

The Nigerian Stock Exchange

A Review of market performance in 2007 and the outlook for 2008

By

Professor Ndi Okereke-Onyiuke, OON
Director General/Chief Executive Officer

1.0 The Operating Environment

The economy performed below projection, with estimated GDP growth of 6.3%, as against the target of 10% set for the year but higher than the 5.6% recorded in 2006. Growth was driven principally by the non-oil sector, as the continuing crisis in the Niger-Delta area constrained crude oil exploration and production. By year-end, crude oil production shut-in stood at 0.9mbd, while the non-oil sector recorded an estimated annual average growth rate of 9.72%. Official confirmation from NNPC showed that the country lost N16.9billion to petroleum pipeline vandalization. The downstream sector of the petroleum industry remained comatose and the country relied on imported refined petroleum products for domestic and industrial operations. Official confirmation indicated that Nigeria consumed about 14.13 billion litres of refined petroleum products or 38.7 million litres per day during 2007 with .PMS accounting for 9.81 billion litres. By end-September 2007, the Manufacturers Association of Nigeria (MAN) reported a drop in manufacturing capacity utilization from 44.06% in 2006 to 43.5% due to the difficult operating environment.

Meanwhile, earnings from non-oil export during the year rose to about \$1.38 billion, the highest in the country's history, and gross official external reserves rose by 20% to stand at about US\$50.75 billion by end-December 2007, as against US\$42.3 billion in December 2006. In the circumstances, the Central Bank of Nigeria (CBN) was able to defend the Naira exchange rate, which appreciated by 8.03% to close at N116.80/US\$. Inflation remained within the single digit target and the All-Maturities average Nigerian Inter-Bank Offer Rate (NIBOR) closed at 12.6%, thus achieving a positive real interest rate during the year.

2.0 The Global Stock Market

Global stock markets had a turbulent time in 2007, owing especially to declining consumer spending and weak corporate performance. In addition, U.S. subprime mortgage lending crisis sparked off credit squeeze and increased cost of borrowing in many developed economies.

However, in Nigeria, the stock market recorded a significant rise in activity as a result of high lending rates in the money market, improved macroeconomic performance, profit-taking, and stock switching by investors.

3.0 Activity In The Secondary Market

Activity in the secondary market was influenced by the improved awareness of the opportunities in the stock market, improved operating results by some quoted companies, large available float (especially in the banking and insurance sectors), sustained inflow of pension funds, and low interest rates on deposits in the money market.

Turnover on The Exchange closed the year at N2.1 trillion or 19.5% of GDP, up by 343.7% on the N470.25 billion (2.6% of GDP) recorded in 2006. Average daily activity rose from 570.6 million shares worth N8.62 billion in 2006 to 150.9 million shares valued at N1.94 billion in 2007.

The bulk of the transactions were in equities, which accounted for N2.08 trillion or 99.86% of the turnover value, up from the 99.6% recorded in 2006. Transactions in the Industrial Loans sector accounted for N2.87 billion or 0.14%.

The Federal Government Development Stocks sector and Preference Stocks subsectors were inactive in 2007. In 2006 turnover on Federal Government bonds on The Exchange stood at N1.6 billion. Significantly, a turnover of N4.13 trillion in 30,182 deals was recorded in the Over-the-Counter (OTC) market for Federal Government bonds, as against N624.81 billion in 5,448 deals recorded in that market in 2006.

Overall, The Exchange's Turnover Ratio sustained its improvement, rising from 14.70% in 2006 to 28.21% in 2007. The following is a list of the year's 20 most active stocks (by turnover volume):

1. Wema Bank Plc	-	13.072 billion shares
2. Fidelity Bank Plc	-	7.595 billion shares
3. First City Monument Bank Plc	-	6.478 billion shares
4. First Inland Bank Plc	-	5.867 billion shares
5. Intercontinental Bank Plc	-	5.281 billion shares
6. Lasaco Assurance Plc	-	5.233 billion shares
7. Access Bank Plc	-	4.492 billion shares
8. Transnational Corporation of Nigeria Plc	-	4.092 billion shares
9. Mutual Benefits Assurance Plc	-	3.928 billion shares
10. Cornerstone Insurance Plc	-	3.807 billion shares
11. International Energy Insurance Plc	-	3.660 billion shares
12. United Bank for Africa Plc	-	3.634 billion shares
13. Union Bank of Nigeria Plc	-	3.598 billion shares
14. Afribank Nigeria Plc	-	3.424 billion shares

