



**THE Nigerian
STOCK EXCHANGE**

2014 Market Recap &
**OUTLOOK FOR
2015**





SUMMARY

- Bearish sentiments prevailed in most commodities based economies including the Nigerian market in 2014; the capitalization of listed equities retreated by 13.15% (24.95% in \$-terms) from N13.23 trillion (\$82.80 billion) to N11.49 trillion (\$61.72 billion).
- The *NSE All Share Index (ASI)* slid 16.14%, while *NSE ASeM Index* and *NSE Oil/Gas Index* grew 26.09% and 11.84% respectively. Average daily turnover for equities was N5.4 billion (\$29.00 million), up 29.50% (11.03% in \$-terms).
- The Nigerian Stock Exchange (NSE) closed the year with six (6) new equity listings – two (2) on the Main Board, one (1) on ASeM, and three (3) ETFs, while the Bond market recorded twelve (12) new listings with a slight dip in the value of new issues. See pages 3 and 4 for more details.
- The NSE was admitted as a full member of the *World Federation of Exchanges (WFE)*, and Phase 1 of the *West African Capital Market Integration (WACMI)* program is well underway with the successful launch of *direct market access (DMA)*. The NSE made history by becoming the first African stock exchange to join the *Intermarket Surveillance Group (ISG)*, and welcomed a new president and six (6) Council members to its National Council.

2014 RECAP

The year started on a positive note with macroeconomic indicators such as inflation and the exchange rate staying within projected range. The second quarter of the year also kicked off on a high note following the nation's GDP rebasing exercise conducted by the *National Bureau of Statistics (NBS)*. The results did not only confirm Nigeria as the largest economy in Africa with a GDP of N80.22 trillion (\$509.97 billion), they also revealed the nation to be one of the least leveraged in the world, with a revised debt-to-GDP ratio of 11%, from 20%.

Coming into the second half of 2014, global crude oil markets were impacted by the slowed economic growth of China and weaker demand for refined products from the U.S. and Europe. This, combined with ongoing challenges in the Nigerian oil and gas sector, saw Nigeria's crude oil production drop below 2.3mbd. The impact of this drop in production was exacerbated in the third quarter by crude oil prices plummeting, forcing the Central Bank of Nigeria (CBN) to devalue the naira by 8%, and push the benchmark interest rate (the MPR) to a record 13%, in an effort to preserve the nation's foreign reserves, which stood at \$34.50 billion on December 30, 2014, from \$43.61 billion at the start of the year. Coming to the end of the year, inflation remained relatively stable due to a slower pace in the increase of food prices recorded by the *Consumer Price Index (CPI)*.

In the capital market, bearish sentiments prevailed for most of the year as foreign investors steadily withdrew from the Nigerian market, due to currency risk and the recovery of developed economies, and the effects of the *US Federal Reserve* tapering of its quantitative easing (QE) policy. Several macroeconomic developments also contributed to the decline in market performance. These were: (i) fall in crude oil prices and related pressure on



2014 RECAP cont'd

the Naira; (ii) the impact of CBN's monetary policy changes introduced at various points throughout the year; (iii) Nigeria's declining foreign reserves; (iv) festering insurgency in the nation; (v) uncertainty around the upcoming 2015 elections; and (vi) weak corporate earnings. The air of uncertainty that hovered over the Nigerian capital market throughout 2014 caused investors to increasingly adopt a 'flight to quality' strategy.

Despite the *MSCI Frontier Market Index* rebalancing event in May 2014, which headlined an increase in Nigeria's weighting in the index, this positive event was not enough to reverse the downward trend already prevalent in the market. As at December 31, 2014, total NSE market cap had retreated 11.53% (24.05% in \$-terms) to N16.88 trillion (\$90.68 billion), from N19.08 trillion (\$119.40 billion) at the start of the year, while equities market capitalization ended the year at N11.49 trillion (\$61.72 billion). The *NSE Lotus Islamic Index* took the worst hit, plunging 21.63%, followed closely by the *NSE Banking Index*, (down 21.53%); most of the NSE market indices performed poorly, relative to their sterling 2013 performance. Bucking the trend were the *NSE ASeM Index* and *NSE Oil/Gas Index* which grew 26.09% and 11.84%, respectively. (Refer to TABLE 1 on page 3 for the '2014 Market Snapshot'.)

