

Nigeria Sovereign Investment Authority

2024 Abridged Entity Rating Report



Nigeria Sovereign Investment Authority

Entity Rating:

Aaa (NGA)

ESG Score:

3

Outlook: Stable

Issue Date: 14 Feb 2025

Expiry Date: 30 June 2025

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 assigned to Nigeria Sovereign Investment Authority ('**NSIA**' or '**the Authority**'). The rating reflects NSIA's strategic importance in providing stability for Nigeria during financial stress, 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 considered rating positives. However, NSIA's exposure to the vagaries of the Nigerian political terrain and lingering global headwinds constrains the rating. Our review of the ESG placed more emphasis on governance. Given that political interference in the Board's tenor could impair its independence and adversely impact some strategic oversight of the Authority, we have assigned a '3' ESG score, denoting that governance issues have material contributions to credit risk.

NSIA's core mandates are centred on building a savings base for future generations of Nigerians, driving domestic infrastructure development, and providing fiscal stabilisation during periods of economic stress. To achieve these objectives, the Authority manages three distinct ring-fenced funds: the Stabilisation Fund (SF), the Future Generations Fund (FGF), and the Nigeria Infrastructure Fund (NIF). As at 31 December 2023, NSIA's investment portfolio stood at ₦1.9 trillion (FYE 2022: ₦1 trillion) bloated by the steep naira depreciation given that the investment portfolio is denominated in USD. As at the same date, the investment portfolio was largely held in currency swaps with the CBN, hedge funds and long-only equity investments, private equity (PE), financial institution placements, intercompany investment receivables and Eurobonds. Hedge funds, long-only equity investments and the PE portfolio provide risk-adjusted returns albeit most vulnerable to global economic headwinds. The Authority adopts a diversification approach in managing the investment portfolio. As at FYE 2023, 33 fund managers including Goldman Sachs, JP Morgan and other top-tier global institutions oversee the portfolio while a portion is managed internally. As at the same date, the placements were held by investment-grade financial institutions, based on Agusto & Co's national rating scale and the Eurobonds are all debt obligations of the Federal Government of Nigeria. Overall, we consider the Authority's asset quality good supported by the diversification approach adopted.

As at 31 December 2023, NSIA's shareholders' funds stood at ₦2.2 trillion, reflecting a 118.6% year-on-year on the back of full profit retention and an additional capital inflow of ₦20.9 billion (\$45 million) from the Petroleum Industry Act (PIA) implementation. As at the same date, the equity cushion rose to

95.5% (FY 2022: 83.8%) due to the enlarged capital base and surpassed our 50% threshold underscoring the strong capital position relative to the business risks undertaken. In the near term, we anticipate additional capital given the full implementation of the PIA, which mandates the allocation of price-based royalties from upstream oil and gas companies to NSIA. The expected retention of the anticipated improved profitability should also bolster the capital base. Subsequent to the year-end, in the first nine months of 2024, the Authority received an additional ₦130.8 billion (\$96.4 million) from the price-based royalties, further strengthening capitalisation.

In the financial year ended 31 December 2023, NSIA's performance was largely shaped by foreign currency revaluation gains given the steep depreciation in naira, the reporting currency of the Authority. The elevated interest rate environment and the positive sentiments towards equities also supported the performance. As a result, the operating income surged 11.6 times to ₦1.2 trillion in FY 2023. Notwithstanding the raging inflationary pressures, operating expenses grew by only 9.8%. Hence, the cost-to-income ratio plummeted to 0.5% (FY 2022: 5.7%), the lowest since inception. Overall, the Authority posted a pre-tax profit of ₦1.2 trillion (FY 2022: ₦96 billion) and profitability ratios surged with pre-tax return on average assets (ROA) of 70.1% (FY 2022: 8.4%) and pre-tax return on average equity (ROE) of 73.4% (FY 2022: 10.1%). When we adjust for the foreign currency revaluation gain which is unsustainable in our view, the ROA and ROE improved to 53.2% (FY 2022: 8.1%) and 55.8% (FY 2022: 9.7%) respectively.

Subsequent to the year-end, NSIA's performance was further bolstered by additional naira depreciation which resulted in significant foreign currency revaluation gains. The disinflation recorded by some developed economies and China's gradual recovery, amongst other positive factors impacted the hedge fund, PE and long-only equity investment in the FGF portfolio. Consequently, in the nine months ended 30 September 2024, NSIA's annualised ROA and ROE improved to 78.9% and 81.3% respectively in naira terms and 64.7% and 62.6% in dollar terms. We believe the performance will be sustained in the near term.

Based on the aforementioned, we hereby attach a **stable** outlook to the rating.

Strengths

- Support of the Federal Government of Nigeria
- Good capitalisation
- Relatively diversified investment portfolio
- Experienced management team

Weakness

- Political risk as reflected in abrupt changes in the Board composition with the inauguration of new administration

Challenges

- Weak government finances that constrains the ability to consistently inject funds in the Authority
- Sustaining performance in a volatile global economy

Table 1: Background Information

	31 December 2022	31 December 2023
Total Assets & Contingents	₦1.04 trillion	₦2.3 trillion
Operating Income	₦101.8 billion	₦1.2 trillion
Pre-tax Return on Average Assets (ROA)	9%	70.5%
Pre-tax Return on Average Equity (ROE)	10.7%	73.8%



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