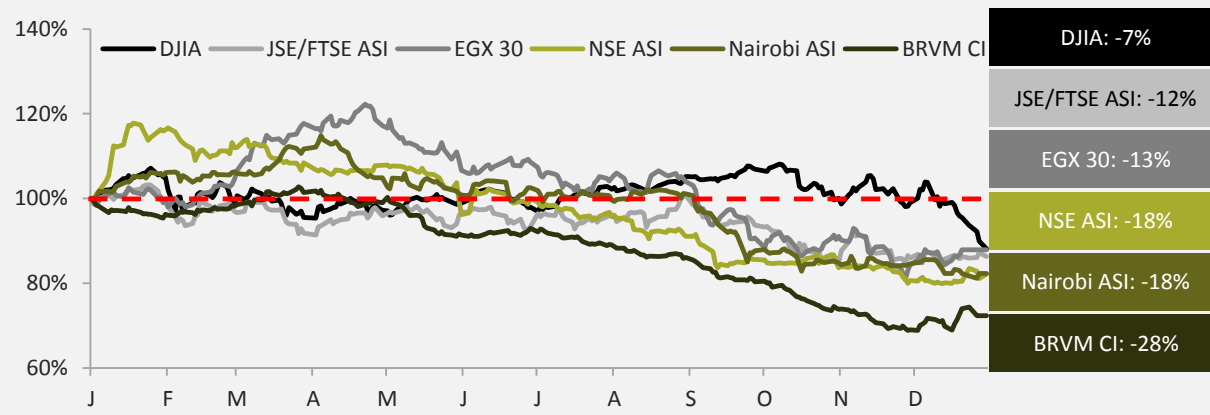


Exhibit 3

Negative Returns for Emerging & Frontier Indices

Africa, Frontier and Emerging Market Indices



NSE Equity Market Review

The Nigerian capital market started the year on a high note, with the Nigerian Stock Exchange’s All Share Index (NSE ASI or All Share Index) reaching a ten-year peak of 45,092.83 in January. This was largely driven by the positive performance of the NSE ASI in 2017, which emerged the best performer in Africa and 3rd best globally according to CNN. As we approached the second quarter, political risks, oil price volatility and rising global yields resulted in bearish sentiments that saw the All Share Index and equity market capitalization fall by 17.81% and 13.87%, closing at 31,430.50 and N11.73Tn (Exhibit 4), respectively.

The performance of the NSE indices followed global trends in the capital market during the year. The NSE Industrial Index was most impacted, declining 37.34%, followed by the NSE ASeM Index and NSE Consumer Goods Index, which dropped by 26.99% and 23.28% respectively. The NSE Oil and Gas Index was the least impacted, declining by 8.61%.

While new company listings remained low during the year, equity turnover remained relatively stable, marginally declining by 5.45% to N1.20Tn. Turnover velocity inched up 0.91 percentage points to 10.25%, and volumes traded in the period increased by 0.96% to 101.43Bn, with the *Financial Services* sector being responsible for the highest traded volume and value.

Foreign portfolio investments outpaced domestic participation by ~1.74 percentage points, accounting for 50.87% of total transactions, while domestic transactions accounted for 49.13%. We also witnessed a 50.53% increase in foreign outflows from a total of N402.26Bn to N605.54Bn⁴ in 2018. This trend highlights attenuated foreign participation due to a shift to higher yielding assets with lower risks in developed countries, coupled with the impending political risks in the upcoming Nigerian elections.

