

# MAXIMIZING THE INVESTMENT OPPORTUNITIES IN THE NIGERIAN CAPITAL MARKET



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# OVERVIEW OF NIGERIAN CAPITAL MARKET

- Capital Market is a segment of financial market in which long term securities such as Equities, long-term debts and Derivatives instruments are bought and sold.
- It is a market where capital is raised through issuing of Securities and these securities are also traded among investors.
- Capital markets channel the wealth of savers to those who can put it to long-term productive use, such as companies or governments making long-term investments.
- Capital market can be primary or secondary. In the primary market, new stocks such as bond and shares are issued and sold to the investors while in the secondary market, the existing securities exchange hands among the investors through a Securities Exchange.
- The existence of secondary markets increases the willingness of investors in primary markets, as they know they are likely to be able to swiftly cash out their investments if the need arises
- Capital Market is very crucial to economic development and that is the reason for Governments all over the world to take the issue of Capital market very seriously because of its impact on economic growth and welfare of the citizens.
- It has been observed that countries without vibrant Capital markets are underdeveloped and poverty-stricken whereas those with large and vibrant markets are among the first world countries.

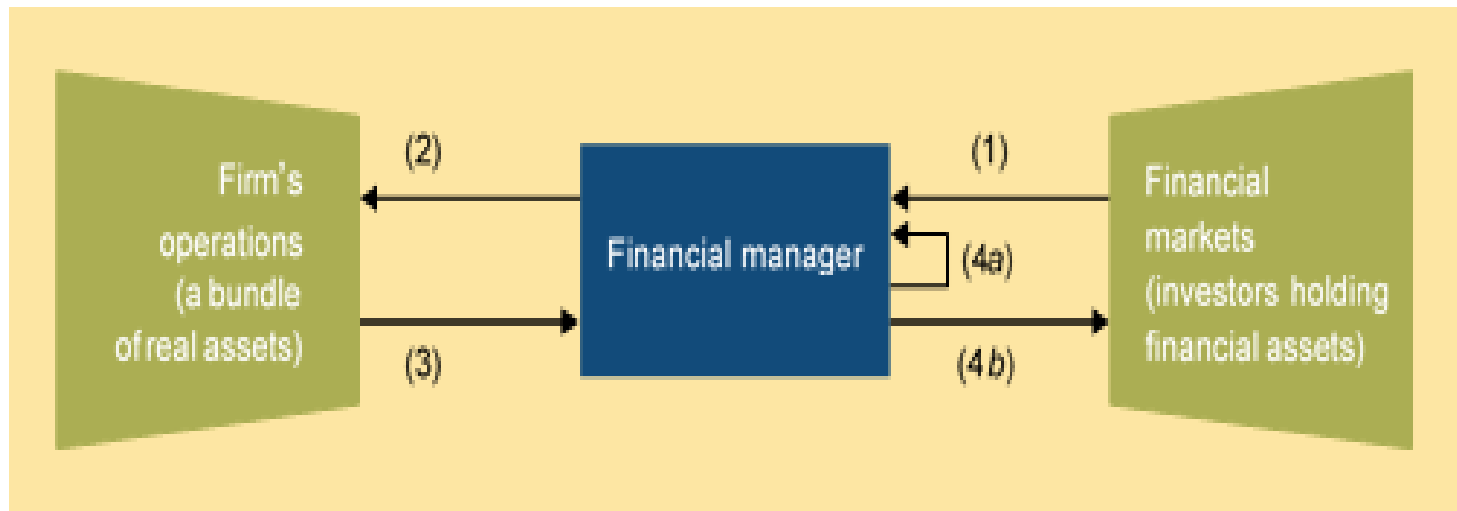
# FINANCIAL MARKETS

**Financial Markets:** This is a market where financial assets are Traded. It is made up principally of:

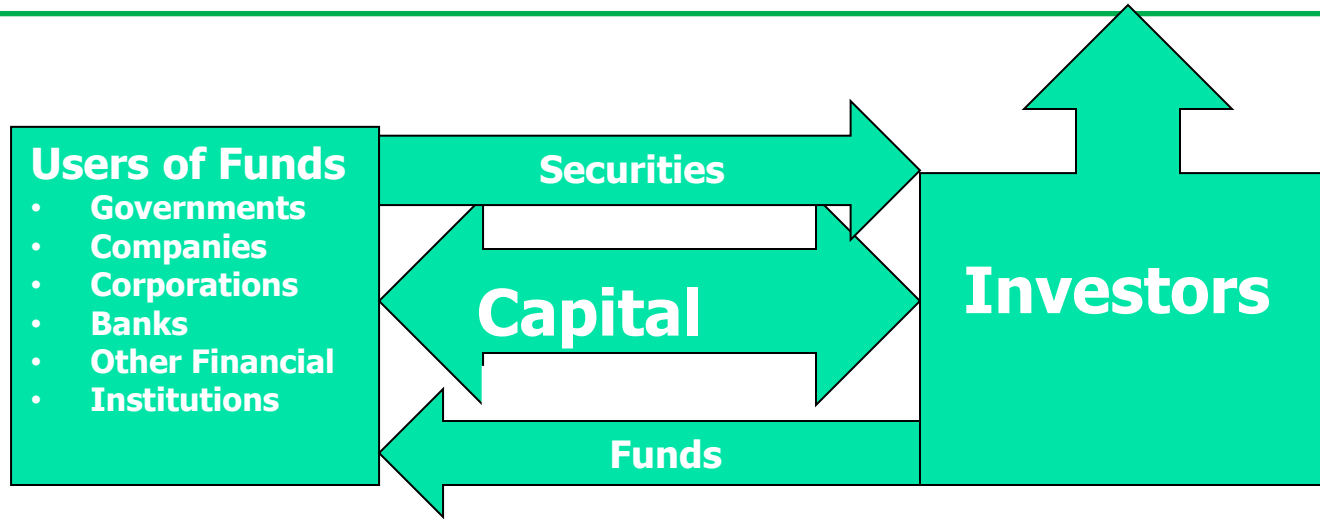
- Money Market – short-term funding Market
- Capital Market - long-term funding Market



# OVERVIEW OF NIGERIAN CAPITAL MARKET



# The Link



# Capital Market Regulators

- **Securities & Exchange Commission:** Apex Regulator
  - promotes and ensures market developments
  - Formulates relevant policies and make rules regularly that will facilitate market growth and development
  - Registers, regulates and monitors issuance of Capital market Securities
  - Registers Capital Market Operators and Market Consultants
  
- **The Nigerian Exchange Group:** First and the only Regular Exchange in Nigeria