In April 2014, the market saw its first initial public offering (IPO) since the market crash of 2008 with the primary listing of *Seplat Petroleum Development Company Plc's* shares on the *Main Board* at N576 (£2.10) per share. Notwithstanding this newsworthy event, the market for new equity listings remained relatively flat for the year, with only six (6) new equity listings, two (2) on the *Main Board*, one (1) on *ASeM*, and three (3) *ETFs*. In contrast, five (5) companies were delisted¹ in 2014, bringing the number of listed companies and number of listed equities to 189 and 197, respectively.

Small-cap stocks were the best performers, recording a 32.78% growth rate, followed by mid-cap stocks which were up 23.53%, signifying the brunt of the market decline was borne by large-cap stocks – down 21.43%². The Exchange recorded an increase in the value of shares traded (turnover) in 2014 – up 28.20% to N1.34 trillion (\$7.19 billion), though not as high as the 58.66% recorded in 2013. Average daily turnover was up 29.50%, and the NSE recorded the single largest trade since 1997 on September 8, 2014, representing 243.54 million shares of *Dangote Cement Plc*, valued at N48.71 billion. Year-to-date, as at November 2014, 41.49% of all market activity was by local investors.

In the bond market, market capitalization declined slightly to N5.38 trillion (\$28.93 billion) despite five (5) new state and municipal bond issues, three (3) corporate bond issues, and two (2) federal government bond issues³. In the OTC market, the value of cash transactions for government bonds decreased 19.81% (31.15% in \$-terms) from N8.91 trillion (\$55.76 billion) to N7.14 trillion⁴ (\$38.39 billion), following the CBN's move to increase the cash reserve ratio (CRR) on public sector funds from 50% to 75% (to mitigate the economic impact of declining oil revenues, the drawdown of reserves, depletion of the excess crude account, falling FPI inflows, and the widening gap between CBN and bureau de change exchange rates), and the CRR on private sector funds from 12% to 15% (to manage excess liquidity in the interbank market). Transactions in treasury bills (T-bills) soared by 120.05% from N10.92 trillion (\$68.34 billion) to N24.03 trillion⁵ (\$186.10 billion).

¹ Oasis Insurance Plc. through a voluntary process; while Starcomms Plc., Pinnacle Point Group Plc., Big Treat Plc., and Afroil Plc. were as a result of non-compliance with the Exchange's post-listing standards.

² NSE categorizes small-cap stocks as those with a market cap of less than \$150 million; mid-cap stocks with a market cap of between \$150 million and \$1 billion, and large-cap with a market cap of over \$1 billion.

³ Twelve (12) bonds matured and were delisted during the year.