Exhibit 4

NSE Total Market Capitalization

Market Capitalization (N' Tn)

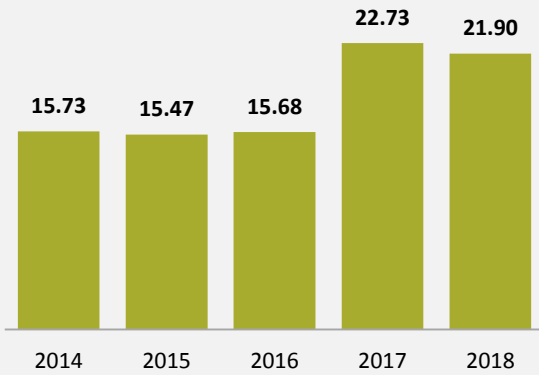
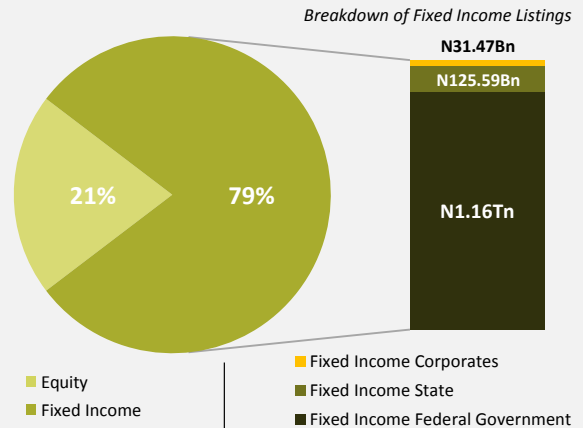


Exhibit 5

Funding via the Nigerian Capital Market

New Listings by Asset Class, 2018



NSE Fixed Income Market Review

In the NSE fixed income market, market capitalization increased by ~11.76% to N10.17Tn from N9.10Tn in 2017. Turnover also increased by 22.34% compared to 2017 driven by a search for an alternative asset class opposed to equities. Capital raising was dominated by the Federal Government of Nigeria (FGN) who borrowed N1.16Tn in a bid to finance fiscal and infrastructure deficits; inclusive of the maiden N100Bn FGN Ijarah Sukuk designed to finance critical road infrastructure across the country. State Governments raised N125.59Bn in new debt capital, while corporates raised a total of N31.47Bn⁵ (Exhibit 5).

NSE ETF Market Review

In the Exchange Traded Fund (ETF) market, the dampened appetite for equity products drove an 82.76% YOY decline in trade volumes, a 56.15% fall in turnover and an 8.47% YOY decrease in market capitalization to close the year at N6.13Bn. The recently implemented multi-fund structure for Pension Fund Administrators positively impacted the *Stanbic Pension ETF* which returned 16.37%, while the effect of the depressed performance of the equities industrial index was also evident on the *Vetiva Industrial ETF* which fell by 36.98%.

2. NSE STRATEGIC PERFORMANCE

Driven by the advent of the 4th industrial revolution (4IR), the NSE reassessed its strategic agenda to align with the changing dynamics of the domestic and global operating landscape. This culminated in a new corporate strategic road map for the 2018 – 2021 period, with three primary areas: (i) Enhancing our customer focus; (ii) Reorganizing for optimization; and (iii) Capitalizing on “*Big Bang*” opportunities (big data analytics, blockchain technology, etc.)

In the period under review, we restructured the organization to include departments such as Enterprise Innovation, Retail Coverage and State Owned Enterprises (SOE). The preceding functions will enhance customer intelligence, boost retail investors activity and position The Exchange to respond to emerging competition innovatively. Accordingly, we continued to leverage emerging technologies to create smart products and services focused on market leadership and enhancement.

We achieved significant milestones on key initiatives including demutualization and Exchange Traded Derivatives (ETDs) in 2018. The Demutualization Bill was successfully assented to by the President of Nigeria and signed into law during the year. We are currently working on the final stages of the demutualization process, as well as continuously engaging with key stakeholders.

With regards to our derivatives initiative, our technology infrastructure has been enhanced to support the trading of ETDs. The rulebook has been created and is currently going through the approval process alongside on-boarding of dealing members. We strongly believe this initiative will aid in efficient price discovery and risk management for our ecosystem.