  - It provides the platform for the trading of quoted shares/stocks
  - Monitors the quotation of stock via its Quotation Committee
  - Penalizes erring stock broking firms
  - Releases quarterly results of companies to the public
  - Liaises with SEC,CBN for the growth of the capital market
  
- **NASD PLC:** OTC Securities Exchange for unquoted Securities
  - Provides an avenue for shareholders to trade shares of unlisted public companies;
  - Provides a centralized source of information on unlisted public companies
  - Facilitates price discovery on unlisted public companies.

# Capital Market Regulators

- **FMDQ OTC Plc:** OTC Securities Exchange owned by CBN, Money Deposit Banks and Merchant Banks
  - Regulation, listing and quotation of:
    - FGN Bonds
    - Sub-national Bonds
    - Corporate Bonds
    - Nigerian Treasury Bill
    - Commercial Papers
    - Mutual Funds
  
  - Provides Data & Information



# Capital Market Participants

- Capital Market Consultants
  - Real Estate Valuers
  - Engineers
  - Auditors
  - Accountants
  - Solicitors
  
- Capital Market Professionals
  - Stockbrokers: Broker, Dealer, Broker/Dealer
  - Issuing House/Financial Advisers
  - Merchant Banks
  - Jobbers
  - Investment Advisers (Corporate & Individuals)
  - Sub-brokers
  - Trustees
  - Registrars
  - Portfolio/Fund Managers
  - Rating Agencies
  - Underwriters
  - Custodian

# Capital Market Participants

- Securities Exchanges: NSE, NASD, FMDQ
- CSCS Plc
  
- Investors
  - ❑ Corporate Investors that are not Financial Institutions
  - ❑ Fund Managers
  - ❑ Pension Fund Administrators
  - ❑ Insurance Companies
  - ❑ Banks
  - ❑ High Networth Individuals
  - ❑ Ultra-High Networth Individuals
  
- Investors Representatives
  - ❑ Lawyers
  - ❑ Financial Consultants
  - ❑ Account Managers
  - ❑ Asset Managers
  - ❑ Advisers

# Institutional Players in the Capital Market

## **Banks**

Accept demand, savings and time deposits, and make loans directly to borrowers or through the financial markets. Act as issuing houses for companies raising funds in the capital market. Act as underwriters for new issues in the capital market

## **Insurance Companies**

Receive premium payments from insured parties. Premiums received are placed in investments to accumulate funds to cover future benefits.

