



# THE Nigerian STOCK EXCHANGE



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## 1. NSE Market Performance 2017

Emerging from recession in the second quarter of 2017, Nigeria witnessed a rebound in investment activity which saw the NSE recover from the macroeconomic overhang of the commodity down-cycle, to become the third best performing market of 2017 globally.<sup>1</sup> (Fig. 1 & 2)

The market recovery was driven by several factors including:

- i. Gradual economic recovery vis-à-vis improvement in global oil prices, domestic output and stronger foreign reserves engendering greater FPI confidence;
- ii. Improvement in the ease of doing business as Nigeria climbed 24 points in the World Bank EOD Rankings; and
- iii. Improvement in FX stability following favourable CBN policies (e.g. Investor & Exporter window, SME lending window, etc.).

Real GDP growth of 1.40% in Q3'17 (from 0.73% Q2'17)<sup>2</sup> and downward trending inflation, was buttressed by greater stability in the foreign exchange (FX) market. Beginning in the first quarter of 2017, the Central Bank of Nigeria (CBN) implemented a series of monetary policy actions and interventions to boost liquidity and drive convergence in the FX market. Newly created market segments helped ease demand pressures in the parallel market, resulting in a gradual reduction of the market spread from a peak of N217 (71.00%) in February to N57 (18.63%) as at December 2017<sup>3</sup>.

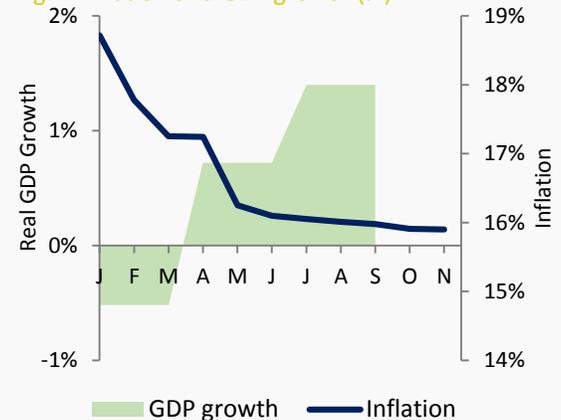
Optimism over Nigeria's economic recovery also contributed the MSCI's decision to retain Nigeria in its Frontier Market Index at its June 2017 Index Review.

### 1.1. NSE Equity Market Review

The NSE Banking index emerged as the NSE's top performing index of 2017. Buoyed by strong corporate earnings reports by the sector's key players, the index posted returns of 73.32%. Coming in a close second with one-year returns of 70.33%, was the NSE Pension index, which tracks the performance of the NSE's top 40 companies by market capitalization and liquidity, in accordance with PENCOM guidelines. The Premium Board continued to demonstrate the appeal of strong, transparent listed companies to global investors, closing as the third best performing index of the year with 51.23% returns. The NSE Consumer Goods and

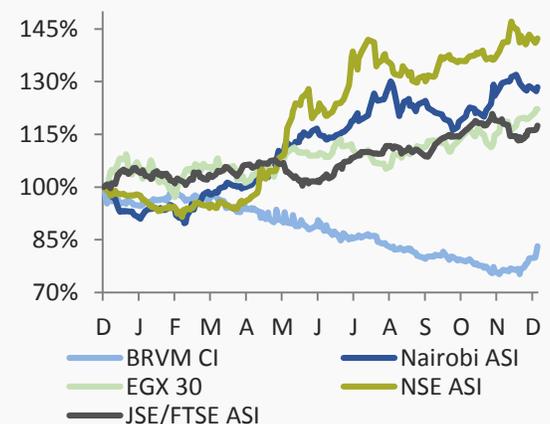
### Improving Macroeconomic Conditions

Fig. 1 Inflation and GDP growth (%)



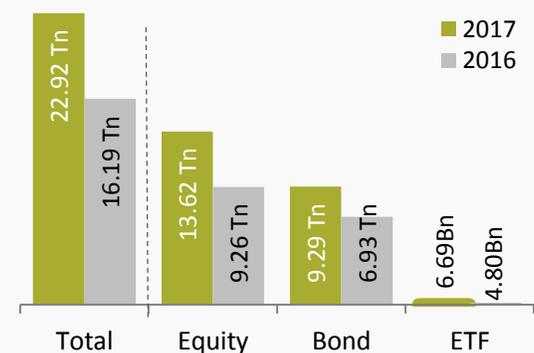
### NSE: No. 1 in Africa and 3<sup>rd</sup> Globally

Fig. 2 Benchmark indices – top African Exchanges



### NSE Market Capitalization Climbs

Fig. 3 NSE Market Capitalization (N)





Industrial indexes also delivered strong performances as the FX market gained momentum. All other NSE market indices recorded positive returns except the ASeM, which posted a decline of 8.90%.