Other achievements during the year include:

Business Development

- ***Premium Board Migration:*** Migrated four (4) companies⁶ to the Premium Board of The Exchange.
- ***Index Launch:*** Launched the Corporate Governance Index to track performance of companies that meet the most stringent corporate governance criteria.
- ***Customer Experience:*** Revamped our website with increased analytics and ease of navigation. Also launched ***X-Pay:*** an online payment platform for all our products and service offerings. Launched ***X-Bot,*** an artificial intelligence powered chat-bot for improved customer engagement and experience.
- ***Listings:*** Listed Notore Chemical Industries Plc by Introduction.

Corporate Citizenship

- ***Sustainability:*** Signed a Memorandum of Understanding (MoU) with Recycle Points Limited in support of the *Cleaner Lagos Initiative* and secured the SEC’s approval for *Sustainability Disclosure Guidelines* for all listed companies.
- ***Financial Literacy:*** Impacted 57,596 beneficiaries (42,480 students) through 175 financial literacy programmes.
- ***Corporate Challenge:*** Raised N29Mn for mobile cancer units in the fifth edition of the annual 5km race, bringing the total amount raised since inception to N121Mn.

Market Development

- **X-Academy:** Delivered 16 programs to 968 participants. We also kicked off the 4th edition of the NSE Graduate Trainee program with our largest class of 26 participants since inception.
- **Capital Market Events:** Hosted the 5th edition of the NSE-LSE Dual Listing Conference; ASEA flagship event; Capital Market Information Security Forum; NSE Market Data Workshop and the maiden NSE ETP Conference.
- **Market Structure:** Implemented a new equity market structure to dampen volatility and enable pricing efficiency during the open & close auctions, as well as continuous trading.

Investor Protection

- Investor Protection Fund approved 62 claims valued at N15.42Mn, bringing it to a total of N65.58Mn paid out to beneficiaries within the past 3 years.

3. OUTLOOK FOR 2019

At the start of the year 2018, we anticipated that the NSE's market performance during the year will be largely driven by the following factors:

Higher global oil prices and domestic production

Oil prices recovered strongly to over \$80/bbl during the year, however it did not sustain an uptrend as predicted, taking a dive in the latter half of 2018, raising uncertainty in oil price projections for 2019 and beyond. Domestic oil production receded in the second quarter, dropping to 1.84Mbpd, as against 2.00Mbpd in the previous quarter (Q1 2018). However, as at Q3' 18, production inched back up to approximately 2.00Mbpd resulting in a 3% increase in Oil revenues for the FGN from the corresponding period of the previous year.

Greater stability and transparency in Nigeria's FX market

As predicted, we witnessed relatively stable foreign exchange domestically with mild volatility and depreciation on the I&E FX window as against the parallel market during the year. The Nigerian I & E exchange rate started the year at NGN/USD 360 and closed at NGN/USD 364, a deviation of less than 1.2%.

Fiscal stimulus from planned increase in infrastructure spend

Projections of heavy government borrowings to finance the planned infrastructure spend were validated as the Federal Government listed N1.16Tn in 2018, alongside raising Eurobonds totalling US \$5.36Bn within the year.

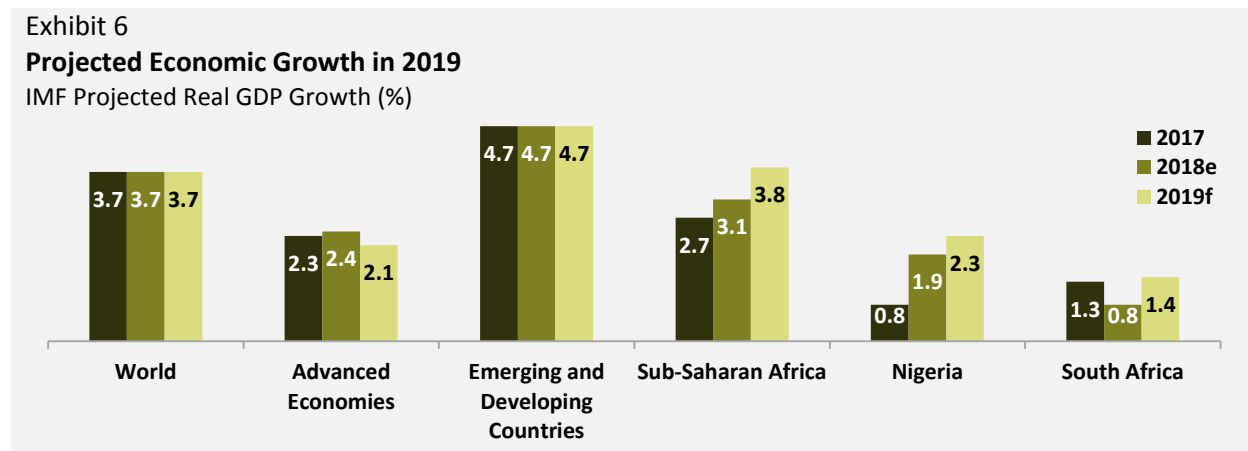
Stronger global economy and synchronized expansion in global investment trade and manufacturing

