

Eurobonds Are Restructuring Nigeria's Debt Portfolio Towards External

Eurobond is a market for long term debt instrument issued and traded in the offshore market. It is usually underwritten by an international syndicate and offered for sale in a number of countries. The majority of Eurobonds are owned in electronic rather than physical form. The bonds are held and traded within the clearing systems. Coupons are paid electronically via the clearing systems to the holder of the Eurobond.

Eurobond differ from foreign bonds in that most nations do not have pre-offering registration or disclosure requirements for Eurobond issues. Further, majority of Eurobond have lower face value in which when launched in nations with stronger currencies keep them highly liquid for local investors.

The origin of Eurobond market began with the Auto-trade issue for the Italian motorway network in July 1963. it was for US\$15million with a 15 year final maturity and an annual coupon of 5.5%. Then, there were reactions developed against the imposition of the Interest Equalization Tax in the United States. The goal of the tax was to reduce the US balance-of-payment deficit by reducing American demand for foreign securities. Thus, the introduction of this sovereign bond allowed Americans to bypass the costly tax and Europeans could keep open access to US capital.

In previous times, Nigeria is highly focused on largely on domestic debt which are short term and with high cost. This implies that the country paid 'too much' and have to regularly refinance existing debt rather than having the security of longer term instruments. However, the previous and present administration are restructuring Nigeria's debt portfolio to foreign borrowing in a bid to reduce financing costs. This is put in place in order to establish a strong position in international capital market with regular issuances that have been very well received by the international investor base.

The Nigerian International Capital Market is managed by the Debt Management Office (DMO) which started with its Eurobond platform in the year 2011 in which an issuance of USD500 million (10-year) an 6.75 percent made in January of that year. This was closely followed by the successful issuance of a USD1 billion dual-tranche Eurobonds offering on July 2, 2013, of USD500 million 5 - year Bond and USD500 million 10-year Bond at Coupons of 5.125 percent and 6.375 percent



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respectively.

After the issuance in 2011 and 2013 Eurobond, the 15 years sovereign Eurobond of US\$1.5billion priced at a coupon rate of 7.875% was issued in February 2017. Also, US\$300 million Diaspora bond was issued in June 2017 at a coupon rate of 5.625% per annum for 5 years. In addition, Nigeria raised US\$3 billion Eurobonds in November 2017 as it seeks to fund a fiscal deficit and reduce its local currency debt burden. The yield was 6.5% for the 10 year tranches and 7.625% for the 30 year portion.

On February 15th 2018, Nigeria also sold US\$2.5 billion of Eurobonds as it sought to lower funding costs by using the notes to refinance higher-yielding naira debt. This issuance corresponds with \$1.25 billion of 12-year securities with a yield of 7.14 percent and a separate 20-year tranche, also \$1.25 billion, at 7.7 percent. This is in line with the full amount of US\$5.5billion approved by the National Assembly in the 2017 budget in which the issue of US\$3billion is to re-finance existing domestic debt and the issuance of US\$2.5billion to fund capital expenditure.

The arguments of lower interest rates, longer-term financing and the need for foreign exchange to finance Nigeria's infrastructure needs have always been put forward to justify issuing Eurobonds. The proceeds from such issuances have also been used to shore up the Nigerian external reserves to over \$40bn which gives the country a positive external outlook.

It is however important to note that Nigeria's public debt which stood at N9.1trn in 2012 has increased to N20.4trn at the end of September, 2017. Also, the proportion of external debt increased from 11.3% to 23% in the same period. This connotes that the country is now more exposed to external shocks in the form of foreign exchange risk than before; thereby calling for an effective management of the country's debt and exchange rate policies.



Nigeria's GDP grew by 0.83 percent in 2017

For the third consecutive time, the Nigerian economy grows in the fourth quarter of 2017. Data released by the National Bureau of Statistics on GDP estimates confirmed that the full year 2017 Gross Domestic Product grew by 0.83 percent in real terms. This reveals an improvement over the contraction of 1.58 percent reported in the year 2016 during the period of recession.