Equity market activity skyrocketed from 2016 levels, as market turnover increased by 121% to N1.27Tn. For the second consecutive year, domestic investment flows outweighed FPI flows, albeit marginally. Overall, the domestic retail segment recorded the least growth during the year. As at November 2017, the value of domestic retail trade totaled N364Bn which represents a modest increment of 39% from the previous year, compared with the triple-digit growth recorded in all other investor classes. Reviewing FPI trends for the year, we note that foreign inflows outpaced outflows in 2017, with positive net flows sustaining from March 2017, and peaking in August 2017 on the back of positive economic data releases such as the second quarter GDP report and rising PMI readings.

IPO activity in the year remained mute, however there were several other positive indicators including the revival of supplementary listings and the return of new issuances. The market saw a nine (9) fold increase in the value of new issuances, buoyed by M&A transactions, listings by introduction, rights issues and others, bringing the total value of equity issues in 2017 to N408Bn.

### **1.2. NSE Bond Market Review**

The NSE fixed income market recorded mixed performance. New bond issuances increased over the previous year; bond yields gradually moderated from 2016 levels amidst easing inflation and greater FX stability. Yields across various tenors declined between 0.4% – 1.5% and market turnover declined by 26% in 2017, as investors sought higher returns in alternative product classes.

Bond raising activity was dominated by the Federal Government of Nigeria (FGN), as it continued to leverage the capital market to finance the MTEF and rising fiscal deficits. The year 2017 saw the listing of the \$1.5Bn FGN Eurobond which was approximately eight (8) times oversubscribed in international capital markets<sup>4</sup>. Other pioneer issuances during the year included the: (i) maiden 5-year, \$300Mn FGN Diaspora Bond, (ii) N100Bn FGN Sukuk bond; and (iii) the record-setting N10.69bn FGN Green Bond, which is the first Green Bond issued by an African Sovereign and the first Climate Bonds Certified Sovereign Bond ever issued. Conversely, the domestic corporate bond market saw a slowdown in activity relative to 2016; corporates raised N21.5Bn in three (3) listings in 2017, representing a 75% decline from N86.1Bn recorded in 2016.

### **1.3. NSE ETF Market Review**

The NSE's ETF market witnessed increased activity across key metrics in 2017, recording a 272% year-on-year growth in trade volumes, 33% growth in turnover and a 39.5% year-on-year increase in market capitalization to close the year at N6.69Bn. This is attributable to growing adoption of the asset class by investors and asset managers, as well as the new issuance of 2017 - the Stanbic IBTC Asset Management Limited (SIAML) Pension ETF 40 - which is the NSE's first pension based ETF.

With regard to market performance, the Vetiva Banking ETF posted the highest return of 70.00% in the ETF market segment, closely mirroring the gains recorded by the banking sector and its benchmark - The NSE Banking Index, whilst the NewGold ETF – which tracks the spot price of gold – posted the second highest returns (47.87%). The Sector Based ETFs – tracking the NSE Banking, Consumer Goods and Industrial sectors – were the most actively traded ETFs.



## 2. Nigeria in the Fourth Industrial Revolution

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The year 2017 saw financial institutions push the envelope in their exploration of emerging technologies in response to increasing digitalization and shifting customer expectations. The transformative impact of emerging technologies became even more apparent in the capital markets as exchanges across the globe successfully deployed technologies such as cloud, distributed ledgers (“blockchain technology”), big data and predictive analytics to optimize processes and rollout new business models. Some of these initiatives include: the launch of Bitcoin Futures by the CME and CBOE; the Australia Stock Exchange’s (ASX) move towards permissioned ledgers in equity market clearing and settlement; and the growth of NASDAQ’s alpha business.

