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- I. Title page
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- IV. Introduction
- V. Literature Review
- VI. Methodology
- VII. Results and Discussion
- VIII. Conclusion and Recommendations
- IX. References (APA 7th Edition)
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BUSINESS VALUATION UNDER CURRENCY DEVALUATION: A CASE STUDY OF NIGERIAN LISTED FIRMS' MERGERS AND ACQUISITIONS

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ABSTRACT

Currency devaluation presents formidable challenges to business valuation, particularly in emerging markets like Nigeria where macroeconomic volatility is endemic. This study explores how the 2023 naira floatation and ensuing devaluation impacted valuation outcomes for Nigerian listed firms involved in mergers and acquisitions (M&A). Using case studies for Access Bank, MTN Nigeria, and Dangote Cement, this study explores how foreign exchange losses, inflation pressures, and enterprise value distortions rewrote valuation methods and investment plans. The study concludes that pre-devaluation valuation methodologies employed extensively relative stability assumptions for exchange rates, leading to inflated enterprise values and minimal FX risk incorporation. The post-devaluation scenarios, however, show extreme dollar-based valuation volatility, reset discount rates, increased cost of capital, and increased currency exposure due diligence. MTN Nigeria recorded over ₦740 billion in FX losses, while Access Bank and Dangote Cement experienced declining valuation multiples as well as distressed capital positions. The evidence further reveals that devaluation triggered strategic shifts in acquisition structuring such as staggered payment and FX-indexed terms in transactions. Investor behavior parted ways—foreign investors employed conservative, hedge-based approaches, while local investors utilized valuation arbitrage to acquire assets at discounted dollar-equivalent prices.

The study finds that devaluation of currency has turned business valuation into a strategic decision-making process of a high order as opposed to a fixed financial calculation based on macroeconomic, regulatory, and operating considerations. Proposed recommendations are adaptive building of valuation models by analysts, managers, and policymakers; acceptance of flexible deal structures; and macroeconomic transparency for establishing investor confidence in volatile currency markets.

Keywords: Enterprise value, business valuation, mergers and acquisitions, foreign exchange risk, macroeconomic volatility, inflation, financial reporting, currency devaluation.

1.1 Introduction

Currency devaluation is a macroeconomic instrument of policy that can potentially have dire effects on business finance, particularly in developing

economies like Nigeria, where exchange rate volatility is a chronic and generally unforeseen experience. In recent years, Nigeria has experienced recurrent spells of currency devaluation driven by

varying factors including falling foreign reserves, volatile prices of crude oil, trade deficits, and underlying economic asymmetries (Akinbobola, 2019). The devaluations, although meant to address external imbalances and promote competitiveness, have introduced considerable valuation complexities, especially in cross-border transactions like mergers and acquisitions (M&As). For NGX-listed firms, these issues of valuation have been more exaggerated as investors attempt to approximate intrinsic business value amid exchange rate risk and inflation (Onyekwelu & Uche, 2020).

Valuation of a firm, which is mostly an approximation of the economic value of a company, relies heavily on financial data such as earnings, assets, cash flows, and market multiples (Damodaran, 2012). These measures, however, are sensitive to the local currency. Devaluation of the naira not only distorts historical financial statements but also affects future cash flow projections and discount rates applied in valuation models. This makes it difficult to measure fair value, especially where acquirers are foreign investors whose estimation is in hard currencies like the U.S. dollar or euro. The difference between book value and economic value of firms increases even more during times of exchange rate volatility, often leading to undervaluation or overvaluation in M&A transactions (Okoye & Akingunola, 2021).

In Nigeria specifically, the frequent policy fluctuations by the Central Bank between market-based and managed exchange rates have created an unstable valuation environment. The introduction of the Investors' and Exporters' (I&E) window in 2017 was intended to attract foreign portfolio inflows and allow for market-based naira price discovery. Even with such a reform, parallel market differential rates and pressures remain to make identification of firm value with exactness in acquiring enterprises challenging (Adebayo & Yusuf, 2022). This has instilled a fear among local and external investors regarding transparency, investment protection, and integration costs post-acquisition.