## **Merchant Banks**

Their main role is to perform underwriting , loan, financing, and fund-raising services for large corporations and High Networth Individual. They do not do retail services.

## **Pension Funds**

Set up so that employees of various companies or governments can receive income after retirement. Accumulated Funds accumulated are usually invested via the financial markets.

## **Mortgage Finance Companies**

Similar to universal banks except they do not operate current accounts. They lend funds primarily to individuals and businesses for real estate mortgage loans. Funds are also invested in the financial markets.

# **Institutional Players in the Capital Market**

## **Stock Broking Firms**

They buy and sell shares on the floor of the Nigerian Stock Exchange on behalf of their clients.

## **Investment Trust Companies**

Their business is investing in the stocks and bonds of other companies and the government.

## **Unit Trust Companies**

Pool funds from savers through sale of shares, and bonds issued by various businesses and governments. Create a diversified and professionally managed portfolio of securities to achieve a specified investment objective, such as liquidity with a high return.

## **Venture Capital Companies**

They specialize in raising funds for new business ventures.

# Players in the Market

## □ **Investors**

- Take long term position
- May even take strategic position
- Long term Capital appreciation
- High Good Dividend Yield
- Interested in Income stocks
- Position in Blue Stocks
- Rely on Equity Research and Analysis for taking decision

## □ **Speculators**

- Create liquidity in the Market
- Buy low sell high
- No long term position
- Do not need Research and Analyst opinion
- Rely solely on Market Hearsay

## □ **Traders**

- Professional and knowledgeable market player
- They understand the volatility of the market
- At times, they behave like speculators
- Interested in small margin above their Break-even price
- Combine Analysis with Market hearsay
- Contribute to market liquidity

# Available Securities

## ➤ **Bond**

- ❑ FGN Bonds: Development, Eurobond and Savings
- ❑ Agency Bond
- ❑ Supranational Bond
- ❑ Sub-national Bonds
- ❑ Corporate Bonds
- ❑ Specialized Bonds e.g. Sukkuk etc

## ➤ **Equities**

- ❑ Listed Securities of Public Companies
- ❑ Permitted Equities of Public Companies on NASD

## ➤ **Derivatives**

- ❑ Rights issues
- ❑ FX Futures

## ➤ **Others**

- Collective Investment Securities
  - Unit Trust
  - REITS
  - Other Mutual Funds

# Benefits of the Capital Market for the Economy

The following are benefits of the Capital market for the economy:

- Various levels of Government raise Funds through the Capital market to fund infrastructure and other developmental projects
- Companies raise money through capital market for expansion, replacement of obsolete machines, refinancing of Bank loans and establishing new line of business
- Allocation of Capital
- Allocation of Risk
- Mobilization of Savings
- Policy making: Stock market is the barometer of the economy.
- Stock market allows creation of middle-class
- Stock market allows effective borrowing and lending

# Returns to Investors

- ❑ **Dividend**
  - ❑ Both Interim & Final
  - ❑ Companies with good fundamentals pay good dividend
  - ❑ Cashflow to Fund Managers
  - ❑ Streams of Income
- ❑ **Coupon (Bonds)**
  - ❑ Streams of Income
  - ❑ Guaranteed Return
  - ❑ Guaranteed Cash flow
- ❑ **Capital Appreciation**
  - ❑ Increase in value of the investment above the cost
  - ❑ Driven by Market Volatility
- ❑ **Prestige**
  - ❑ Self-satisfaction
  - ❑ Self-actualization
  - ❑ Wealth creation