The prevailing Fourth Industrial Revolution offers Nigeria a ‘leapfrog opportunity’ to achieve sustainable economic growth by:

- i. Empowering a larger proportion of the populace to be included in financial markets (e.g. capital markets, banking, insurance, pension, etc.) by leveraging emerging technologies;
- ii. Unlocking efficiencies in product and service delivery for financial institutions; and
- iii. Increasing the transparency of the Nigerian financial system.

Indeed the Nigerian Capital Market has embraced emerging technologies to some degree. The NSE for example employs predictive analytics in our market surveillance system, SMARTs. However, the overall participation of the Nigerian capital market remains far less than that of our counterparts in developed and emerging economies, a trend which must be reversed to ensure that Nigeria remains a globally competitive investment destination.

This means that a broader collaborative effort from regulators, market stakeholders and other private entities is required to determine which emerging technologies to pursue within our markets and local context. The NSE continues to monitor the changes on the horizon, and is open to partnering with private and public entities in its pursuit of game-changing technologies that have the potential to catalyze growth in the Nigerian capital market.

## 3. NSE Strategy Execution 2017

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The NSE made steady progress within its strategic focus areas set out at the beginning of the year. Demutualization remained a chief strategic focus for 2017. Through targeted engagement efforts with our members, SEC, NASS, CAC and other key stakeholders, we achieved the broad-based support required to secure approval for demutualization from The Exchange’s members and successfully progressed the Demutualization Bill through the reading and public hearing stages of the law making process. As articulated in the Bill, it is anticipated that the demutualization of the NSE will further catalyze the development of a dynamic, transparent and efficient capital market, which is critical to Nigeria’s socio-economic development.

In 2017, we amplified our efforts to establish West Africa’s first exchange traded derivatives (ETD) market and achieved a number of key milestones during the year. These include the: (i) completion of draft rules; (ii) development of product specifications; and (iii) market-wide trainings on derivatives and Clearing Counterparty (CCP) transactions. We also worked to create and enhance legal and regulatory frameworks which support derivative instruments, and have made significant progress towards securing approvals to



operationalize these frameworks. We believe that these efforts have positioned us past the most significant roadblocks on the path towards an ETD market.

Other achievements during the year include:

### 3.1. Market Development

- **X-Academy:** Launched the NSE's educational institute in June 2017, to empower financial market professionals in Africa. It has delivered eight (8) programs to 1,279 participants to date.
- **Competitive Pricing Structure:** Continued phased implementation of SEC/NSE pricing recommendations.
- **Capacity-building events:** Hosted the NSE's inaugural Sub-Saharan REITs conference; Green Bond Conference; Market Data Workshop; and Derivatives Conference.
- **Stakeholder engagement:** Ramped up engagement with key stakeholders (both public/private sectors and domestic/international) to promote market-friendly policies and drive development of the capital market.

### 3.2. Business Development

- **Product Launches:** Collaborated with the DMO/FGN to launch the FGN Savings Bond and started work on building an enhanced mutual fund distribution platform.
- **Strategic Partnerships:** Signed a MoU with the Casablanca Stock Exchange (CSE) to promote market integration, new listings and exchange of information.
- **MSCI Partnership:** Progressed development of NSE/MSCI co-branded indices.

### 3.3. Investor Protection

- **Corporate Governance Rating System (CGRS):** Rolled out CGRS to all listed companies; constituted CGRS Steering Board to approve results of CGRS certification exercise (Q1'18 announcement).
- **Data Centre Upgrade:** Completed a new Tier III designed Data Center.
- **E-Dividend Drive:** Supported investors to process unclaimed dividends under the E-Dividend Registration Initiative, in partnership with the SEC.
- **Investor Protection Fund:** The IPF Board of Trustees continued to pay out substantiated claims pursuant to the NSE IPF rules.

### 3.4. Corporate Citizenship

- **Sustainability:** Progressed draft Sustainability Disclosure Guidelines for all listed companies. This is currently pending SEC approval.
- **Education Intervention Programs:** Built and donated the Maisandari Alamderi Model Nursery and Primary School to help Internally Displaced Persons (IDPs) in Borno state.
- **Financial Literacy Tour:** Reached 57,666 beneficiaries (13,520 students) through 175 programs.
- **Corporate Challenge:** Raised N44.65Mn for mobile cancer units in the fourth edition of the annual 5km race.