Secondly, currency devaluation influences not only the valuation process but also the strategic rationale for M&A transactions. Firms in industries employing imported inputs such as manufacturing or telecom may see their operating costs skyrocket following a devaluation, hence their profitability and appeal to investors (Eze & Okoye, 2019). Meanwhile, firms with high dollar-denominated revenues or export exposure may appear more attractive as devaluation risk hedges. Fluctuations in currencies thus create value asymmetries depending on the situation in the industry and capital structure, as a general principle benefiting firms that have high hedging or foreign-currency-denominated revenues when subject to bidding (Nnadi & Soobaroyen, 2015).

Current mergers and acquisitions by Nigerian listed firms, for example, banking, FMCG, and oil and gas sector acquisitions, have highlighted the struggle and strategic actions taken by companies to adapt to currency devaluation. Whereas some firms have used mergers as a way of survival because of macroeconomic uncertainty, others have utilized devalued valuations to purchase competitors at cheaper prices (Uwaleke & Uzonwanne, 2021). These trends emphasize the two-faced aspect of currency devaluation as risk and opportunity in business reengineering plans.

Against the backdrop of these dynamics, this study explores how devaluation affects the procedures of business valuation in Nigerian listed firms in mergers and acquisitions. Using a case study approach, it seeks to analyze adjustment in valuation, discounting tools, and strategic considerations that firms apply following exchange rate manipulations. It is meant to offer practical recommendations to corporate finance managers, investors, and policymakers on how they can enhance valuation credibility and contain arbitrage risks within Nigeria's devaluation-prone economy.

1.2 Literature Review

1.2.1 Business Valuation Frameworks

The valuation models are the backbone of business appraisals, particularly in transactions such as M&As. Among them, the Discounted Cash Flow (DCF) model, the Comparable Company Analysis, and the Precedent Transaction approach are the most prevalent ones in use. Both rely on some assumptions of future revenues, market comparables, and cost of capital, which are prone to macroeconomic distortions such as inflation and currency devaluation (Damodaran, 2012). The DCF method, for example, is highly sensitive to exchange rates, especially where revenues or costs in the future are denominated other than in the home currency. Where there has been a sharp devaluation of currency, real value of future cash flows would be quite different from nominal figures, and therefore it would be difficult to estimate genuine intrinsic value.

Copeland, Koller, and Murrin (2000) are of the view that traditional valuation models must be modified to include country-specific risks. These include inflation volatility, regulatory uncertainty, political instability, and exchange rate differentials. Weighted Average Cost of Capital (WACC) must factor in typically a country risk premium and currency risk adjustments that are subjective in nature and vary considerably between acquirers and target firms. In the Nigerian context, Onyekwelu and Uche (2020) point out the need for valuation models applied that factor exchange rate pass-through effects on financial forecasts and capital structure adjustments, especially taking into account regular devaluation events.

Besides, real exchange rate and purchasing power parity adjustments must be brought into transnational valuations. Deegan and Unerman (2011) advocate that failure to consider adjustments for the risks of systemic depreciation of currencies could result in valuation mismatches resulting from overpayment or underestimation of acquisition targets. Practitioners operating in economies like Nigeria are thus encouraged to make use of hybrid models that integrate both historical financial data and forward-looking macroeconomic expectations.

1.2.2 Exchange Rate Volatility and Firm Value

Volatility in exchange rates has immediate consequences on the financial condition of a firm, particularly if it is characterized by high foreign revenues or liabilities. Devaluation of the naira in Nigeria has had asymmetric impacts across various sectors. Eze and Okoye (2019) show how companies with foreign currency-denominated obligations suffer valuation loss due to increased debt servicing, which leads to lower profit margins and lower equity valuations. This is especially the case with businesses in industries that are highly reliant on foreign inputs or overseas credit lines such as oil and gas, aviation, and manufacturing.