15. Skye Bank Plc	-	3.320 billion shares
16. Sterling Bank Plc	-	3.241 billion shares
17. Guaranty Trust Bank Plc	-	3.188 billion shares
18. NEM Insurance Co. Plc	-	3.051 billion shares
19. Unity Bank Plc	-	2.744 billion shares
20. Oceanic Bank International Plc	-	2.541 billion shares

The banking and insurance subsectors accounted for 19 of the Top 20 companies by turnover volume, as a fallout of the recapitalisation programme, which boosted the available float in both subsectors and created the condition for block trades in the shares of most of the listed banks. Another major factor was the directive by the Central Bank that no state government should hold more than 10% equity interest in any bank, which led to major divestment by some parastatals.

4.0 Trading In Rights

Investors traded rights in seven companies, as in 2006. In all, 177 deals valued at N207.73 million were executed in this market segment in 2007, down by 58.8% on the N504.7 million value of transactions in the previous year. The companies whose rights were traded during the year are:

- ❑ First Bank of Nigeria Plc
- ❑ Livestock Feeds Plc
- ❑ University Press Plc
- ❑ Eterna Oil & Gas Plc
- ❑ Cement Company of Northern Nigeria Plc
- ❑ Nigerian Aviation Handling Co. Plc
- ❑ Costain (WA) Plc

5.0 Foreign Portfolio Investment

The Exchange is living up to its billing as an avenue for foreign investment in Nigeria. In 2007, foreign investors sustained their high confidence in the Nigerian economy as represented by The Exchange. Their appetite for the Nigerian market remained strong, considering the high returns, liquidity and safety of investments. Available statistics show purchases by foreign investors during 2007 to be in excess of N256 billion, representing 12.3% of the aggregate turnover. This is an improvement over the N35 billion recorded in 2006.

6.0 Market Capitalization

The total market value of 309 securities listed on The Exchange increased by 159.6% to stand at N13.295 trillion by year-end. Price appreciations by equities consequent upon macroeconomic stability and improved corporate results explain in large part the growth of the market capitalization during the year. Additional factors included the listing of new securities (equities and bonds).

There were many supplementary issues in the banking subsector, while the insurance subsector listed some scheme shares arising from the mergers and acquisitions elicited by the industry consolidation. By year-end, the market capitalization of the 212 listed equities accounted for N10.301 trillion or 77.5% of the aggregate market capitalization.

At the end of the year, the following 20 companies emerged with the highest market capitalization, in descending order:

Company	Market Capitalization (N'Bn)
1) First Bank of Nigeria Plc	889.084
2) Intercontinental Bank Plc	752.593
3) United Bank for Africa Plc	558.869
4) Zenith Bank Plc	533.810
5) Union Bank of Nigeria Plc	498.624
6) Guaranty Trust Bank Plc	479.625
7) Oceanic Bank International Plc	435.411
8) Dangote Sugar Refinery Plc	389.500
9) Nigerian Breweries Plc	370.565
10) Ecobank Transnational Incorporated	292.250
11) Diamond Bank Plc	254.238
12) IBTC Chartered Bank Plc	248.625
13) West African Portland Cement Co. Plc	239.528
14) PlatinumHabib Bank Plc	205.197
15) Fidelity Nigeria Plc	194.765
16) Guinness Nigeria Plc	191.740
17) Afribank Nigeria Plc	186.907
18) Nestle Nigeria Plc	182.786
19) First City Monument Bank Plc	180.3
20) Ecobank Nigeria Plc	172.151

7.0 The All-Share Index

The Nigerian Stock Exchange All-Share Index grew by 74.73% or 24,800.92 points to close at an historic value of 57,990.22, compared to 33,189.30 in 2006. The performance of the Index reflects positive improvement in prices of most quoted equities during the year, especially the highly capitalised stocks.

8.0 New Issues

There was improved activity in the Primary Market throughout the year, following principally from the increased recourse to the stock market by companies and governments. Also, some mergers and acquisitions were concluded through the facility of The Exchange.

In 2007, The Exchange considered and approved 65 applications for new issues and mergers & acquisitions valued at N2.4 trillion or 22.4% of GDP, as against 69 applications for new issues valued at N1.65 trillion in 2006.