# Macroeconomic factors influencing the Market

- Industry Information
  - PMI
  - Products in the market
- Money Supply
- Interest Rate
- Inflation Rate
- GDP Growth Rate
- Exchange rate
- Unemployment Rate
- Political Factors
- Sovereign Rating
- Foreign Reserves
- Crude Oil Price
- Security

# Why Stock Market?

- Most of the listed securities are still undervalued, thus trading below intrinsic/book values; These companies have very good potentials for making good capital appreciation within the next six months.
- Pension Funds assets are above N25trillion thus providing excess capacity to boost PFAs participation in the stock market. In compliance with PENCOM Act, the PFAs are expected to invest not less than 20% of their funds in stock market and this will boost the market activities.
- Foreign Investors returning to the market thus increasing the volume and value of transactions
- The impressive financial performances of Banks and some other companies on the Exchange and high dividend yield justify expected competitive returns from the stock market.
- On-going recapitalization of Banks will continue to impact on primary market activities and this will also increase the depth of the secondary market.
- Expected reduction in interest rate in the next MPC meeting will impact positively on the Stock market.
- Returns on stock market exceeds inflation rate thus making the stock market to be the most liquid with positive real returns

# Overview of Stock Market

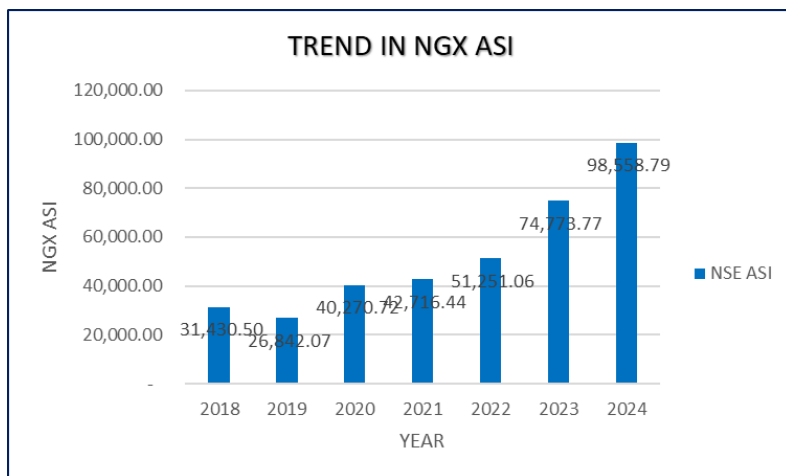
The Stock Market closed the year 2023 with the NGX All-Share Index of 74,773.77 points and started the year on a good note 75,990.88 points gaining 1.63% on the first working day of the year 2024. The market has been vibrant for most months this year reaching the peak so far at 105,722.78 as of 16<sup>th</sup> February 2024. In expectation of the corporate actions towards the end of 2024Q1, the market has gained 41.39% as of 16<sup>th</sup> February and made the Nigerian Stock Market to be one of the best-performing stock markets in the world.



However, the sell-off after the mid-year corporate actions as well as the seemingly perennial security challenge that the country is faced with as well as rising debt profile of the country as well as slow economic growth have all become headwinds to the uptrend of the stock market. Meanwhile, the generous interim dividends from the banks have reinvigorated the interest of investors in the stock market.



# Overview Cont'd



**FIG 1**



**FIG 2**

A look at the two graphs above (Fig 1 & Fig 2) shows the trend in the movement of The Nigerian Stock All-Share Index (NSE-ASI) and Stock Market Returns for the last 5 years. A critical look at the graphs shows that the NGX-ASI and Stock market returns came down in 2019 which was an election year but came up again by 50.3% in 2020 a year after the election. The ASI moved up slightly by 6.07% in the year 2020 due to COVID-19 pandemic and lockdown but rose again by 19.98% in 2022 and then soared by 45.09% by 2023 year-end. The recent uptrend is not unconnected with the recovery of banking stocks and post-listing trading activities of the Initial Public Offering of MTN Nigeria Plc in 2021 and the 2 power giants, Geregu Power Plc listed in 2022 Plants and Transcorp Power Plc listed in March 2024. The Announcement of new Capital requirements of Banks slowed down the price movement in anticipation of primary market activities.