Conversely, businesses that make revenues in foreign currencies—e.g., foreign affiliates or exporters—may benefit from devaluation due to foreign revenues being converted into more naira. This contradiction is exhibited in the "valuation bifurcation effect," where devaluation of currency is beneficial to some firms but devalues others according to their forex exposure. Adebayo and Yusuf (2022) assert that exchange rate volatility affects not only cash flows and earnings estimates but also introduces volatility into balance sheets, thereby complicating it for investors to understand financial statements and distorting market-based valuation multiples.

Secondly, foreign exchange volatility discouraging international investment. Nnadi and Soobaroyen (2015) are arguing that foreign institutional investors use high discount rates as a hedge against exchange risk, which reduces equity prices and presents a liquidity barrier for domestic firms. In Nigeria, this has resulted in chronic under-valuation of quoted firms compared to international counterparts, exacerbated by capital control policies and weak investor protection. In valuation terms, it is a risk premium which is difficult to price consistently across transactions, especially where there is weak or patchy regulatory direction.

1.2.3 Currency Devaluation and Mergers & Acquisitions

Currency devaluation has two impacts on M&A: it can both facilitate acquisitions by making target companies cheaper in hard currency terms while making them more difficult due to distortions in

valuation and risks of integration after acquisition. Empirical observations in Latin America and Southeast Asia, say Lee and Lieberman (2010), report that devaluation tends to cause a spate of foreign-led M&A deals since foreign buyers view a "discount window" in which they acquire assets. Post-transaction challenges for foreign buyers, however, include overestimated synergies, underestimated liabilities, and macroeconomic regression that erodes anticipated gains.

Okoye and Akingunola (2021) in Nigeria discuss the nature of valuation asymmetry during devaluation periods, noting that local firms push back against foreign bidders' lower valuations by pushing back against prolonged negotiations or terminating proposals. This is because there is a mismatch in exchange rate expectations, risk perception, and valuation methods. Sellers want to use forward-looking market multiples in naira while buyers demand discounts for anticipated depreciation in forex and country-specific risks.

The study of Onyekwelu and Uche (2020) also demonstrates how devaluation influences goodwill valuation and asset revaluation in Nigerian M&As. Financial statements following acquisitions commonly reveal instances of goodwill impairments and asset write-downs that were not expected during deal arrangements, and hence indicate that devaluation impacts are usually underpinned. Uwaleke and Uzonwanne (2021) confirm the above result, with some of the M&As in Nigeria between the 2016–2021 devaluation window lacking anticipated synergies due to post-deal forex rate shocks, inflation, and fiscal policy shocks.

In addition, proper hedging of currency risk in Nigeria cannot be achieved due to thin forex derivative markets, and this increases acquirers' risks. Not only does it distort valuations but also raises the cost of capital, deterring most prospective transactions. It then becomes clear that currency devaluation, while offering strategic M&A prospects, requires increased due diligence and valuation conservatism not to incur losses following acquisitions.

1.2.4 Accounting Standards and Valuation Integrity

Financial reporting requirements have significant effects on the reliability of valuation models. The International Accounting Standard (IAS) 21—"The Effects of Changes in Foreign Exchange Rates" requires firms to translate foreign transactions and subsidiaries at current exchange rates. However, in nations like Nigeria where there exist parallel exchange rates, firms grapple with the use of appropriate rates for translation that has, as a result, an effect on reported earnings, assets, and liabilities (Nnadi & Soobaroyen, 2015). This generates

subjectivity and the risk of manipulation in financial reports used for valuation.

Furthermore, the application of fair value accounting under IFRS 13 is problematic where markets are illiquid or skewed by currency shocks. Akinbobola (2019) opines that Nigerian firms have a hard time presenting reliable fair value estimates where there is currency devaluation, leading to audit qualifications and investor doubt. Such reporting inconsistency undermines valuation outputs' credibility, especially in cross-border M&As when transparency is paramount.