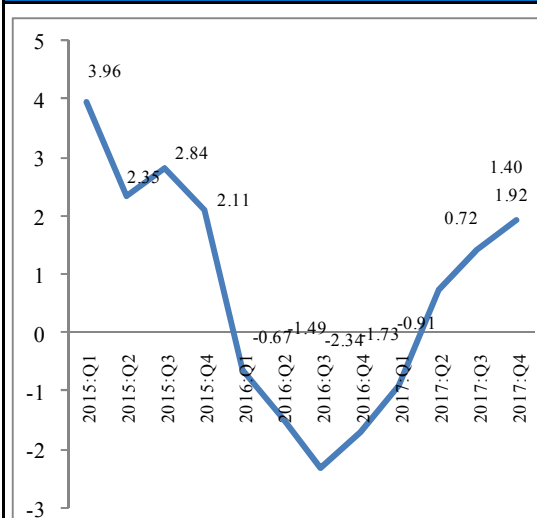
The nation's GDP grew in Q4 2017 by 1.92 percent year on year, sustaining its positive growth since Q2 2017 when Nigeria exited recession. However, compared to a contraction of 1.73 percent recorded in Q4 2016 and a growth of 1.40 percent recorded in Q3 2017. Quarter on quarter, GDP growth was 4.29 percent.

This positive growth rate recorded in 2017 is more visible in industrial sector, electricity, gas and oil sector. Overall, aggregate nominal GDP for the year 2017 stood at N113,719.05 billion compared to N101,489.49 billion in the year 2016.

In addition, the non-oil sector grew by 1.45 percent in real terms during the fourth quarter of 2017. This growth was largely due to improved strength in the agricultural sector (crop production), trade, transportation and storage sector. Also, the non-oil sector recorded an annual growth rate of 0.47 percent compared to the negative growth of 0.22 percent in 2016.

Despite the positive performance, Nigeria's recovery after the recession has been fragile since it is largely due to higher oil prices which are exogenously determined. Government should take further measures to boost the non-oil sector and avoid the common delay experienced in the passage of the budget.

Nigeria's GDP Growth Rate from Q1 2015 to Q4 2017



Source: National Bureau of Statistics, 2018; ADSR Research

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Inflation Rate dropped again to 15.13% in January 2018

Nigerian inflation rate started the year by recording a fall to 15.13% year on year in January 2018. This is 0.24% lower than the rate of 15.37% reported in December 2017. This represents the twelfth consecutive month of a decline since January 2017.

However, the headline inflation increased by 0.80% in January 2018 which is 0.21% higher than the rate of 0.59% recorded in December 2017. Similarly, the core index increased to 12.09% (year-on-year) in January 2018, down by 0.12% from the rate recorded in December 2017. In addition, the food inflation stood at 18.92% falling from the rate recorded in December 2017 of 19.42%. Also, the prices in Urban centres stood at 15.56% while Rural areas stood at 14.76% respectively.

On state by state basis, all items inflation is highest in Kwara, Ogun and Bachi while Kastina and Ekiti recorded the slowest rise in headline inflation.

The persistent decline in the rate of inflation is beneficial for the economy implying that consumers will have improved purchasing power to buy goods and services as well as giving way for more employment opportunity.

Trend of Inflation Rate in Nigeria

	2017 Jan	2017 Nov	2017 Dec	2018 Jan
Headline	18.55	15.90	15.37	15.13
Core	18.10	12.21	12.09	12.09
Food	17.39	20.31	19.42	18.92
Urban	20.12	16.27	15.78	15.56
Rural	17.20	15.59	15.02	14.76

Source: National Bureau of Statistics, 2018; ADSR Research

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Nigerian Capital Market recorded positive growth in January

The All Share Index of the Nigerian Stock Exchange for the month of January 2018 stood at 44,343.65 gaining 16.04% month-on-month. Also, the equities market capitalisation at the month of January stood at N15.896trn, having gained 16.81% month-on-month.

Also, Foreign Portfolios Investment (FPIs) decreased by 17.96% from N480.80bn recorded in December 2017 to N394.44bn in January 2018. However, total transactions increased by 313.8% from N95.32bn recorded in January 2017. Total domestic transactions fell by 16.87% from N274.32bn recorded in December 2017 to N228.05bn in January 2018. In the domestic market, retail and institutional transactions stood at N106.49bn and N121.56bn respectively. This indicates a higher participation by institutional investors over their retail counterparts.

In the Unlisted Securities Market, the index finished the month of January 2018 at 630.17 points, gaining 4.18% month-on-month and gaining 0.83% year-on-year. Consequently, Market Capitalization for the Unlisted Securities Market ended the period at N426.45bn, having gained 4.18% month on month.

In addition, monthly average FMDQ rate showed that the Open Buy Back (OBB) and Overnight (O/N) rate stood at 4.83% and 5.25% respectively for the month of January 2018.

