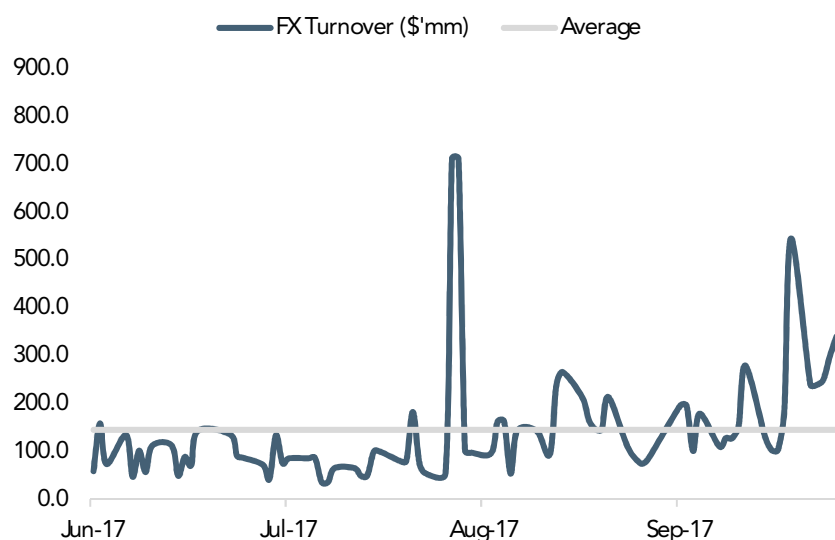


## MSCI decision: Lace up for another bull run?

- Just In!** Index provider, MSCI Inc. announced that it will retain Nigeria in its benchmark frontier-index and precluded Nigeria from a review for potential reclassification to Standalone status<sup>1</sup> in line with our earlier view<sup>2</sup>. According to MSCI, the Investors' & Exporters' Window (IEW) improved currency market conditions for investors and paved way for its decision to remove Nigeria from the review list for potential reclassification to standalone status. We recall that the proposition to reconsider Nigeria's status in the index first emerged in April 2016 when CBN's restriction on FX sales created a clog in the process of foreign capital repatriation—violating a critical provision for countries in the Frontier index.

**Figure 1: Historical movements in FX Turnover at the IEW**



Source: FMDQ, ARM Research

## Economic Snapshot

### September 2017 Inflation Data/Indices

	MoM	YoY	Prev YoY
<b>Headline</b>	0.8%	16.0%	16.1%
<b>Food</b>	0.9%	20.3%	20.3%
<b>All Items Less Farm</b>	0.8%	12.1%	12.3%
<b>Imported food</b>	1.3%	14.9%	10.7%
<b>Energy</b>	0.7%	9.84%	11.6%

### Currency Markets

	Latest	Daily Chg	YTD
<b>USDNGN</b>	359.9	-0.09%	14.1%
<b>EURNGN</b>	418.3	-0.40%	26.2%
<b>GBPNGN</b>	471.2	-0.69%	21.4%
<b>JPYNGN</b>	316.0	0.32%	16.2%

### Monetary Aggregates – August 2017

	(₦'bn)	MoM	YoY
<b>M2</b>	21,851	-1.6%	-0.9%
<b>CPS</b>	21,997	-0.8%	-3.6%
<b>NCG</b>	4,824	-17.8%	35.9%
<b>NFA</b>	9,733	11.3%	32.4%
<b>NDC</b>	26,821	-4.3%	1.8%

### External Position

	Latest	QoQ	YoY
<b>Trade Balance (\$'mn)</b>	84.76	-9.6%	N/A
<b>External Reserves (\$'mn)</b>	31,883	5.5%	28.0%
<b>Foreign Debt (\$'mn)</b>	13,808	21.1%	23.3%

### Growth Data – Q2 2017

	(₦'bn)	% of total	YoY
<b>Real GDP</b>	16,307	100%	0.5%
<b>Agriculture</b>	3,745	23.0%	3.4%
<b>Oil</b>	1,449	8.9%	1.6%
<b>Services</b>	5,974	36.6%	-0.5%
<b>Wholesale and Trade</b>	2,787	17.1%	-1.6%
<b>Manufacturing</b>	1,529	9.4%	0.6%