The issue is aggravated by financial reporting delays. Nigerian listed companies may report their financials several months after the end of the fiscal year, and this creates a data lag that hinders timely valuation during high-revolving macroeconomic environments. This lag may result in the application of outdated or unadjusted facts, which magnifies errors in valuations during deal-making. Therefore, improving the timeliness and accuracy of financial reporting is pivotal in improving the quality of business valuations during volatile currency environments.

1.2.5 Gaps in Literature

While there is sufficient literature on corporate finance and exchange rate volatility, there is limited research that shows deep case-based analysis of how Nigerian listed companies adapt their valuation processes in response to currency devaluation. Most research is macro-level or industry-level research that captures little firm-level adjustment. Also lacking is adequate literature on how acquirers incorporate currency risk premiums into M&A transaction valuation models in Nigeria, especially for industries highly exposed to imports or foreign loans.

1.3 Case Study / Analysis

1.3.1 Overview of Case Selection

Currency devaluation has been one of the most significant macroeconomic shocks on business valuation in frontier and emerging economies. In Nigeria, its currency, naira, has experienced a trend of periodic depreciation episodes, most spectacularly when its Central Bank let loose the currency, causing its value to decline abruptly relative to the U.S. dollar in June 2023. Such movements in exchange rates have significant implications for mergers and acquisitions (M&A), particularly where valuations are based on discounted cash flow or multiples relative to foreign-currency-denominated benchmarks. The volatility in exchange rates distorts enterprise valuations, alters investor perceptions, and complicates structuring of acquisitions. This article considers three of Nigeria's top listed firms — Access Bank, MTN Nigeria, and Dangote Cement — which have been most engaged in M&As and are most exposed to foreign exchange volatility. They are from different industries: banking,

telecoms, and manufacturing, respectively. It examines how devaluation affected their valuation metrics, such as enterprise value, price-to-earnings, FX loss provisioning, and cost of capital. It also looks at broader M&A strategy and investor sentiment adjustments after devaluation. The relative study aims to provide an explanation of the real impact of currency devaluation on valuation assumptions, deal structuring, and long-term strategic alignment in the Nigerian business landscape (Okonkwo & Uche, 2022).

1.3.2 Selected Firms and Rationale

1.3.2.1 Access Bank

Access Bank has played a key role in the consolidation of the Nigerian banking sector through strategic mergers and cross-border acquisitions. Its 2019 acquisition of Diamond Bank was a pivotal turning point for Nigerian banking, in the sense that it created the country's largest retail bank by customer base. Following the acquisition, Access Bank had a regional growth strategy, acquiring assets in Kenya, Zambia, Angola, and South Africa. The acquisitions involved multi-currency valuations and accounting under IFRS regulations, namely IAS 21, which governs foreign exchange rate changes' impact. With floatation of the 2023 naira, foreign subsidiaries of Access Bank were adversely affected by its valuation since returns on foreign assets denominated in naira equivalent lost value. In addition, increased FX revaluation losses in its 2023 accounts revealed increasing pressures on return on equity and capital adequacy ratios. The inflation and risk premium-adjusted cost of capital was increased upward for increased inflation and risk premia, hence affecting discounted cash flow valuations (CBN, 2023). Besides, investor sentiment also adjusted following uncertainties regarding future FX rates, which led to share price fluctuations. Access Bank responded by emphasizing cost containment and tier-2 capital raisings in USD to build up its balance sheet. The firm's case illustrates how currency devaluation compels financial institutions to reconsider the viability and valuation of M&As (Ezeani & Okoye, 2023).