⁴ As at November 2014

⁵ As at November 2014



TABLE 1 – 2014 MARKET SNAPSHOT

	2013	2014	Change%
Total Market Capitalization ⁶	N19.08 trillion \$119.41 billion	N16.88 trillion \$90.68 billion	-11.53% -24.05% (\$-terms)
Equities Market Capitalization ⁷	N13.23 trillion \$82.80 billion	N11.49 trillion \$61.72 billion	-13.15% -25.46% (\$-terms)
Bonds Market Capitalization	N5.85 trillion \$36.561 billion	N5.38 trillion \$28.93 billion	-8.03% -20.96% (\$-terms)
<i>NSE All Share Index</i>	41,329.19	34,657.15	-16.14%
<i>NSE Lotus Islamic Index</i>	2,863.12	2,243.89	-21.63%
<i>NSE Industrial Index</i>	2,546.59	2,139.55	-15.98%
<i>NSE 30 Index</i>	1,907.17	1,563.22	-18.03%
<i>NSE AseM Index</i>	962.31	1,213.36	26.09%
<i>NSE Consumer Goods Index</i>	1,100.25	903.54	-17.88%
<i>NSE Oil/Gas Index</i>	339.88	380.11	11.84%
<i>NSE Banking Index</i>	447.84	351.4	-21.53%
<i>NSE Insurance Index</i>	152.87	149.65	-2.11%
Total Volume – Equities	106.54 billion	108.47 billion	1.81%
Total Value (Turnover) – Equities	N1.04 trillion \$6.51 billion	N1.34 trillion \$7.19 billion	28.20% 10.11% (\$-terms)
Avg. Daily Volume – Equities	426.16 million	437.39 million	2.64%
Avg. Daily Value (Turnover) - Equities ⁸	N4.17 billion \$26.10 million	N5.4 billion \$29.0 million	29.50% 11.03% (\$-terms)
Turnover Velocity - Equities (%) ⁹	7.89	11.65	47.71%
<i>Value of New Issues</i>	N286.76 billion \$1.79 billion	N271.05 billion \$1.46 billion	-5.48% -18.84% (\$-terms)
<i>No. of New Issues</i>	11	18	
No. of Listed Companies	190	189	
No. of Preference Shares	3	3	
No. of Listed Investment Funds ¹⁰	5	5	
No. of Listed Equities	198	197	
No. of Listed Bonds	55	52	
No. of Listed ETPs	1	4	
No. of Listed Securities	254	253	
No. of Trading Days	250	248	
Exchange Rate (Naira:USD) ¹¹	159.79	186.10	

⁶ Figure includes equities, ETFs and bonds.

⁷ Figure includes shares listed on ASeM (N4.0 billion market cap).

⁸ Total value of share trading divided by the number of trading days.

⁹ Total Value (Turnover) – Equities divided by Equities Market Capitalization.

¹⁰ Investment funds include unit trusts, closed-end funds, investment trusts and all collective investment funds.

¹¹ Source: Financial Market Dealers Association (FMDA) and FMDQOTC–NIFEX spot value (offer) on the last trading day of the year.



II. 2014 ACHIEVEMENTS

In 2014, the NSE National Council (Board) approved a revised *2019 NSE Corporate Strategic Plan* detailing the Exchange's new growth strategy for the next five (5) years, leading to 2019. This revised strategy seeks to position the Exchange as the market for entrepreneurial growth. With key revisions to specific targets, the NSE began executing the 2019 strategy, focusing priorities on initiatives aimed at achieving the Exchange's three (3) strategic objectives:

- [1] Increase the number of new listings across five (5) asset classes;
- [2] Increase order flow in the five (5) asset classes; and
- [3] Operate a fair and orderly market based on just and equitable principles.

AFRICA LISTING DRIVES

New Listings. The dual listing of *Seplat Petroleum Development Company Plc* on the NSE and *London Stock Exchange* (LSE) in April 2014, marked the first IPO in the Nigerian capital market since the market crash of 2008. *Seplat Plc* is the first Nigerian company listed on the Main Market of the *London Stock Exchange* (LSE), and the first pure play upstream oil and gas company listed on the NSE.

Cooperations and Linkages. In November 2014, the NSE signed a capital markets agreement with the *London Stock Exchange Group* (LSEG) to strengthen cooperation and promote mutual development between the two exchanges. The agreement also supports African companies seeking dual listings on the Lagos and London bourses.

PRODUCT LAUNCHES

New Listings: In March 2014, the NSE admitted the *Vetiva Griffin 30 (VG30)* exchange traded fund (ETF) to the Main Board. The *VG30 ETF* is an open-ended fund designed to track the performance of companies that form the *NSE 30 Index*. Similarly, in November 2014, the NSE admitted the *Lotus Halal Equity ETF* designed to track the performance of the *NSE Lotus Islamic Index*.

In December 2014, the *Stanbic IBTC ETF 30* was admitted to trading, and also tracks and delivers returns based on the *NSE 30 Index*.

Derivatives Feasibility Study: In June 2014, the Exchange completed a study to assess market readiness, the infrastructure requirements, and sequencing for the launch of risk management products in the Nigerian capital market.