<sup>1</sup> Countries classified under the standalone index are those who were not previously covered by MSCI or those which have had a severe deterioration in market accessibility in terms of size or liquidity, with a generally low coverage by institutional investors

<sup>2</sup> See report: **MSCI index announcement: stay of execution or whisper of hope?**

### *MSCI beams further light on naira equities*

- In our view, MSCI's latest decision is positive for naira equities with the implied impact likely to consolidate gains from higher FPI inflows. Precisely, considering that approx. \$1 billion worth of funds currently track the MSCI frontier index (based on our estimate) with Nigeria's weighting at 7.9%, the decision implies ~ \$79 million (~~~₦~~29 billion) is no longer in danger of leaving Nigeria's equity market. For context, the implied sum under consideration (~~₦~~29 billion) is 65% greater than the average monthly net FPI flow to Nigeria's equity market from January through August. In addition to this, the sum also approximates 53% of mean monthly net FPI inflows since the introduction of the IEW. By the materiality of the current decision therefore, we expect naira equities to positively respond to the decision in coming periods. That said, we believe other investors would continue to look to fundamentals for direction and therefore restate that the trajectory of crude oil price, domestic macro, FX liquidity, fiscal policies, and pension reforms will remain crucial to equity market performance. Furthermore, with alternative yield-paying investment outlets such as treasuries set to become relatively unattractive in line with our expectation for yield downtrend, we expect investors to pay greater attention to equities.

***See our ratings on the selected Nigerian stocks in the MSCI frontier index.***

	Price (₦)	P/E (x)	Fwd. P.E (x)	FY 17 EPS (₦)	FVE (₦)	Rating
NB*	155	37.99	30.6	5.99	168.8	BUY
GUARANTY	41.70	8.67	7.85	5.67	44.50	NEUTRAL
ZENITHBA	25.65	5.07	5.50	4.95	27.26	NEUTRAL
NESTLE	1200	39.47	24.6	48.73	879.93	SELL
DANGCEM	219	15.2	12.2	15.1	203.32	SELL
UBA	9.34	4.1	4.27	2.40	10.25	OVERWEIGHT
ACCESS	9.87	3.98	3.17	3.18	10.09	NEUTRAL
FBNH*	6.15	10.01	4.32	1.21	5.23	SELL
SEPLAT*	490	N/A	11.24**	17.8	518.74	NEUTRAL
GUINNESS	101	79.06	25.61	3.94	59	SELL
WAPCO	52	5.1	9.7	1.90	48.45	SELL
UNILEVER	44	26.41	25.66	1.71	28.48	SELL
PZ	23	17.7	22.14	1.04	22.16	SELL
FO*	40.3	10.18	9.8	5.95	49.2	BUY

\* Under revision;

\*\* 2018 forecast

**Table 2: MSCI Market Classification Framework**

	Frontier	Emerging	Developed
<b>A) Sustainability of economic development</b>	No requirement	No requirement	Country GNI per capita 25% above the World Bank high income threshold* for 3 consecutive years
<b>B) Number of companies meeting the following Standard Index criteria:</b>	2	3	5
i) Company size (full market cap)	USD 635 million	USD 1,269 million	USD 2,538 million
ii) Security size (float market cap)	USD 47 million	USD 635 million	USD 1,269 million
iii) Security liquidity	2.5% ATVR*	15% ATVR*	20% ATVR*
<b>C) Market Accessibility Criteria</b>			
i) Openness to foreign ownership	At least some	Significant	Very high
ii) Ease of capital inflows / outflows	At least partial	Significant	Very high
iii) Efficiency of the operational framework	Modest	Good and tested	Very high
iv) Competitive landscape	High	High	Unrestricted
v) Stability of the institutional framework	Modest	Modest	Very high

Source: MSCI, \*-Annual Traded Value Ratio

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