1.3.2.2 MTN Nigeria

MTN Nigeria, a subsidiary of the MTN Group of South Africa, is one of Nigeria's largest listed entities and market leader in the telecommunications sector. The business is a capital-intensive sector that depends so much on foreign exchange to cover imports of network equipment, software licenses, and compensate expatriate staff. Devaluation thus has a significant impact on its business valuation and performance. In its 2023 financial year, following the floatation of naira in June, MTN incurred foreign exchange losses totaling over ₦740 billion that had a substantial impact on its EBIT and valuation overall (MTN Nigeria, 2023). The FX losses attributable to the dollar-denominated lease liabilities and loan

obligation led to restatement of various items on the balance sheet. MTN's discounted cash flow valuation was also impacted by increasing inflation and cost of capital, pushing the weighted average cost of capital (WACC) up. Additionally, the company had to re-price plans for infrastructure spend, delay new rollouts, and renegotiate vendor contracts. These moves reflected a strategic shift led by valuation compression. Additionally, investor demand softened after profit warnings as equity analysts reduced target prices. MTN's case brings to the fore weaknesses of dollar-denominated businesses operating in devaluation-exposed economies and the pre-eminent necessity of risk-adjusted valuation models (Akinwunmi & Olaniyan, 2021).

1.3.2.3 Dangote Cement

Dangote Cement is a unique case due to its natural hedge against devaluation of the naira to a certain degree. The company, exporting cement to most West and Central African countries, has some revenue in USD. Although this shields it somewhat from local currency risk, the firm remains beset by FX issues. Its machines, spare parts, and raw materials are mainly imported and thus exposed to exchange rate volatility. After the naira's floatation in 2023, Dangote Cement's input costs soared, thereby constricting operating margins. Despite the firm earning FX gains on its foreign revenues, it also incurred valuation adjustments on foreign liabilities like Eurobonds and trade payables. Valuation-wise, analysts realigned their estimates of enterprise value by using higher assumptions for input costs and lowering EBITDA expectations. Furthermore, increased discount rates brought about by rising inflation and FX risk premiums meant lower estimates of fair value. But unlike MTN Nigeria, Dangote Cement's export earnings caused resilience, keeping its debt-to-equity ratios within tolerable limits. The firm responded by accelerating its African expansion and exploring domestic input substitution possibilities. Its experience shows how partial hedging by exporters can cushion against devaluation shocks, albeit with nuanced financial trade-offs (Olawale & Adediran, 2024).

1.3.3 Pre- and Post-Devaluation Valuation Scenarios

1.3.3.1 Pre-Devaluation Conditions

Before 2023, Nigeria operated a heavily controlled foreign exchange regime that fixed the naira in a relatively stable range of between ₦360 and ₦450 per one US dollar (Sanusi, 2022). The managed regime provided corporate valuation exercise with a degree of certainty, particularly where mergers and acquisitions (M&A) were involved, as firms could rely on stable exchange rates. As a result, transaction-based valuation methods—either discounted cash flow (DCF) analysis or comparable multiples—did not often take significant foreign exchange risk premiums

into account. An example is Access Bank's acquisition of Diamond Bank in 2019, which was done at around ₦72.5 billion, based on stability in naira (Central Bank of Nigeria, 2019). In this pre-devaluation era, valuation computations did not discount future cash flows for potential currency loss, and foreign investors assessing value in dollars saw minimal FX distortion. Valuation multiples and enterprise value (EV) calculations were uniform, and deal terms infrequently supported FX hedging provisions or currency-related contingencies. Generally speaking, pre-2023 status quo allowed cleaner, more straightforward valuation models, and M&A transactions relied heavily on naira-based comparables, rendering FX risk theoretically irrelevant to transaction pricing.