The performance of the Nigerian Capital Market have boost the confidence of investors in the market with strong economic fundamentals measured in terms of strong external reserves, higher crude oil prices, improved confidence in I & E window, lower inflation rate and positive GDP growth rate. Despite these, capital market operators must continue their efforts to achieve the desired level of market deepening as we foresee that the market might not continue to be bullish.

Nigeria's External Reserves hits \$40.69bn in Jan 2018

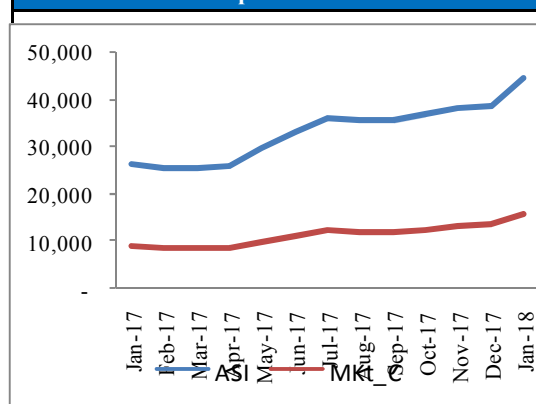
Nigeria's external reserves level rose by 4.95% to \$40.69 billion on a month by month basis in January 2018. The rise in the external reserves is attributed to the CBN strategy to effectively manage foreign exchange demand by various sector of the economy and increased foreign portfolio inflow.

At the interbank market, the naira closed the month of January 2018 at N305.8/US\$ while the parallel market closed at N363.6/US\$. The interbank market appreciated by 0.17% during the month while the parallel market depreciated by 0.21% at the end of January 2018.

Also, the stability in monetary policy rates which is maintained at 14% has enhanced increase in external reserves over time as this encourage capital inflow into the fixed income instrument market. However, higher rate is at the cost of lower domestic investment in the economy; thus the monetary authority needs to balance these issues.

With the positive outlook in external reserves overtime, Central Bank of Nigeria (CBN) must continue with their sound management practices to increase the country's ability in responding to shocks. Also, appropriate portfolio management must be put in place to ensure that assets are safeguarded, readily available and support market confidence.

Trend of All Share Index and Equity Market Capitalisation



Source: National Bureau of Statistics, 2018;
ADSR Research

Despite these, capital market operators must continue their efforts to achieve the desired level of market deepening.

Nigeria's Exchange Rate and External Reserves

	2017 Nov	2017 Dec	2018 Jan
Interbank EXR	305.90	306.31	305.8
Parallel EXR (AVR)	362.41	362.85	363.6
Ext. Res.(\$' Billion)	34.95	38.77	40.69

Source: National Bureau of Statistics, 2018;
ADSR Research

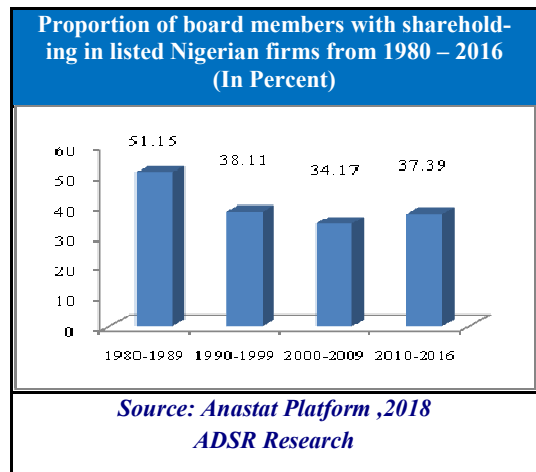
With the positive outlook in external reserves overtime, Central Bank of Nigeria (CBN) must continue with their sound management practices which would increase the country's ability in responding to shocks.

What Percentage of board members own shares in their company ?

Shareholders are owners of the company through the purchase or acquisition of shares while Directors are appointed by shareholders to manage the operational activities as well as promote the success of the company for the benefits of the owners. However, shares can be owned by the members of the corporate board, which is known as Managerial ownership. We considered the average proportion of board members with shareholdings in the company from the period of 1980 to 2016 for all listed firms on the Nigerian Stock Exchange.

Available data shows that the proportion of board members with shares in the company stood at an average of 51.2%, 38.1%, 34.2% and 37.4% for the period of 1980-1989, 1990-1999, 2000-2009 and 2010-2016 respectively. In addition, the average proportion of corporate ownership level in Nigeria is reported at 37.8%. Also, studies have shown that ownership does influence company performance.