TECHNOLOGY SERVICES

Co Hosting: Throughout the year, the Exchange provided 99.99% uptime to the *National Association of Securities Dealers* (NASD) OTC market. The NASD is hosted on the NSE's *X-Gen* platform.

COMPETITIVE FEE STRUCTURE

Transaction Cost Analysis (TCA): In July 2014, the NSE, the *Securities and Exchange Commission* (SEC) and CSCS Plc (the CSD) completed an analysis of the implicit and explicit costs of trading on the Nigerian Stock Exchange compared with the cost of trading on other regional and global exchanges. In 2015, based on the results of the analysis, the Exchange, together with the SEC, CSCS Plc and market participants, will be looking to implement a pricing structure



II. 2014 ACHIEVEMENTS

that is more competitive, and pertinent to enhancing liquidity in the market.

TRANSFORMATION OF MARKET OPERATORS

Min. Standards for Market Operators: In April 2014, the NSE unveiled a new set of minimum operating standards for all three (3) classes of market intermediaries in an effort to develop sustainability and augment protection for investors and stakeholders. The deadline for complying with the standards was December 31, 2014. The Exchange has since announced the *Minimum Standards Implementation Plan*, which kicks off with inspections of all market intermediaries/dealing members in April 2015. Pursuant to the plan, only dealing members that meet the minimum standards will be permitted to operate in the market from December 2015. The standards address five (5) important areas, namely: manpower and equipment; organizational structure and governance; effective processes; global competitiveness; and technology.

Direct Market Access (DMA): To increase access to Nigerian and other West African capital markets, the NSE launched *direct market access* (DMA) in October 2014 as a first step to the implementation of sponsored access under the *West African Capital Markets Integration* (WACMI) program, thereby giving global investors more control over final execution of their orders, as well as the ability to exploit price and liquidity opportunities.

DOMESTIC AND FOREIGN INVESTOR DRIVE

Financial Literacy: The Exchange conducted approximately 200 investor education outreach programs in 2014, empowering thousands of retail investors to make more informed investment decisions. It also hosted a road show to increase Asian foreign portfolio investments (FPI) into Nigeria. Asia is currently Nigeria's largest trading partner.

X-Web: In July 2014, the NSE launched a new web site. The user friendly site provides a richer experience in terms of accessibility, for both listed company information and other key data points relating to the business of the Exchange. The site runs smoothly on mobile platforms, and allows the Exchange to scale up its web services in line with user demand.

WFE Membership: The NSE was admitted to full membership in the *World Federation of Exchanges* (WFE) in October 2014, following a multi-year process that included a two-day onsite inspection in September 2014. Full membership in the Federation bestows a higher level of credibility and visibility upon the NSE, enabling it promote higher standards. It also provides an avenue for increased international cooperation, as well as increased investment flows.

CORPORATE GOVERNANCE

Corporate Governance Rating System (CGRS): The NSE, in partnership with the *Convention on Business Integrity* (CBI), launched the CGRS in November 2014. Using a holistic multi-stakeholder approach and a diverse set of information collection and verification processes, the CGRS is designed to rate companies listed on the Exchange based on their corporate governance practices, thereby improving the overall perception of and trust in Nigeria's capital market. Participation by listed companies will become mandatory in 2015, and the NSE National Council has committed to lead by example by completing the required CGRS company directors' assessment.



II. 2014 ACHIEVEMENTS

ISG Membership: In January 2014, the NSE made history by becoming the first African stock exchange to join the *Intermarket Surveillance Group (ISG)*, an international group comprising securities exchanges, market centers and market regulators that perform front-line market surveillance within their respective jurisdictions. Admission of the NSE is an indication that the Exchange's surveillance capacity is in line with international standards.

Whistle Blowing Program: In Q1 2014, the Exchange launched an on-line whistle blowing portal, *X-Whistle*, for the secure and effective submission of tips and referrals regarding violations of the rules, regulations and laws of the Nigerian capital market by listed companies and market intermediaries.

Investor Protection Fund: Following a claims verification exercise initiated in 2013, the first and second batches of claims verified under the rules of the *Investor Protection Fund (IPF)* – 343 in total – were approved for payment in December 2014. Payments will be made following the verification of claimants' identities by external consultants engaged by the *Board of Trustees* of the IPF. The maximum payout is N400,000 per claim.