## 4. NSE 2018 – 2021 Strategic Plan

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In keeping with its object of taking a vigorous and adaptive approach to strategy execution, the NSE re-assessed its strategic agenda in light of changing dynamics in both the operating environment and the global exchange landscape against the backdrop of the fourth industrial revolution. This culminated in a new corporate strategy for the 2018 – 2021 period.

In redefining its strategic ambitions, the NSE selected three (3) key focus areas to pursue to enhance our global competitiveness and appeal to stakeholders. They are based on (i) satisfying our customers; (ii) boosting our retail segment penetration and; (iii) enhancing our organizational agility.

1. **Enhancing our Customer Focus:** The NSE is taking a greater focus on “delighting” our customers across the value chain. We are committed to better understanding and meeting our customers’ diverse needs by leveraging adaptive new technologies, and will be carrying out a series of activities aimed at supporting this objective.
2. **Focusing on retail investors:** The Exchange will increase its focus on growing retail participation as a key component of a well-functioning and resilient market. To this end, we will be partnering with market stakeholders to deliver a number of financial literacy and investor outreach initiatives which align with existing plans (such as the Capital Market Master Plan and the National Financial Literacy Plan); as well as undertake new initiatives that can help drive a more radical change. At the crux of our efforts, is the establishment of a Retail Coverage Department, which will be dedicated to the development and publicity of simple, affordable and efficient investment products and services that can effectively support the Nigerian populace – at various stages of financial mobility – to create durable wealth.
3. **Reorganization for Optimization:** The Exchange is restructuring to drive our new Corporate Strategy. There are a number of new departments that have emerged to support our evolving strategic ambitions, which are primarily geared towards innovation, emerging technologies and retail participation. We are optimistic that the new structure will support us to better execute on our 2018-2021 Strategic Plan, enhance organizational dynamics and achieve new efficiencies as we demutualize.

Over the course of 2018 we will provide further information on our strategic initiatives, in terms of the progress, market impact and benefits to our valued stakeholders.



## 5. Outlook for 2018

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The economic outlook for Nigeria is relatively positive. The IMF forecasts 1.9% real GDP growth in 2018<sup>5</sup>, representing a 1ppt increase from its estimate of 0.8% growth in 2017. The forecast is predicated on:

- Stronger global economy and synchronized expansion in global investment trade and manufacturing;
- Higher global oil prices and domestic production;
- Greater stability and transparency in Nigeria's FX market; and
- Fiscal stimulus from planned increase in infrastructure spend.

Accordingly, the outlook for the Nigerian capital market is encouraging. Indeed, to some extent, political activities and currency movements will have an effect on the market, but we expect that such impacts will be short lived and the performance of the underlying business activities will ultimately determine market performance.

On its part, the NSE is on track to become a more agile and flexible demutualized securities exchange. We are hopeful that the Demutualization Bill will be signed into law in 2018, and are working assiduously with our Advisers to fine-tune outstanding aspects of the demutualization project as well as providing clarity on the process via regular engagement with all our valued stakeholders.

We expect that the year ahead will also see the launch of exchange-traded derivative instruments. This will not only help us meet our objective of facilitating order flow across various asset classes; but will offer our ever-increasing community of domestic and global investors a greater array of products to diversify and manage risk. We will also continue to engage with the government on privatization and listing of state owned enterprises. We plan to maintain our role as an advocate for the adoption and implementation of market friendly policies required for sustainable economic growth.

X-Academy will continue to be at the forefront of driving capacity building across Nigeria and the rest of Africa. Given the growing demand for innovative products and solutions, the NSE will leverage on its network and knowledge to take Africa's financial markets to greater heights.