It should be noted that managers with high ownership levels focus more on maximizing market share and technological leadership as managers' interests are well aligned with shareholders. Hence, companies that have shares owned by board do essentially well. However, the effect might be negative when risk averse board members decide to diversify their assets.



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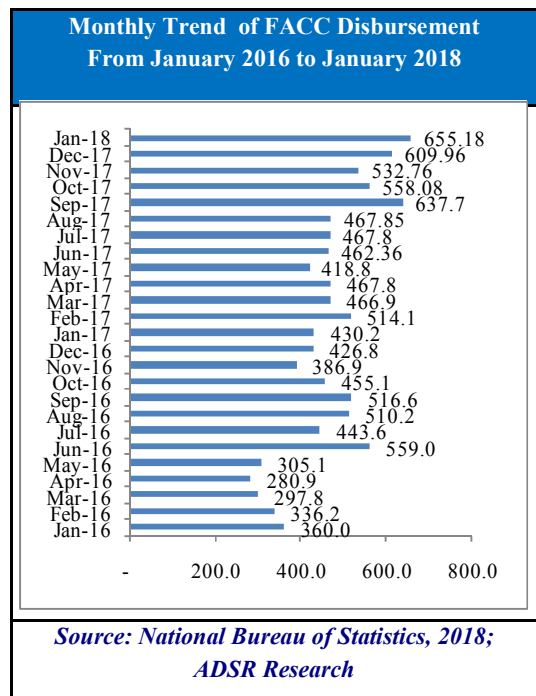
FAAC Disbursement increased to N655.17bn in January 2018

The Federation Account Allocation Committee (FAAC) disbursement in the month of January 2018 increased by the sum of N45.21bn when compared to N609.96 disbursed in December 2017. The amount distributed to the three tiers of government from the revenue generated in January 2018 is reported at N655.17bn. The breakdown showed that statutory revenue accounted for N538.51trn, value added tax (VAT) accounted for N83.96bn, FOREX equalization accounted for N147.13bn and an excess bank charges accounted for N1.94bn.

Analysis of the distribution among the three tiers of government showed that the Federal government received the sum of N278.73bn, States received N175.55bn and Local government received N132.48bn while the sum of N51.74bn was shared among the oil producing states as 13% derivation fund. In addition, breakdown of the revenue allocation distributed to the Federal government showed that the sum of N240.98bn was shared to the FGN consolidated revenue account; N5.06bn disbursed as share of derivation and ecology; N2.53bn as stabilization fund; N8.50bn for the development of natural resources and N5.83bn to the Federal Capital Territory (FCT) Abuja.

Also, revenue generating agencies such as Nigeria Customs Service (NCS), Federal Inland Revenue Service (FIRS) and Department of Petroleum Resources (DPR) received N4.12bn, N7.44bn and N3.10bn respectively as cost of revenue collections. Information gathered from the FAAC report revealed that revenue inflow to all the tiers of government have increased which are traceable to rising oil prices, improved oil production and greater attention towards development of non-oil revenue base. Further, VAT indicate sustained revenue generation since 2015.

Therefore, government must continue to ensure the effectiveness and efficiency in tax collection as well as sustain revenue inflows from the non-oil sectors.



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Petrol prices further increases in January 2018

According to the data released by the National Bureau of Statistics (NBS), the average price paid by consumer for Premium Motor Spirit (PMS) rose from N171.8 in December 2017 to an all time high of N190.87 in January 2018. This represents an increase of 17.1% month on month and increase of 11.1% year-on-year. On a state by state basis, the highest average prices of petrol were recorded in Taraba, Abia and Borno which stood at N228.9, N227.5 and N223.3 respectively. In the same vein, lowest average price of petrol were reported in Ogun, Kano and Zamfara which stood at N152.83, N157.73 and N159.12 respectively.

However, average price paid by consumers for diesel increased by 3.89% month-on-month and decreased by 11.1% year-on-year from N205.81 in December 2017 to N213.82 in January 2018. In addition, average price per litre paid by consumers for Kerosene increased by 1.7% month-on-month and decreased by 33.42% year-on-year from N284.03 in December 2017 to N288.85 in January 2018. Similarly, average price paid by consumers for the refilling of a 5kg cylinder for Cooking Gas decreased by 3.21% month-on-month and decreased by 14.70% year-on-year from N2,262.79 in December 2017 to N2,190.07 in January 2018.