During the year, global economic expansion was threatened by trade tensions, as well as political tensions in the United States, United Kingdom and the Middle East; a deviation from our expectations.

2019 Outlook

Moving into 2019, the IMF forecasts global economic growth at 3.7%, emerging markets and developing economies to grow at 4.7% and Sub-Saharan Africa projected at 3.8%⁷. Nigeria is expected to grow at 2.3% in 2019, making it the highest real GDP growth estimate over the last three years (Exhibit 6).

Brexit talks, US-china trade tensions and possible slowdowns in the global economy are some of the external factors that may impact NSE's market performance in 2019. We expect that the stable economic activity across Emerging Markets, following a stalled rally in the US Dollar and expectations of stronger fundamentals within Africa's frontier market securities will be favorable to the Nigerian market.



Domestically, we believe market sentiments in the first half of the year will be driven by uncertainty in oil prices as well as the 2019 general elections. Accordingly, we anticipate volatility in equities markets in H1 2019, with enhanced stability post-elections. We believe swift approval and implementation of the 2019 budget will have a positive impact on companies' earnings as well as consumer spending. Therefore, we expect a return of primary market activities during the year with an uptick in market activity during the second half of 2019.

The NSE's focus for 2018 has been on organization restructuring, customer centricity, market development, and innovation. We expect to advance our efforts in these areas in the coming year and capitalize on the milestones reached thus far. In 2019, we will continue executing on our 2018-2021 strategy, working even more closely with our stakeholders particularly our market intermediaries to onboard new financial instruments and maximize organizational value.

To enhance our listing prospects, we have strengthened our government engagement efforts on privatization and listing of SOEs, and we expect to take advantage of opportunities within this space during the year. We also intend to maintain our collaborative efforts with public and private sector stakeholders to advocate for market friendly policies, and cater to infrastructure financing needs, as well as other capital requirements necessary for sustainable economic growth.

APPENDIX 1: NSE Index Performance

	2018	2017	% Change YOY
NSE All Share Index	31,430.50	38,243.19	-17.81%
NSE 30 Index	1,417.15	1,746.68	-18.87%
NSE AseM Index	793.81	1,087.32	-26.99%
NSE Banking Index	398.94	475.44	-16.09%
NSE CG Index	1,254.34	1,517.45	-17.34%
NSE Consumer Goods Index	748.83	976.10	-23.28%
NSE Industrial Index	1,237.88	1,975.59	-37.34%
NSE Insurance Index	126.48	139.37	-9.25%
NSE Lotus Islamic Index	2,233.95	2,560.39	-12.75%
NSE Main Board Index	1,439.81	1,713.69	-15.98%
NSE Oil/Gas Index	302.23	330.69	-8.61%
NSE Pension Index	1,207.46	1,379.74	-12.49%
NSE Premium Index	2,195.03	2,564.13	-14.39%

