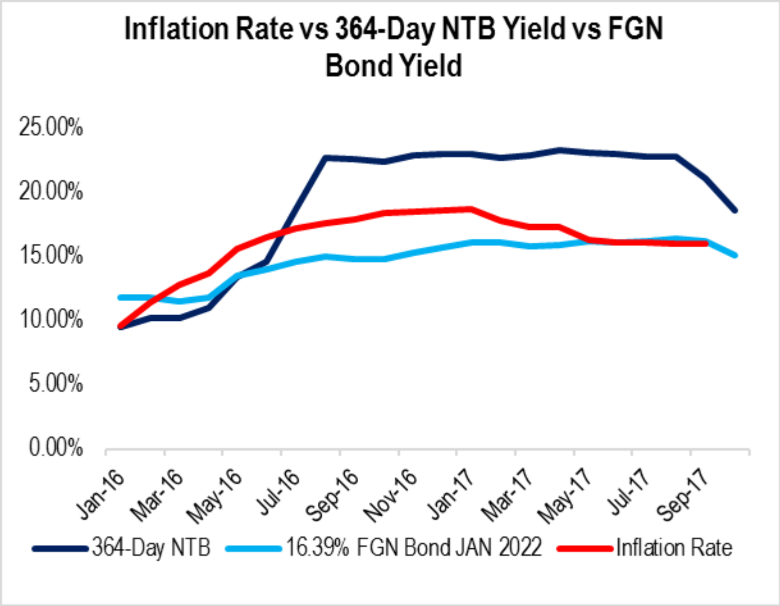
Corporate Bond Market to Rebound:

The economic and financial market developments in the last few months in Nigeria point to a possible rebound of activities in the Corporate Bond Market (CBM).

The economic and financial market developments in the last few months in Nigeria point to a possible rebound of activities in the Corporate Bond Market (CBM) very soon. The CBM had experienced a lull in activities in the last few years because of unfavourable economic and market conditions. The recent events in Nigeria are changing the unfavourable conditions that have limited the growth of the CBM. The recent drop in the yields on the Federal Government of Nigeria (FGN) securities, particularly the Nigerian Treasury Bills (NTB), creates an opportunity for the growth of activities in the CBM. The improvement in the macroeconomic environment in Nigeria and the strategy of the Debt Management Office (DMO) to restructure the debt portfolio of the FGN were primary drivers of the drop in yield.



Sources: Central Bank of Nigeria and National Bureau of Statistics

There was a lull in activities in the CBM as companies could not compete with the high yields on the 364-day NTB.

The need to curb the high inflation rate and maintain foreign exchange stability was responsible for the high NTB yields. **Consequently, there was a lull in activities in the CBM as companies could not compete with the high yields on the 364-day NTB.** Accordingly, most companies opted for Commercial Papers (CP) to raise short-term funds as bridge finance. The average yield on the 364-day NTB between January 2017 and November 2017 stood at 22.16% with the highest yield of 23.41% recorded in 19 April 2017. The high yields crowded out the corporate borrowers from the debt market. According to data from FMDQ OTC Securities Exchange as at 1 November 2017, only two corporate bonds have so far been issued in 2017. The two Corporate Bonds are: 17% Mixta Real Estate Plc January 2022 Bond and 18.25% Dufil September 2022 Bond.

The PMI report for the month of October 2017 shows that economic activities in the manufacturing and non-manufacturing sectors expanded further.

In another development, a review of the latest Purchasing Managers' Index (PMI) report that the Central Bank of Nigeria (CBN) published for the month of October 2017 shows that economic activities in the manufacturing and non-manufacturing sectors expanded further. A PMI below the 50 points' level suggests a decline in business activity while a PMI higher than the 50 points level suggests an expansion. When the PMI is at the 50 points' level, it means that the degree of business activity in the economy is unchanged.

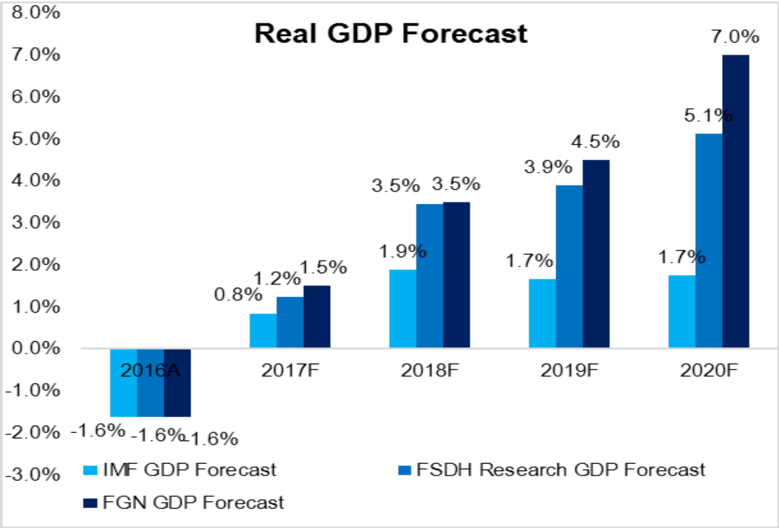
The increase in the PMI is also an indication of expected business expansion in the short-to-medium term.