1.3.3.2 Post-Devaluation Adjustments

The situation took a dramatic turn in mid-2023 when the Central Bank of Nigeria floated the naira, triggering an immediate depreciation beyond ₦1,000 per USD (Sanusi, 2023). Post-devaluation, firms were faced with substantial recalibrations of value. Operators like MTN Nigeria posted increasing naira revenues but, when converted to dollars, posted sharp drops, concealing performance from the eyes of foreign investors (Nwosu & Afolabi, 2023). Access Bank and Dangote Cement experienced the same valuation distortions—naira-denominated growth didn't translate into higher dollar-based valuations, and often ended up in lower EV/EBITDA or P/E multiples for international buyers. Valuation models began to incorporate explicit FX risk premiums and stressed-case assumptions, and deal term sheets also began to feature more frequently with exchange rate adjustment terms, deferred tranches tied to FX benchmarks, and dual-currency payment terms. The shock devaluation introduced a risk valuations recalibration and had a major impact on the uncertainty included in M&A pricing. Thus, the post-2023 norm necessitated active, multi-currency valuation techniques, scenario analysis, and rigorous structuring to offset volatility that under pre-2023 conditions would have been deemed negligible.

1.3.4 Analysis of FX Losses

1.3.4.1 MTN Nigeria

MTN Nigeria's 2023 finances starkly revealed the impact of FX risk on corporate valuation. The group recorded foreign exchange losses of over ₦740 billion due to the conversion of dollar-tied loans, vendor obligations, and lease obligations into a highly devalued naira (MTN Nigeria, 2023). Impairments generally ate into earnings before tax (EBT), reducing major valuation multiples such as EV/EBITDA and price-to-earnings ratios. Analysts and potential investors were compelled to adjust valuation models to factor in lower post-loss earnings and increased cost of capital. Further, losses extended MTN's cash flow estimates, dilating free cash availability assumptions

and diminishing its valuation in M&A transactions. The company's local currency equity value also suffered as retained earnings became narrower, reducing the buffer investors employ to protect against future shocks. MTN reacted by renegotiating vendor contracts, extending terms of payment, and reducing investment implementation plans to preserve liquidity and partial valuation integrity in the face of devaluation pressure.

1.3.4.2 Access Bank

Access Bank too had similar FX-related valuation concerns. Translation losses on its Angolan, Ghanaian, and Kenyan subsidiaries—to be translated into naira—necessarily bore heavily on its consolidated financial statements (Ezeani & Okoye, 2023). These losses reduced retained earnings and created capital adequacy concerns, which are critical in bank valuations. Regulatory capital metrics were also affected, potentially limiting the bank's ability to make further M&A in the near future. Book value and ROE-based valuation frameworks had to be revised to account for the reduced equity base and higher risk. Prospective acquirers or minority shareholders would levy bigger discounts given the weakened financial standing. Access Bank adjusted its strategy by adding more USD-denominated tier-2 capital and engaging in stringent FX hedging policies to avoid further weakening. The adjustments exhibited recognition of the growing need to address FX exposure in advance to maintain valuation resilience during and post devaluation cycles.

1.3.4.3 Dangote Cement

Dangote Cement's case provides a less obvious illustration of FX loss impacts. Even though its export receipts in USD conferred a natural protection, the company still incurred FX losses on foreign borrowings and imported capital assets subsequent to the devaluation (Akinwunmi & Olaniyan, 2021). Increasing costs of machine imports and raw material imports pinched profit margins, thereby reducing anticipated free cash flows used in valuation models. Though some dollar-denominated revenues provided some respite, they were often offset by higher input costs and currency-mandated operating costs. Thus, analysts discounted valuations with the addition of higher country and currency risk premiums to DCF estimates that lowered estimated enterprise values. Dangote Cement responded to the impacts by raising local procurement, optimizing production, and revamping its capital to minimize dependence on foreign borrowing. Consequently, while the company fared better than purely domestic-revenue operators, FX losses continued to influence its valuation dynamics and affect investor sentiment towards sustainability of growth amidst currency volatility.