APPENDIX 2: NSE Market Performance

	2018	2017	% Change
Total Market Capitalization ¹ (N)	21,904,036,437,388.80	22,724,138,816,736.34	-3.61%
(\$)	60,175,924,278.54	63,124,361,278.75	-4.67%
Equities Market Capitalization ² (N)	11,731,273,615,344.00	13,619,906,406,051.70	-13.87%
(\$)	32,228,773,668.53	37,834,124,298.04	-14.82%
Bonds Market Capitalization (N)	10,166,635,170,361.70	9,097,537,824,659.85	11.75%
(\$)	27,930,316,402.09	25,271,640,391.84	10.52%
ETF Market Capitalization (N)	6,127,651,683.15	6,694,586,024.79	-8.47%
(\$)	16,834,207.92	18,596,588.86	-9.48%
Total Volume – Equities	101,427,030,197	100,459,841,811	0.96%
Total Value (Turnover) – Equities (N)	1,202,216,645,408.76	1,271,465,103,821.77	-5.45%
(\$)	3,302,792,981.89	3,531,945,620.22	-6.49%
Avg. Daily Volume – Equities	408,979,960.47	406,720,007.33	0.96%
Avg. Daily Value (Turnover) - Equities ³ (N)	4,847,647,763.75	5,147,631,999.28	-5.83%
(\$)	13,317,713.64	14,299,374.98	-6.87%
Turnover Velocity - Equities (%) ⁴ (N)	10.25%	9.34%	
Value of Issues - Equities New ⁵ (N)	56,487,269,125	55,456,285,725	1.86%
(\$)	155,184,805.29	154,049,517.00	0.74%
No. of New Equity Issues	6	3	100.00%
Value of Issues - Equities Sup ⁶ (N)	240,833,592,056	352,754,301,330	-31.73%
(\$)	661,630,747.41	979,900,279.00	-32.48%
No. of Supplementary Equity Issues	7	16	-56.25%
No. of Listed Companies	164	167	
No. of Preference Shares	-	-	
No. of Listed Investment Funds	5	5	
No. of Listed Equities	169	172	
No. of Listed Bonds	108	85	
No. of Listed ETPs	9	9	
No. of Listed Securities	286	266	
No. of Trading Days	248	247	
Exchange Rate (Naira:USD) ⁷	364.00	359.99	

¹ Figure includes equities, ETFs and bonds.

² Figure includes shares listed on Premium Board and ASeM.

³ Total value of share trading divided by the number of trading days.

⁴ Turnover Velocity – Equities Turnover divided by Equities Market Capitalization.

⁵ Figure include listing by introduction.

⁶ Figure includes rights issue, placement, employee share plan, listing of underwriting commitment shares, merger and acquisition, takeover bid, conversion of preference shares to ordinary shares and block divestments.

⁷ Source: Bloomberg, I&E FX Window

References

¹ 11.28% as at November 2018.

² WFE H1 2018 Market Highlights.

³ Mexico, Indonesia, Nigeria, and Turkey

⁴ NSE Domestic and FPI Report, Year to November (2017/2018).

⁵ C & I Leasing Plc, Flour Mills of Nigeria Plc and UACN Property Development Company Plc

⁶ Access Bank Plc, Lafarge Africa Plc, Seplat Petroleum Development Company Plc and United Bank for Africa Plc

⁷ IMF World Economic Outlook October 2018

GLOSSARY

Derivatives

A derivative is a financial security with its value derived from an underlying asset or group of assets.

Demutualization

Demutualization is the process by which a mutual organization or co-operative changes legal form to a joint stock company.

Emerging Markets

An emerging market has some characteristics of a developed market, but does not satisfy standards to be termed a developed market.

ETFs

An exchange-traded fund (ETF) is a pooled investment fund traded on a stock exchange.

Fixed Income

Fixed income securities are a type of debt instrument that provides returns in the form of regular, fixed, interest payments and repayments of the principal when the security reaches maturity. They differ from equity, as they do not entail an ownership interest in a company.

Market Capitalization

Market capitalization is the market value of a publicly traded company's outstanding shares. Market capitalization is equal to the share price multiplied by the number of shares outstanding.

NSE's Premium Board

The Premium Board is the listing segment for the elite group of issuers that meet the Exchange's most stringent corporate governance and listing standards.

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