

Nigeria Sovereign Investment Authority

2023 Abridged Rating Report

 **Agusto&Co.**

Research, Credit Ratings, Credit Risk Management

Nigeria Sovereign Investment Authority

Rating Assigned:

Aaa (NGA)

ESG Score:

3

Outlook: Stable

Issue Date: 21 Aug 2023

Expiry Date: 30 June 2024

Previous Rating: Aaa (NGA)

Industry: Government-Backed Institution

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A Government-backed institution of the best financial condition and strongest capacity to meet obligations as and when they fall due relative to all other GBIs in the same country.

RATING RATIONALE

Agusto & Co. affirms the '**Aaa (NGA)**' rating of Nigeria Sovereign Investment Authority ('NSIA' or the 'Authority') which reflects its strategic importance in providing stability for the country in stress periods, enhancing the development of Nigeria's infrastructure and building a savings base for future generations. The Authority's strong capitalisation, good asset quality and well-diversified investment portfolio are also rating positives. However, constraining the rating is NSIA's exposure to the vagaries of the Nigerian political terrain and lingering global headwinds. We have also assigned a '**3**' ESG score denoting that environmental, social and governance (ESG) issues have material contributions to credit risk.

NSIA's core mandates include building a saving base for Nigeria's future generations, enhancing the development of domestic infrastructure and providing fiscal stabilisation support in periods of economic stress. The Authority aims to achieve these mandates by operating three ring-fenced funds namely the Stabilisation Fund ("SF"), Future Generations Fund ("FGF") and Nigeria Infrastructure Fund ("NIF"). The Authority's total capital contribution of US\$1.5 billion has been split between these funds. The investment philosophy for the SF is short-term, highly liquid and good credit quality securities and the FGF is aimed at longer-tenured assets with risk-adjusted returns while preserving value. The NIF is directed at developing domestic infrastructure. The NIF has birthed the creation of 19 active related entities either as subsidiaries, associates or joint ventures targeted at sectors including healthcare, gas industrialisation and agriculture amongst others.

NSIA's investment portfolio as at 31 December 2022 stood at ₦658 billion and was largely held in currency swaps with the CBN; hedge funds and long-only equity investments; private equity (PE); placements, fixed deposits and Eurobonds which accounted for a combined 80.2% (FYE 2021: 83.7%). Hedge funds, long-only equity investments and the private equity portfolio provides risk-adjusted returns but are most vulnerable to headwinds in the global economy as reflected by the 11% dip in their combined book value to ₦246.7 billion following the downturn in the global capital markets in FY 2022. To moderate valuation losses from these investments, NSIA maintains a well-diversified portfolio split amongst over 34 fund managers including top-tier institutions such as Goldman Sachs and JP Morgan. We believe this level of diversification moderates any significant deterioration in these portfolios. As at FYE 2022, NSIA's fixed deposits and placements were all with investment-grade Nigerian financial institutions on our national rating scale and a large proportion of its Eurobonds are FGN securities.

Overall, we consider the Authority's asset quality to be good hinged on its diversified investments, the calibre of pre-qualified asset managers and its thorough investment selection process.

According to the NSIA Act 2011, governance at NSIA is vested with the Governing Council and the Board of Directors. The appointment of the Board and the CEO is approved by the Nigerian President. As at 31 December 2022, the Authority was led by a nine-member Board comprising six Non-Executive Directors and three Executive Directors. However, the Board of Directors of NSIA was dissolved in June 2023 following the inauguration of a new government. We consider this gap in oversight to be a rating concern. Nevertheless, NSIA's Executive Directors continue to steer the affairs of the Authority in line with the established policies and strategy of the defunct Board. The executive management's powers and responsibilities in the absence of a Board are also guided by a pre-approved policy document. While we anticipate that the Authority will operate without a Board for most of H2 2023, we recognise that the presence of a Governance Council which NSIA reports to and oversight from the National Assembly provides a layer of check.

As at FYE 2022, the Authority's shareholders' funds stood at ₦909.3 billion, up by 10.6% on the back of full profit retention. While NSIA is self-regulated, it ensures that adequate capital is maintained through prudent portfolio management, stress testing and contingency planning. As at 31 December 2022, NSIA's equity cushion stood at 84% (FYE 2021: 77%), well above our internal benchmark. The Authority also maintains nil interest-bearing debt in its capital structure thus its leverage also remains healthy. We consider the NSIA's capitalisation to be good for the current business risks undertaken. Going forward, NSIA expects additional and stable equity contributions with the advent of the Petroleum Industry Act (PIA) which mandates that price-based royalties from upstream oil and gas companies should flow to the Authority. An inflow of \$45 million was received by NSIA in H1 2023 from price-based royalties.

The downturn in the global capital markets was evident in the performance of NSIA in FY 2022 as the operating income dipped by 31% to ₦101.8 billion. However, the 29.6% growth in interest income elicited by the rising yield climate moderated the overall decline in earnings and supported performance. Thus, NSIA continued to maintain acceptable profitability ratios with a pre-tax return on average assets of 9% (FY 2021: 13.6%) and pre-tax return on average equity of 10.7% (FY 2021: 17.7%), though lower than the previous year. Subsequent to the year-end, the Authority benefitted from the ongoing harmonisation of exchange rates, recording significant foreign exchange gains. The disinflation being recorded by some developed economies and China's sluggish recovery amongst others have also improved the performance of major indexes across the globe. Thus, the Authority's FGF which warehouses hedge fund, PE and long-only equity investment was up by 7.4% in H1 2023, relative to the 3.9% dip in FY 2022. Consequently, in H1 2023, NSIA's annualised ROA and ROE improved to 106.1% and 113.2% respectively in naira terms and 48.1% and 51.7% in real US\$ terms. We believe the aforementioned growth drivers would support better performance improvement in FY 2023.

<p>Strengths</p> <ul style="list-style-type: none"> • Support of the government of the Federal Republic of Nigeria. • Good capitalisation • Sizeable and well diversified investment portfolio • Experienced management team
<p>Weaknesses</p> <ul style="list-style-type: none"> • Irregular contribution from shareholders
<p>Challenges</p> <ul style="list-style-type: none"> • Weak government finances that constrains the ability to consistently inject funds in the Authority • Sustaining performance in a volatile global economy • Exposure to abrupt Board changes with the inauguration of new administrations

Table 1: Background Information

	2021	2022
Total Assets & Contingents	₦1.22 trillion	₦1.04 trillion
Operating Income	₦147.6 billion	₦101.8 billion
Pre-tax Return on Average Assets (ROA)	13.6%	9.0%
Pre-tax Return on Average Equity (ROE)	17.7%	10.7%



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