However, more generous interim dividend payments have been delivered by some banks and it is expected to be common among banks in the coming years

# Overview cont'd

The CBN directive in March 2024 to review the minimum capital requirements for commercial, merchant and non-interest banks in Nigeria has impacted positively in both primary and secondary segments of the stock market. Based on the new directive that the new paid-up share capital shall comprise paid-up share capital and share premium, virtually all the quoted banks are compelled to come to raise new capital to meet these requirements. You will recall that Banks that operate international licences are to capitalize to N500b while those that operate national licence are to capitalize to N200b while those that are Regional Banks are to capitalize to N50b. Merchants banks are also N50b while Non-interest banks are to capitalize to N20b

BANK CAPITALIZATION						
S/N	BANK	SHARE CAPITAL	SHARE PREMIUM	TOTAL EQUITY	CBN CAPITAL	SHORTFALL
1	ACCESS BANK	251,811		2,185,634	251,811	248,189
2	ECOBANK	353,513		1,650,836	353,513	146,487
3	FCMB	9,901	115,392	462,627	125,293	374,707
4	FIDELITY	16,000	113,705	437,307	129,705	370,295
5	FIRST BANK	17,948	233,392	1,747,021	251,340	248,660
6	GTBANK	14,716	123,471	1,477,641	138,187	361,813
7	JAIZ BANK	17,271	1,349	39,315	18,620	1,380
8	STANBIC	6,479	102,780	506,924	109,259	390,741
9	UBA	17,000	98,715	2,030,195	115,715	384,285
10	UNITY BANK	5,845	10,486	190,223	16,331	483,669
11	WEMA BANK	6,429	8,698	139,298	15,127	484,873
12	ZENITH BANK	15,698	255,047	2,323,380	270,745	229,255

Note: All the figures are in millions  
 Assumptions: The shortfall is the difference between N500bn and the current CBN capital of the Banks except Jaiz Bank that is a non-interest Bank

The highlighted Banks have not come to raise capital from the market

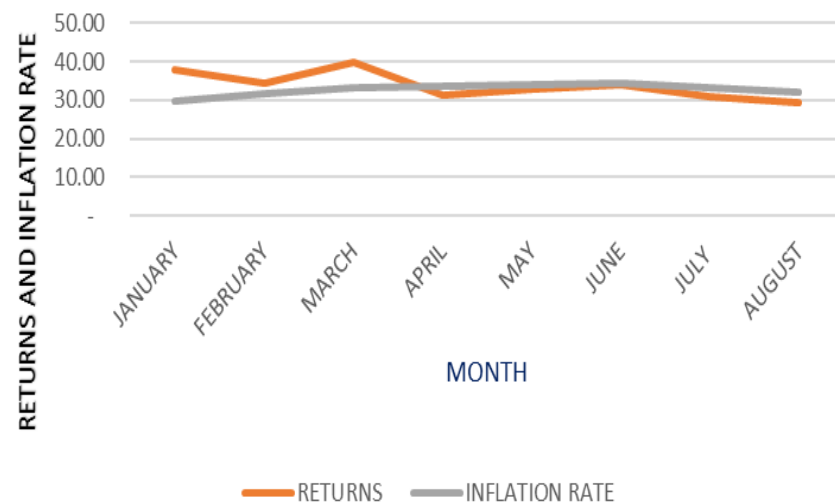
# Trends of NGX ASI and Inflation Rate

## TREND IN NGX ASI AND INFLATION RATE

2024 MONTH END	NGX ASI	RETURNS	INFLATION RATE
JANUARY	103,110.15	37.90	29.90
FEBRUARY	100,552.59	34.48	31.70
MARCH	104,562.06	39.84	33.20
APRIL	98,225.63	31.36	33.69
MAY	99,300.38	32.80	33.95
JUNE	100,057.49	33.81	34.19
JULY	97,774.22	30.76	33.40
AUGUST	96,579.54	29.16	32.15

Note: NGX ASI was 74,773.77 as of 29th December, 2023

MOVEMENT IN NGX-ASI AND INFLATION RATE IN 2024



The above figures shows the relationship between the stock market returns and the Inflation rate. This explains that in the face of the economic situation of Nigeria ,the Stock market delivers value more than any other segments of the Financial Markets