Without the necessary actions put in place, the increase in average prices of petrol, kerosene and diesel would persist. However, government should work to improve on the local refining of fuel so as to reduce cost incurred on the importation of these products and increase the standard of living of the populace as well as raise their purchasing power.

How socially responsible are Nigerian Corporates towards Education sector

Firms are aware that education is key to the future of the economy as it helps to reduce costs for society such as crimes and adds value to the economy by increasing innovation, productivity and economic growth. Therefore, we have examined the corporate social responsibility (CSR) expenditure on education by all listed Nigerian companies on the Nigerian Stock Exchange from the year 1990–2016.

Based on each classification of the educational funding, it reveals that majority of the CSR expenditure are spent on tertiary institutions which stood on the average at N80.15mn, N1,158.25mn and N3,145.5mn for the period of 1990-1999, 2000-2009 and 2010-2016 respectively. This is followed by spending on other educational institutions / funds which stood at N12.41mn, N274.09mn and N2,313.99mn for the period of 1990-1999, 2000-2009 and 2010-2016 respectively. However, the primary and secondary schools were not left out as the overall amount spent on them was reported at N505.68mn and N334.18mn from the period of 2010–2016.

It is observed that there have been an increase in the CSR expenditure on education overtime. The amount which stood at N113.41mn, N2,373.61mn and N7,036.03mn for the period of 1990-1999, 2000-2009 and 2010-2016 respectively. Also, the period of 2010–2016 has highest funding on CSR expenditure in the education sector. However, the average proportion of CSR expenditure spent on education is only about 7% of total CSR expenditure by these listed companies. CSR expenditure on education should be further encouraged in Nigeria, especially at the primary and secondary levels.

Average Prices of Petroleum Products (₦)			
	2017 Nov	2017 Dec	2018 Jan
PMS (Petrol)	145.60	171.79	190.87
AGO (Diesel)	199.26	205.81	213.82
HHK (kerosene) Per litre	267.14	284.03	288.85
HHK (kerosene) Per gallon	1,052.33	1,048.97	1,024.83
Cooking gas 5kg	2,377.81	2,262.79	2,190.07
Cooking gas 12.5kg	4,542.30	4,452.83	4,327.89

*Source: National Bureau of Statistics, 2018;
ADSR Research*

However, government should work to improve on the local refining of fuel so as to reduce cost incurred on the importation of these products in order to increase the standard of living of the populace as well as raise their purchasing power.

CSR Expenditure in Educational Sector (₦ Million)			
	1990- 1999	2000- 2009	2010- 2016
Primary	3.38	267.48	505.68
Secondary	4.41	320.26	344.18
Tertiary	80.15	1,158.25	3,145.50
Other Institutions / funds	12.41	274.09	2,313.99
Scholarship Awards /	9.77	260.64	419.60
Conferences / Seminars	0.20	37.91	218.12
Books / Publications / Library	3.10	54.98	88.95
TOTAL	113.42	2,373.61	7,036.02

*Source: Anostat Platform, 2018;
ADSR Research*

The period of 2010–2016 have highest funding on CSR expenditure in the education sector.

Wise Quotes

"In the end, we will remember not the words of our enemies, but the silence of our friends".

- Martin Luther King Jr.

"Sometimes you don't realize your own strength until you come face to face with your greatest weakness".

- Susan Gale

"Strength does not come from winning. Your struggles develop your strengths. When you go through hardships and decide not to surrender, that is strength".

- Arnold Schwarzenegger

"It's interesting how we often can't see the ways in which we are being strong - like, you can't be aware of what you're doing that's tough and brave at the time that you're doing it because if you knew that it was brave, then you'd be scared."

- Lena Dunham



Jokes

Teacher: "OK class, who will give me the chemical formula for water?"

Pupil: "HIJKLMNO."

Teacher: "What on earth are you on about?"

Pupil: "Well you said yourself yesterday it was H to O!"

An old guy in his Volvo is driving home from work when his wife rings him on his cell phone.

"Honey," she says in a worried voice, "please be careful. There was a bit on the news just now, some lunatic is driving the wrong way down the highway."

"Oh it's worse than that," he replies, "there are hundreds of them!"

A man hired a lawyer when he got sued by his company for embezzlement of many millions. At the beginning of the process, the lawyer kindly reassured him: „Don't worry, you'll never go to jail with that amount of money." And the lawyer was right. When the man did go to jail eventually, he didn't

Analysts

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