Other notable developments include:

Council of the Exchange. In September 2014, the Exchange welcomed six (6) new members to the National Council (Board) of the NSE, including a new president, Mr. Aigboje Aig-Imoukhuede, FCIB, CON, as it bid farewell to six (6) other non-executive Council members who contributed to the growth and development of the Exchange and the Nigerian capital market under the presidency of Alhaji Aliko Dangote, GCON, who retired voluntarily.

ASEA Presidency: During the *African Securities Exchanges Association (ASEA) 18th Annual General Meeting* in November 2014, the NSE was re-elected as a member of the Executive Committee, and the CEO of the NSE, Mr. Oscar N. Onyema, OON, was elected President of ASEA for a two-year term. To support the Association's mission and vision, he highlighted four (4) key strategic objectives that the new Executive Committee will focus on: (i) strengthen the Association's governance, financial and reporting framework; (ii) promote the sustainable development of African capital markets; (iii) facilitate an increase in market access at the regional level, and promote linkages among African exchanges; and (iv) benchmark against global best practices.

NSE Graduate Trainee Program: To develop capacity for the Nigerian capital and financial markets, the NSE implemented the *NSE Graduate Trainee Program (GTP)* in May 2014. The NSE GTP is a management training program designed to build upon the efforts of the higher education system. Candidates are selected based on their performance in Nigerian and foreign universities, and their talents are further developed through the program to raise their capabilities and enhance the talent pool in the Nigerian capital market.

Corporate Social Responsibility (CSR)

NSE Corporate Challenge: In May 2014, in collaboration with the *Lagos Island Central Business District, First Bank of Nigeria (FBN), Unilever, Unity Bank, Nestlé Nigeria, Malta Guinness, First City Monument Bank, Nigeria Info FM, BusinessDay* and *CNBC Africa*, the NSE joined the fight against cancer, bringing corporate Nigeria together for a 5km race, with over 390 registered runners.

NSE Annual Essay Competition: In December 2014, the NSE held its 14th annual essay competition. In this year's edition, the Exchange received 1,700 entries from senior secondary school students from over 25 states in Nigeria. The winners were rewarded with equity investments, scholarship funds and computers, while the exceptional schools that produced the top three (3) winners received computers and printers.



2015 OUTLOOK

The global economy is slated to grow 3.8%, compared to 3.3% in 2014, the fastest growth since 2011. This will primarily be driven by the US economy, whose GDP is projected to hit 3.1%. In Europe, despite significant downside risks, GDP is expected to inch up 1.9% from 1.5% in 2014, owing to recovery in domestic consumption, as labor markets slowly awaken. Geopolitical risks stemming from the Ukraine conflict threaten to derail these growth prospects, while China's boom continues to slow, relative to its historical growth – 7.1% in 2015 from 7.4% and 7.7% in preceding years. Finally, struggling commodity prices and slowing energy exports continue to threaten growth prospects in Latin American, Middle Eastern and Asian economies.¹²

In Sub-Saharan Africa, despite challenges such as the Ebola epidemic, increasing fiscal vulnerabilities and the deteriorating security situation in some nations, growth in the region is expected to pick up in 2015, to 5.8% from 5.1% in 2014. This is predicated on an expected boost in the demand from infrastructure projects, the expansion of productive capacities (particularly in extractive activities and electricity production), sustained growth in the services sector, and the likelihood of a rebound in agricultural production. The IMF is projecting approximately 5.0% GDP growth for Nigeria¹³, 6.2% for Kenya, 5.9% for Angola, 4.7% for Ghana, and 2.3% for South Africa.

Nigeria's 2015 macroeconomic performance is expected to be influenced by a number of variables, including crude oil prices, foreign exchange movements, national security, global financial markets, fiscal and monetary policies, as well as the outcome of the 2015 elections. Post elections, we anticipate that elimination of some of the uncertainties highlighted above may lead to stability in the equities market. However a strengthening dollar may continue to precipitate FPI reversal, which remains a real threat to the Nigerian capital market.