The banking sector accounted for 66.1% with 19 applications valued at N1.6 trillion while the non-bank corporate issues accounted for 12.25% of the new issues approved in 2007, with 39 applications valued at N294.12 billion. Government bond issue accounted for N520.01 billion or 21.7% of the total amount approved during the year.

Further analysis of new issues approved in 2007 showed that the sum of N719.93 billion was raised through Initial Public Offering (IPO) and supplementary issues; N168.13 billion through rights issues; and N520.01 billion through bonds issue, including the Federal Government bond.

Listing by Introduction accounted for N99.21 billion, in addition to eleven applications for supplementary listings valued at N410.23 billion. Shares Placing and Preference Share Issue accounted for N26.5 billion and N69.63 billion. Also approved were five applications for mergers and acquisitions valued at N29.7 billion and two applications by Unit Trusts for the issuance of securities valued at N7 billion.

The bulk of the approvals in the banking sector were to raise fresh funds through public and rights offering valued at N697.9 billion and N152.8 billion, respectively. Also, three banks obtained approval to execute Global Depository Receipts (GDR) valued at N186.23 billion.

Thirty-two of the applications approved during 2007, with a market value of N1.2 trillion, have been concluded and admitted to the Daily Official List.

8.1 Top Five New Issues In 2007

S/No	Issuer	Amount N)	Type of Issue
1	First Bank of Nigeria Plc	250 billion	Hybrid: Public and Rights Offers
2	Oceanic Bank International Plc	174.6 billion	Public Offer
3	Zenith Bank Plc	129.6 billion	Hybrid: Public and Rights Offers
4	Guaranty Trust Bank Plc	114.6 billion	Global Depository Receipt (GDR)
5	Afribank Nigeria Plc	100.0 billion	Public Offer

9.0 New Listings in 2007

The number of securities listed on The Exchange increased to 309, up from 288 in 2006. The new listings are:

Equity

1. Dangote Sugar Refinery Plc
2. Continental Reinsurance Plc
3. Custodian & Allied Insurance Plc
4. STACO Insurance Plc
5. International Energy Insurance Plc
6. Oasis Insurance Plc
7. Airline Services & Logistics Plc
8. Ikeja Hotel Plc
9. Red Star Express Plc
10. Big Treat Plc
11. National Sports Lottery Plc
12. Deap Capital Management Plc

Bond

1. N10 billion 3rd FGN Bond 2013 Series 15
2. N10 billion 3rd FGN Bond 2013 Series 16
3. N4.107 billion FGN Bond Contractors Debt 2011
4. N40 billion 4th FGN Bond 2010 Series 1
5. N35 billion 4th FGN Bond 2012 Series 2
6. N35 billion 4th FGN Bond 2013 Series 3.
7. N2.46 billion Special FGN Bond for Local Contractors 2012
8. N9.23 billion Special FGN Bond for Local Contractors 2012
9. N65 billion 4th FGN Bond 2010 Series 4
10. N50 billion 4th FGN Bond 2012 Series 5
11. N45 billion 4th FGN Bond 2014 Series 6
12. N36 billion 4th FGN Bond 2010 Series 7
13. N20 billion 4th FGN Bond 2017 Series 8
14. N20 billion 4th FGN Bond 2017 Series 9
15. N20 billion 4th FGN Bond 2017 Series 9B
16. N20 billion 4th FGN Bond 2012 Series 10
17. N 37.19 billion 4th FGN Bond 2014 Series 11

Industrial Loans & Preference Stocks

1. Standard Alliance Insurance Plc's N17.5 Million Floating Rate Cumulative Irredeemable Preference Shares
2. Access Bank Plc's N13.5 billion Naira Denominated Redeemable Convertible Bond
3. Intercontinental Bank Plc Irredeemable, Non-Cumulative Convertible Preference Shares

Also, there were five Memorandum Listings:

- UBA Bond Fund
- UBA Equity Fund
- UBA Money Market Fund
- UBA Balanced Fund
- Oceanic Vintage Fund

9.1 Sector Reclassification

One new subsector – Airline Services was created on the Daily official List. By this action, the number of subsectors in the equity sector of the Daily Official List increased to 32.

Also, Afprint Nigeria Plc was reclassified on the Daily Official List from Textiles subsector to Agriculture/Agro-Allied subsector to take account of changes that have occurred in the company. Managed Funds subsector was renamed “Other Financial Institutions” to permit the listing of more companies providing ancillary financial services within the group.

