

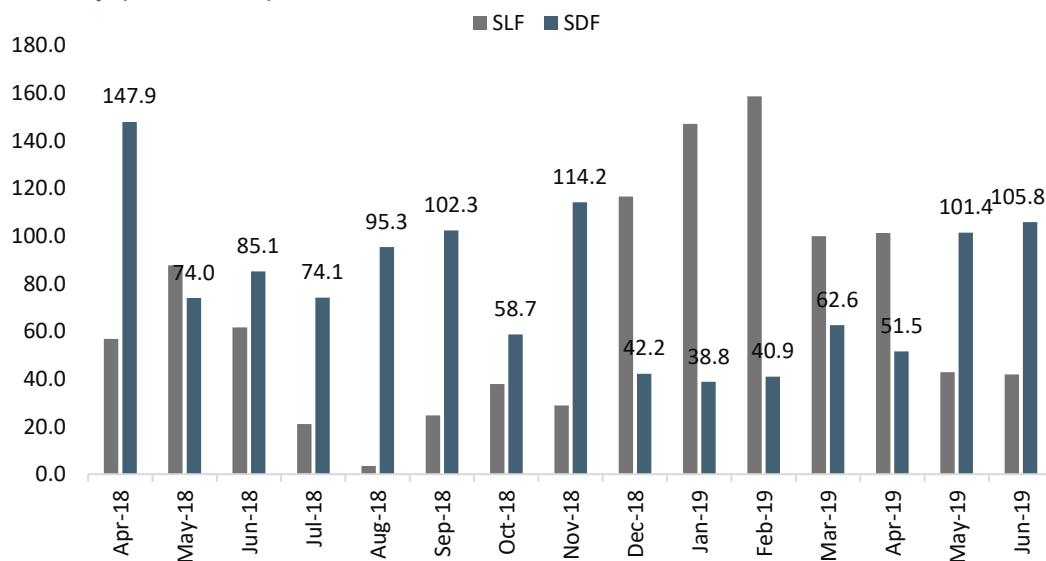
Nigerian Banks

Sector Note

CBN delivers another news

- Late yesterday, the Central Bank of Nigeria delivered another news to commercial banks, which now comes in form of a voluntary rejection of excess liquidity deposited by the banks to CBN via the Standing Deposit Facility (SDF). The facility had served as a liquidity mop-up mechanism for the apex bank without necessarily issuing government securities in return to the banks. Prior to November 2014, banks could deposit as much liquidity at their disposal with CBN and be remunerated for same. CBN capped the minimum remunerated deposit through the window at ₦7.5 billion in November 2014, however banks could keep excess at their discretion without being remunerated.
- With the new framework, the allowable daily deposit through the SDF that will now be remunerated is now capped at ₦2 billion at the applicable MPR minus 500bps (8.5%). We believe the new structure further suggests the apex banks drive to persuade banks to lend to the real sector.

Figure 1: Average Daily Standing Lending Facility and Standing Deposit Facility (₦'Billions)



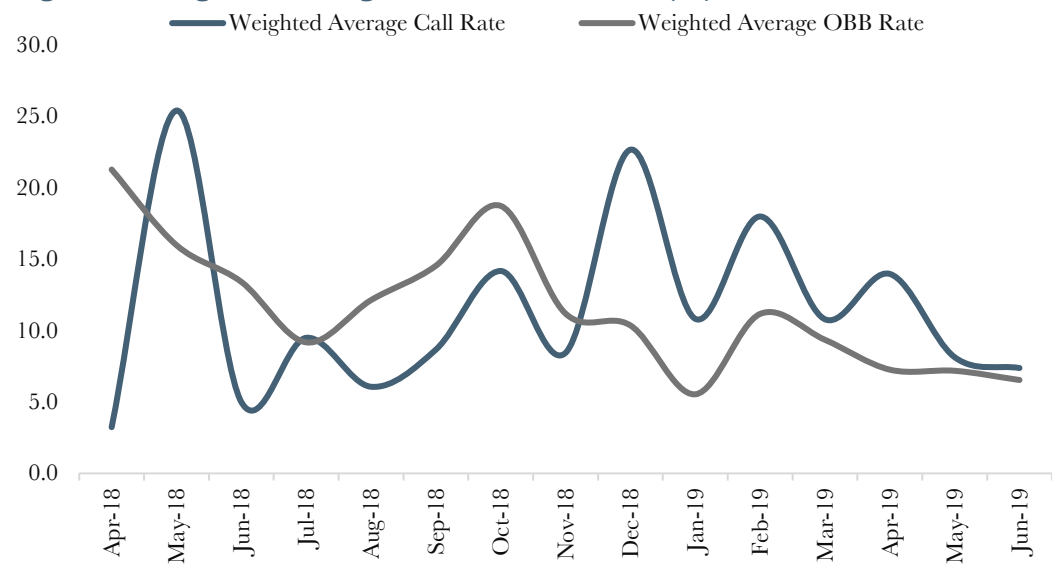
Source: CBN Financial Data, ARM Research

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- Notably, during periods of excess liquidity in the banking system and the accompanied depression in interbank rates, the SDF window afforded banks (especially top 4 Tier 1 banks who are perpetual net placers of funds) an avenue for placing excess liquidity in the absence of OMO or Treasury bills auctions and earn annualized rate of 8.5%. Notwithstanding, we believe the impact on income for the Top 4 Tier 1 banks (GTB, ZENITH, UBA and FBNH) will minimal as we expect such funds to be redirected to the Tier 2 banks which had been perpetual net takers at the Standing Lending Facility, albeit at a much lower rate depending on overall market liquidity.

Figure 2: Weighted Average Call and OBB Rate (%)



Source: CBN Financial Data, ARM Research

- Although, we do not perceive CBN will be comfortable leaving excess liquidity with the banks, as such could result in speculation at the foreign exchange market, but it is hard to reason borrowing of same funds via OMO and T'bills at higher rates from same banks.

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ARM now employs a two-tier rating system which is based on systemic importance of the security under review and the deviation of our target price for the stock from current market price. We characterize systemic importance as a function of a stock's ranking among the group of top 20 stocks by NSE market capitalization over a trailing 6-month period (minimum) to the review date. We adopt a 5-point rating system for this category of stocks and a 3-point rating system for stocks outside this group. The choice of top 20 stocks arises from the consideration that this group of stocks constitutes >75% of overall market capitalization and stocks outside this group are generally less liquid and individually account for <<1% of market capitalization. For stocks in both categories, the basis for ratings subject to target price deviation is outlined below:

TOP 20		NON-TOP 20	
Rating	Deviation	Rating	Deviation
STRONG BUY	>20%	BUY	>20%
OVERWEIGHT	10% — 20 %	NEUTRAL	5% — 20 %
NEUTRAL	0% — 10 %	SELL	<5%
UNDERWEIGHT	-5% — 0%		
SELL	<-5%		

RECOMMENDATION KEY	
Rating	Recommendation
BUY	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
OVERWEIGHT	Accumulate security to an extent moderated by cognizance of its benchmark weight
NEUTRAL	Maintain status quo for security with respect to current holding—i.e. keep if already holding and don't buy otherwise—subject to reasonable portfolio constraints
UNDERWEIGHT	Minimise exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

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