Although economic growth projections for 2015 will be greatly impacted by the challenges above, we expect that as time progresses, and as uncertainty is steadily reduced across all the risk categories, that negative sentiments in the market will begin to subside, with volatility slowing in the second half of the year, strengthening potential for a market rebound.

THE NIGERIAN CAPITAL MARKET

Despite the market's sharp downturn in 2014, it is not all doom and gloom for 2015. Although many anticipate volatility through the first half of the year, some stock prices are at their lowest since the May 2013 sell-off, and some are below book value, thus, presenting domestic investors with no currency risk, an opportunity for cautious long-term investing.

We expect that as the year progresses, underpinned by a successful election with no or low levels of violence, a tighter grip on the security situation in north-eastern Nigeria, and a more certain macroeconomic outlook for oil prices, interest rates and the naira, the market's attractiveness could improve rather significantly. On the fixed income side, government bond yields hovered between 11.0% and 12.5% throughout 2014, and this will remain an attraction for investors seeking high risk-adjusted returns.

¹² <http://www.imf.org/external/pubs/ft/weo/2014/02/pdf/c2.pdf>

¹³ Revised downward by the IMF in December 2014 from 7.3%.



2015 OUTLOOK cont'd

NSE OBJECTIVES AND KEY INITIATIVES FOR 2015

Staying the Course. The NSE is unwavering in its commitment to solidify its leadership position as Africa's foremost securities exchange, and is committed to initiatives that will position the bourse as an attractive listing and investment destination. In support of the federal government's reforms, the Nigerian Stock Exchange intends to continue to provide a viable platform to support the financing and sustainable development of the real economy.

In 2015, the Exchange will focus on delivering several initiatives in support of its revised strategy. Key amongst these initiatives are the following themes: (i) promote the Nigerian capital market as an African hub for growth companies; (ii) attract more domestic flows into the market; (iii) implement a more competitive price structure in conjunction with the Regulator and other market participants; and (iv) intensify its efforts towards developing a more sustainable market.

Key Initiatives. Refer to TABLE 2 below for 'Key Initiatives for 2015'.

CONCLUSION

The World Economic Forum (WEF) report, "Outlook on the Global Agenda 2015" ranks Deepening Income Inequality and Persistent Jobless Growth as the two top trends for 2015. The world is slowly coming to terms with the reality that its fastest-growing markets are emerging from the African continent, with Nigeria in a lead position. Although Nigeria exhibits the trends highlighted in the WEF report, its large and disproportionately young population (approximately 70% of the Nigerian population is under the age of 30) and growing middle class, supported by strong growth GDP projections, provide major opportunities that could translate into a powerful market for consumption. This has not gone unnoticed by the increasing number of international businesses and investors looking to exploit this potential. As a result, both the foreign and domestic investment communities are optimistic that the recent economic expansion experienced in Nigeria should continue for the foreseeable future, in spite of economic challenges recently witnessed.

TABLE 2 – KEY INITIATIVES FOR 2015

2015 KEY INITIATIVES
Competitive Fee Structure
NDRs
Data Center
Premium Board
Growth Board
Africa Growth Company Listings Drive
Sponsored Access
World-Class Surveillance Program
Rules Portal





2015 OUTLOOK cont'd

In order to achieve this potential, the fundamentals of the Nigerian economy will need to be restructured away from reliance on oil revenues. We intend to play our own part to facilitate this restructuring and call for greater support for the capital market as a real financing alternative to driving inclusive growth and job creation.

The Nigerian capital market and the business of the stock exchange will always be impacted by shifting economic trends and investor demands, however, achieving success through growth that creates value will increase the bourse's ability to operate efficiently and profitably in the transient-advantage economy that has unfolded in Nigeria and around the world. The effect of disruptive short-term market cycles can be reduced with (i) the right market structure, (ii) a diverse set of products that perform well in different market conditions, and (iii) enabling policy that provides stability to the marketplace, and gives confidence to issuers and investors. Therefore, this will be the focus of the Nigerian Stock Exchange in 2015.