9.2 Delisting in 2007

Eleven securities were delisted during the period under review:

1. CFAO Nigeria Plc (Equity)
2. CFAO (Nig) Plc Loan Stock
3. CFAO Redeemable Debenture Stock
4. CFAO Unsecured Debenture Stock (USDS)
5. BHN Plc
6. FRN 21st DS 2007
7. FRN 24th DS 2006
8. FGN 25th Floating Rate Bond 2006
9. 2nd FGN Bond 2007 Series 2
10. 2nd FGN Bond 2007 Series 4
11. 2nd FGN Bond 2007 Series 6

10.0 Market Development

As in previous years, The Exchange implemented certain initiatives in 2007 to broaden participation in our market, improve liquidity, and generally propel the market to greater height. These initiatives are in the important areas of capacity building, investor education, international cooperation, and new products development, including:

- **Demutualisation**

In keeping with the trend in the global securities market, The Nigerian Stock Exchange has commenced the process of Demutualisation, with the setting up of a committee of Council to design a blueprint for its implementation. The imperatives for Demutualisation lay in the enhanced financing opportunities it opens to The Exchange and its promise of improved efficiency in the management of The Exchange as a business.

- **Upgrade of market technology**

The Trading Floor in Lagos was re-opened during the year, following a comprehensive overhaul of the floor that included the installation of state-of-the-art workstations, a central UPS and stabilizer, and a redesigning of the floor to accommodate more dealing members. President Umaru Musa Yar'Adua, GCFR, commissioned the new world-class Trading Floor on Friday, November 9, 2007. The Exchange has in the wake of this development commenced an upgrade of the *Horizon*, our trading software. The upgrade to the latest version of *Horizon* comes with improved functionalities that would impact positively on trading on The Exchange, especially with regard to derivatives and bond trading.

- **Expanded Branch Network**

We commissioned the Uyo Branch of The Exchange on Saturday, May 26, 2007 and inaugurated the Automated Trading Floor on Monday, November 19, 2007. This should give more Nigerians access to the market and expand the business opportunity for stockbrokers. We plan to open two branches in the New Year – in Ilorin, Kwara State, and Bauchi, Bauchi State.

- **Extension of Trading Hours**

The Exchange increased trading hours from two hours to three hours response to increased trading activity. This has impacted positively on trading volume and enhanced the pricing efficiency of the market.

- **Investor Protection Fund**

During the year, the SEC approved the guidelines for the administration of the Investor Protection Fund (IPC). Subsequently, we have incorporated the fund at the Corporate Affairs Commission (CAC) in order to enable its independent operation. The Board of Trustees will be appointed in the New Year and arrangement made to boost the fund through additional contribution by members of The Exchange and other stakeholders.

- **Pre-allotment verification**

In a bid to reduce the delay in the issuance of share certificates for new bank issues, there was a tripartite agreement between the CBN, SEC and The NSE for the apex bank to cancel the pre-allotment verification exercise. Hitherto, the apex bank had subjected public issues by banks in the country to scrutiny so as to disallow unscrupulous persons from laundering money through the process. The

new initiative should fast track the issuance of share certificate after banks' public offerings.

Also, SEC and The NSE announced December 31, 2008 as the deadline for the total phase out the issuance of share certificates for public issues. This should solve complaints associated with dispatch of share certificates to investors.

- **New Products**

In 2007, work continued in the effort to deepen the Nigerian capital market by creating new products. Some of the new products considered by The Exchange include: Mortgage-Backed Securities, Asset-Backed Securities, Exchange-Traded Funds, and Derivatives such as Futures and Options.

Significant headway was made on the arrangement for the introduction of Real Estate Investment Trusts (REITs), with the incorporation of the rules for this new market segment in the Listing Requirements of The Exchange. In the same vein, The Exchange incorporated into its Listing Requirements rules for the operation of a Third-Tier Securities Market for small and medium indigenous companies.

- **Cross-border Listing**

The Exchange facilitated a landmark transaction that led to the successful issuance of a Global Depository Receipt (GDR) by Guaranty Trust Bank Plc on the London Stock Exchange, thereby expanding the financing options for our listed companies.

- **Introduction of the Third-Tier Securities Market**

We introduced the Third Tier Market during 2007 with the objective of assisting indigenous small and medium enterprises access the stock market for financing. A Stakeholders Forum was held at The Exchange on July 10, 2007 to propagate the objectives of this initiative, which is also aimed at expanding our market and increasing available securities.