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## APPENDIX 1: NSE Index Performance

	2017	2016	% Change YOY
NSE All Share Index	38,243.19	26,874.62	<b>42.30%</b>
NSE 30 Index	1,746.68	1,195.20	<b>46.14%</b>
NSE AseM	1,087.32	1,189.69	<b>-8.60%</b>
NSE Banking Index	475.44	274.32	<b>73.32%</b>
NSE Consumer Goods Index	976.10	712.65	<b>36.97%</b>
NSE Industrial	1,975.59	1,595.33	<b>23.84%</b>
NSE Insurance Index	139.37	126.29	<b>10.36%</b>
NSE Lotus	2,560.39	1,841.59	<b>39.03%</b>
NSE Main Board Index	1,713.69	1,203.79	<b>42.36%</b>
NSE Oil/Gas Index	330.69	312.68	<b>5.76%</b>
NSE Pension Index	1,379.74	810.04	<b>70.33%</b>
NSE Premium Board Index	2,564.13	1,695.51	<b>51.23%</b>



## APPENDIX 2: NSE Market Performance

	2017	2016	% Change
Total Market Capitalization <sup>1</sup> (N)	22,917,906,741,966	16,185,729,639,210	<b>41.59%</b>
(S)	63,662,620,467	51,329,494,939	<b>24.03%</b>
Equities Market Capitalization <sup>2</sup> (N)	13,619,906,406,052	9,255,879,973,012	<b>47.15%</b>
(S)	37,834,124,298	29,352,995,189	<b>28.89%</b>
Bonds Market Capitalization (N)	9,291,305,749,890	6,925,051,015,073	<b>34.17%</b>
(S)	25,809,899,580	21,961,281,880	<b>17.52%</b>
ETF Market Capitalization (N)	6,694,586,025	4,798,651,125	<b>39.51%</b>
(S)	18,596,589	15,217,871	<b>22.20%</b>
Total Volume – Equities	100,459,841,811	95,814,790,203	<b>4.85%</b>
Total Value (Turnover) - Equities (N)	1,271,465,103,822	575,706,703,388	<b>120.85%</b>
(S)	3,531,945,620	1,825,727,661	<b>93.45%</b>
Avg. Daily Volume - Equities	406,720,007	387,914,130	<b>4.85%</b>
Avg. Daily Value (Turnover) - Equities <sup>3</sup> (N)	5,147,631,999	2,330,796,370	<b>120.85%</b>
(S)	14,299,375	7,391,610	<b>93.45%</b>
Turnover Velocity - Equities <sup>4</sup> (%)	9.34%	6.22%	
Value of Issues - Equities New <sup>5</sup> (N)	55,456,285,725	756,484,319	<b>7,230.79%</b>
(S)	154,049,517	2,399,024	<b>6,321.34%</b>
<i>No of New Equity Issues</i>	3	1	
Value of Issues - Equities Sup <sup>6</sup> (N)	352,754,301,330	39,014,927,476	<b>804.15%</b>
(S)	979,900,279	123,727,294	<b>691.98%</b>
<i>No of Supplementary Equity Issues</i>	16	5	
No. of Listed Companies	167	170	
No. of Listed Equities	172	175	
No. of Listed Bonds	80	64	
No. of Listed ETPs	9	8	
No. of Listed Securities	261	247	
No. of Trading Days	247	247	
Exchange Rate (Naira:USD) <sup>7</sup>	359.99	315.33	

<sup>1</sup> Figure includes equities, ETFs and bonds.

<sup>2</sup> Figure includes shares listed on Premium Board and ASeM.

<sup>3</sup> Total value of share trading divided by the number of trading days.

<sup>4</sup> Turnover Velocity – Equities Turnover divided by Equities Market Capitalization.

<sup>5</sup> Figure include listing by introduction.

<sup>6</sup> Figure includes rights issue, placement, employee share plan, listing of underwriting commitment shares, merger and acquisition, takeover bid, conversion of preference shares to ordinary shares and block divestments.

<sup>7</sup> Source: Bloomberg



## References

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<sup>1</sup> Source: CNN

<sup>2</sup> Source: National Bureau of Statistics (NBS)

<sup>3</sup> Source: Central Bank of Nigeria (CBN), AbokiFX.com

<sup>4</sup> "Nigeria's \$1b Eurobond oversubscribed – Adeosun" February 10, 2017. Accessed at:  
[www.vanguardngr.com/2017/02/nigerias-1b-eurobond-oversubscribed-adeosun/](http://www.vanguardngr.com/2017/02/nigerias-1b-eurobond-oversubscribed-adeosun/)

<sup>5</sup> IMF World Economic Outlook October 2017

## Disclaimer

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