# Top Ten Stocks

TOP TEN PERFORMING STOCKS				
S/N	COMPANY	PRICE AS AT 04/01/2024	PRICE AS AT 02/10/2024	PERCENT %
1	OANDO	10.85	82.60	661.29
2	JBERGER	43.00	140.00	225.58
3	GEREGU	399.00	1,150.00	188.22
4	PRESCO	204.00	485.40	137.94
5	BUAFOODS	193.40	394.90	104.19
6	CONOIL	83.90	168.00	100.24
7	ETERNA	15.20	30.00	97.37
8	DANGCEM	319.90	532.00	66.30
9	FLOURMILL	33.10	62.05	87.46
10	SEPLAT	2,310.00	4,103.10	77.62

**FIG 3**

TOP TEN WORST-PERFORMING STOCKS				
S/N	COMPANY	PRICE AS AT 04/01/2024	PRICE AS AT 02/10/2024	PERCENT %
1	MULTIVERSE	20.42	9.00	-55.93
2	NASCON	54.00	31.60	-41.48
3	DANGSUGAR	57.50	34.85	-39.39
4	PZ	29.00	19.50	-32.76
5	NNFM	45.50	31.90	-29.89
6	DAARCOMM	0.99	0.70	-29.29
7	MECURE	10.80	7.65	-29.17
8	CWG	8.60	6.15	-28.49
9	MTNN	264.00	191.00	-27.65
10	CHAMPION	4.10	3.11	-24.15

**FIG 4**

Fig 3 above shows some stocks that outperformed the market in the last nine months. The stock market returns year-to-date is 31.81% largely driven by the highly capitalized stocks but the stocks listed above clearly delivered good returns. It is interesting to note that most of them have been oscillating between the hi-low prices which provides opportunities for making capital appreciation through active trading. The top 10 worst-performing stocks are stated in Fig. 4 but some of them have very good upside potentials in terms of price movement while some of them are in overbought regions.

# Stock Selection Framework

In carefully selecting the stocks to trade, we usually deploy a top-down selection technique aimed at diversifying and mitigating associated investment risks and our selection techniques among other include:

- i. Fundamental Parameters
- ii. Technical Parameters
- iii. Quantitative Parameters
- iv. Individual/Sectoral Profiling
- v. Market/Product Profiling
- vi. Security/Investment Profiling

While adopting the technique mentioned above , selection of equities would be based on detailed Equities Research Report that will give attention to the following:

- ✓ Strong earning stream
- ✓ Stable dividend payment
- ✓ Strong, competent and proactive management
- ✓ Industry Outlook





# Selected stocks with Volatility

SOME SELECTED STOCKS WITH HIGH VOLATILITY						
S/N	SYMBOL	52 WKS HIGH	52 WKS LOW	CURRENT PRICE @02/10/2024	OBSERVED PRICE BAND	NO. OF OUTSTANDING SHARES
1	GTCO	53.95	30.35	47.85	39.00 - 45.00	29,431,179,224
2	UCAP	27.65	13.05	18.00	18.00 - 24.00	6,000,000,000
3	MTNN	319.80	175.00	190.00	190.00- 245.00	20,995,560,103
4	JAPAULGOLD	3.38	0.58	2.50	1.86 - 2.15	6,262,701,716
5	FCMB	12.45	5.10	8.30	7.00 - 8.45	19,802,710,754
6	UBA	34.00	11.70	27.00	19.50 - 25.00	34,199,421,368
7	ZENITH	47.35	29.70	37.75	31 .00- 38.00	31,396,493,786
8	NAHCO	37.30	16.00	34.85	31.00 - 35.00	1,948,062,500
9	FBNH	93.95	15.79	25.80	20.00 - 24.00	35,895,292,792
10	ACCESSCORP	30.17	14.15	19.75	17.50 - 21.00	35,545,225,622

# Other Asset Classes

There are array of Asset Classes where we can invest our investible funds. These are:

## I. Bonds

- I. FGN Bonds
- II. State Bond
- III. Corporate Bond
- IV. Municipal bond
- V. Supra-National Bond
- VI. Eurobonds

## II. Derivatives

- I. Futures
- II. options

## III. Money market instruments

- I. Commercial Paper
- II. Banker's Acceptances
- III. Fixed Deposit
- IV. Treasury Bills