The Composite Manufacturing Index (CMI) expanded for the seventh consecutive month to stand at 55.0 points. The Composite Non-Manufacturing Index (CNMI) also expanded for the sixth consecutive month to 55.3 points in October 2017 from 54.9 ponts in September 2017. **The increase in the PMI is also an indication of expected business expansion in the short-to-medium term which will require more financing.**

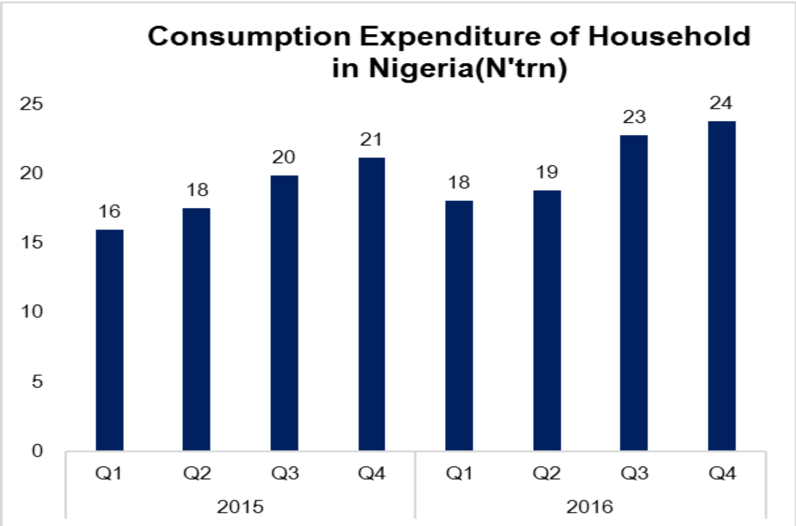
The consensus forecasts for the Nigerian economy is that the Gross Domestic Product (GDP) will continue to grow. Although the GDP growth rates of the International Monetary Fund (IMF) for Nigeria from 2017 to 2020 are conservative, they are in the positive region. Both FSDH Research and the Budget Office of the Federation believe the growth rates in the economy between 2017 and 2020 will remain strong, ranging from 2% to 7%. This means that more business investments will be undertaken. Our analysis of the data released by the Nigerian Bureau of Statistics (NBS) on the Nigerian GDP (Expenditure and Income Approach) as at Q4, 2016 shows that consumption expenditure of households in Nigeria rose in 2016 compared with 2015. The total consumption expenditure of households rose by 11.87% from N74.41trn in 2015 to N83.25trn in 2016. **FSDH Research expects the households' consumption expenditure to continue to rise as the outlook for the Nigerian economy remains positive and consumer sentiments improve. The growth in the households' consumption will also drive investments from firms to meet the growing demand.**

With the expected drop in yields, corporate bond will be an attractive source of raising non-permanent long-term capital.

FSDH Research believes that the capital requirement for these investments will exceed what companies can generate from internal cash flow. **These companies will need external funding and with the expected drop in yields, corporate bond will be an attractive source of raising non-permanent long-term capital to meet the investment needs of firms**



Sources: IMF, FSDH Research and Budget Office of the Federation



Source: National Bureau of Statistics

For enquiries, please contact us at our offices:

Lagos Office: 5th-8th floors UAC House, 1/5 Odunlami Street, Lagos. Tel: 234-1-2702880-2; 234-1-2702887

Port Harcourt Office: 2nd Floor, Skye Bank Building (Former Mainstreet Bank Building) 5 Trans Amadi Road, Port Harcourt. Tel: 234-8024081331

Abuja Office: Leadway House (First Floor), Plot 1061 Herbert Macaulay way, Central Business District, Abuja-Nigeria. Tel.: 234-9-2918821

Website: www.fsdhgroup.com **email: research@fsdhgroup.com**

Our Reports and Prices are also Available on Bloomberg {FSDH<GO>}

Disclaimer Policy

This publication is produced by FSDH Merchant Bank Limited solely for the information of users who are expected to make their own investment decisions without undue reliance on any information or opinions contained herein. The opinions contained in the report should not be interpreted as an offer to sell, or a solicitation of any offer to buy any investment. FSDH Merchant Bank Limited may invest substantially in securities of companies using information contained herein and may also perform or seek to perform investment services for companies mentioned herein. Whilst every care has been taken in preparing this document, no responsibility or liability is accepted by any member of the FSDH Merchant Bank Limited for actions taken as a result of information provided in this publication.