- **Regional Integration**

The Exchange was an active participant in the ongoing effort to integrate the markets of West Africa. The modalities for the proposed integration are being worked out, with a view to enabling the participating countries to exploit the economy of scale inherent in an integrated West African stock market.

4.0 Future Outlook

The International Monetary Fund (IMF) projects a lower global GDP growth rate of 4.75% in 2008, compared with 5.2% in 2007, owing to recent financial turmoil and trade imbalances. Also, sub Saharan Africa is expected to grow from 6.1% in 2007 to 6.8% in 2008. However, IMF was more bullish on the growth prospect of the Nigerian economy, projecting a growth rate of 8%, though lower than the 11% targeted by the Federal Government. Nigeria's growth was predicated on the coming on stream of new production facilities in the oil and gas sector.

There is no gainsaying that the envisaged growth would only be achievable if the current macroeconomic stability is sustained and supportive economic infrastructure are provided at optimal levels and, more importantly, when the problems in the Niger Delta area are resolved.

We hope that budget 2008 would be passed by the National Assembly in January 2008 as promised, so as to prevent any slow down in economic activities. Over time, we have brought to the fore challenges militating against stock market development in the country. These challenges include the incidence of multiple tax regimes on businesses and investors. Therefore, we urge the National Assembly to expedite action on all Bills on Tax and Capital Market Reforms currently before it.

The pace of implementation of the privatization programme during 2007 was rather slow. We hope that the Bureau of Public Enterprises (BPE) would expedite action during 2008 so that those companies earmarked for privatization through the stock market can be concluded without much delay.

We commend the Federal Government for sustaining the issuance of bonds through the Debt Management Office (DMO). These bonds, because they are in most cases long-dated have provided a reasonable depth to our market. We are gladdened by the announcement by DMO of the intention of the Federal Government to sell bonds worth N600 billion in 2008 to fund infrastructure projects. However, for the purpose of transparency and pricing efficiency, the DMO should migrate trading on the OTC to The Exchange, which has the technology to deliver on transparency and efficiency.

We are confident that current growth trend in the market would be sustained in the New Year. The Primary Market promises to be busy during 2008, as insurance companies move to consolidate merger arrangements and expand capacity. Also, some companies will recapitalise using the instruments available in the market. The immediate challenge would be in the cost of transactions in the market, which rose in 2007 as the Federal Inland Revenue Services commenced charging Value-Added Tax on stockbrokers' commission and Stock Exchange/Central Securities Clearing System Limited transaction fees.

We are glad that through our supportive role, some comatose listed companies have been resuscitated. In the course of 2008, we shall promote some companies from our Emerging Market to the First-Tier, while admitting new companies to the Official List, including listings in the newly introduced Third-tier Securities Market.

Also, The Exchange will continuously work to support government and its agencies towards the realization of Nigeria's economic development and growth

objectives, working closely with the SEC and other members of the Financial Sector Regulation Coordinating Committee (FSRCC), while maintaining relationship with operators in the international arena with a view to facilitating the flow of international investment capital to Nigeria.

Statistical Summary of Market Performance In 2007

	<u>2006</u>	<u>2007</u>	<u>% Change</u>
Market Capitalization	₦5.12 trillion	₦ 13.295 trillion	159.6
The NSE All-Share Index	33,189.30	57,990.22	74.73
Total Turnover Volume	36.7 billion shares	138.1 billion shares	276.3
Total Turnover Value	₦470.253 billion	₦2.1 trillion	343.65
Average Daily Volume	150.9 million Units	570.6 million Units	278.13
Average Daily Turnover	₦1.94 billion	₦8.62 billion	344.33
New Issues Approved	₦1.41 trillion	₦2.4 trillion	70.2
Number of Listed Companies	202	212	5
Number of Listed Securities	288	309	7.3

Statistical Summary of Market Performance in US Dollars

	<u>2006</u>	<u>2007</u>
Market Capitalization	\$40.32 billion	\$105.65 billion
Total Turnover Value	\$3.7 billion	\$16.6 billion
Average Daily Turnover	\$15.24 million	\$68.51 million

*Exchange rate: US\$1/N125.84

** This paper is a summary of the Director General's New Year briefing of stockbrokers on the operations of the Nigerian stock market in 2007