## V. Commodities

- Eko Gold
- Nickel
- Copper
- Tin

## VI. Real Estate

- ✓ Land
- ✓ Purchase and Sale of Building

## Rules for making investment decision

- Ensure you understand the investment you are making
- Please remember the fact that there is always a relationship between risk and return
- Don't ignore the fundamentals
- One of the ways to minimize risk is diversification: Don't put your egg in one basket
- Analyse the quality of your information before acting on it
- Consider whether you really have an edge in the decision you have taken i.e. opportunity cost
- Make sure your decision is timely, and if it needs acting on quickly, act on it.
- Make sure the decision you made makes sense in terms of the medium – and long-term needs of the portfolio.
- Don't overtrade
- Pay as much attention to the possible need to sell stocks you already own as you pay to the need to buy stocks to make a portfolio
- Don't forget that money made in an efficient front office can be lost in an inefficient back office

# Methods of Investing

In making investments in the stock market, the following methods can be adopted:

- Direct method: This is a method of investing directly and the securities or assets invested in will be in your name.
- Nominee Arrangement: This is a method of investing through a Professional Fund Manager but the asset invested in will not bear the name of investors but bears the name of either Fund Managers or Special Purpose Vehicle.
- Collective Investment Scheme: This includes investing through professional fund managers by way of investing in the following products
  - Open-ended funds
  - Close-end funds

Hillcrest Capital Management Limited is a go-to should you need one

## Merits of Investing in Collective Investment Scheme

- Allow the investor to concentrate on his career, job or business
- There will be no stress of market volatility
- No need to do analysis or use incorrect information to make investment decisions.
- Minimization of risk through diversification
- Stable returns on investment
- Your funds are being managed by market professionals who understand risk and how to mitigate the risk
- Transparency in the investment s you receive daily reports of how your money grows.

# Portfolio Structure

Investors all over the world have general objectives of maximizing returns on their respective investments. Empirical analyses have shown that investors have different reasons for making their investment decisions and the information available to the investors regarding the stock market is not the same. To this end, there are two types of trading portfolios that investors typically keep depending on their various risk appetites:

- i. **Passive Portfolio:** This is a type of equities portfolio where the investors buy and keep the stocks and receive Dividends and Scrip issues only. The Investors with this type of portfolio do not look for capital appreciation and have a long-term view of the market.
- ii. **Active portfolio:** This is a type of equities portfolio where the investors adopt “buy low and sell high” strategies with or without taking advantage of bonuses and Dividends.

Investors, in being active with their portfolios can partner with their stockbrokers or Fund Managers to have the following type of portfolio Management Modes:

- a) **Discretionary Mode:** An Investor gives his stockbroker or Fund Manager freehand to manage his stock portfolio and give report to him periodically. He does not interfere in the management of his stock-broking account
- b) **Semi-Discretionary Mode:** The investor requests the stockbrokers or Fund Manager should get his consent in any investment decision regarding his stockbroking account or his portfolio.
- c) **Non-Discretionary Mode:** The investors gives his stockbroker or the fund manager instruction on what to do with his portfolio and seldom request for the advice of his stockbroker before making his investment decision.



# Associated Risks of Capital Market

The risks that are likely to be encounter in Stock Market investment include:

- **Capital Erosion:** investment in capital market involves high risk and high return as prices can move downward below the purchase price.
- **Liquidity:** some stocks are not easily traded and can delude investors the opportunity of taking profit or easily converting the Asset to cash.
- **Liquidation:** Some companies can go on liquidation.
- **Economic Policies:** Government's Policy may have adverse effect on the market
- **Political risk:** Unfavorable political climate may result in economic stagnation and bearish market.
- **Foreign Exchange Risk:** devaluation of Naira or high Exchange rate against local currency can affect portfolio of foreign investors.



# Mitigation of Capital Market Risk

To mitigate against Stock Market risk, we will ensure that we adhere strictly to our guidelines on active trading and also take the following steps:

- Invest in Companies that have good fundamentals
- Examine the financial performances of the company to be invested in
- Taking investment decision in line with Economic situation and policy direction
- Consider the opportunity cost
- Obtaining regular market information
- Investment decision to be taken must be based on Research Information





# Conclusion

Invest today and enjoy yourself tomorrow.



## KEY CONTACT



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***Thank You!***