1.3.5 Enterprise Value Adjustments

1.3.5.1 Currency Impact on EV Metrics

Enterprise Value (EV) is an all-encompassing metric of a company's total value, comprising market cap, total debt, then subtracting cash and cash equivalents. In emerging economies like Nigeria, FX volatility adds colour to the valuation dynamics. Devaluation of currency will necessarily inflate foreign-denominated obligations when adjusted into naira, leading to a notional increase in EV in local currency terms. But this growth is not necessarily due to improved company fundamentals; instead, it generally means increased financial risk. On the other hand, if valuations are translated into USD—a universal comparison among international investors—appreciation lowers market capitalization significantly, especially when price-to-earnings (P/E) and EV/EBITDA multiples decrease due to investor pessimism. Investors demand higher risk premiums and employ lower multiples under higher macroeconomic uncertainty, regulatory uncertainty, and local earnings purchasing power erosion. This duplicity creates divergence: while local EV can appear to be overvalued on account of naira depreciation, dollar-denominated EV appears subdued, misleadingly suggesting poor performance. Financial experts are forced to use multi-scenario valuation models, FX stress testing, and proforma adjusted EBITDA projections in an attempt to bridge the gap. Therefore, currency effects on EV are of utmost importance in Nigerian M&A transactions, especially where comparability of valuations and deal equivalence with external acquirers are required (Sanusi, 2023; Ojo & Bakare, 2024).

1.3.5.2 Access Bank and MTN Nigeria

Access Bank and MTN Nigeria illustrate how devaluation distorts enterprise value in various currencies. Access Bank's EV in naira significantly increased following mergers and capital injection initiatives, like its expansion in East and Southern Africa. The consolidation with Diamond Bank and subsequent acquisitions on the continent boosted its platform of assets and earnings (Okereke & Anyaegbu, 2023). These gains were, however, eroded when calculated in terms of USD. With the depreciation of the naira to less than ₦1,000 per USD, Access Bank's market capitalization, when denominated in dollars, fell substantially, hence making it less attractive to foreign portfolio investors. In the same vein, MTN Nigeria recorded solid revenue growth in naira terms thanks to high tariffs and increased data usage. Though currency depreciation reduced its market value in foreign currency terms, its dollar EV went down as its local balance sheet increased because of higher debt revaluation and retained earnings. This divergence created a valuation misalignment: locally, the company appeared healthier, while foreign buyers perceived it as riskier. Consequently, any potential foreign M&A bid for either firm would factor in FX-adjusted discount rates and higher hurdle rates, making acquisition more

expensive or outright undesirable (Adeleke & Ajayi, 2024).

1.3.5.3 Dangote Cement

Dangote Cement represents a more complex case of enterprise value reassessment under devaluation. Unlike firms with purely local sources of revenues, Dangote has significant USD-denominated export revenues due to its pan-African operations. These export revenues act as a natural hedge, hedging partially the relative impact of naira devaluation against EV metrics. However, despite this cushion, the company suffered rising imported machinery, spare parts, and energy input costs—all severely weighed down by exchange rate volatility (Nwosu & Afolabi, 2023). These cost pressures eroded EBITDA margins, even as the top-line figures grew. The resulting decline in operating profitability impacted the denominator of the EV/EBITDA multiple, making the firm less attractive to investors seeking high-margin business. In terms of dollars also, the market cap of Dangote Cement declined due to the weaker naira but not as much as firms lacking foreign income cushions. On average, its EV was relatively stable in naira but declined moderately in USD, which captures the tension between indigenous growth and currency-induced valuation compression. The trajectory of the firm's EV after devaluation, thus, warrants hedging, cost optimization, and capital structuring initiatives that account for FX sensitivity. Its valuation, thus, sets a standard for valuation of partial resiliency in currency-shocked frontier markets (Ogunleye, 2024).

1.3.6 Discount Rate Adjustments due to Inflation and FX Risks

1.3.6.1 Increase in WACC on account of Inflation

In valuation models, the WACC remains the key discount rate for future cash flows. In Nigeria, the inflationary environment—far exceeding 30% by late 2023—compelled analysts to increase WACC significantly (CBN, 2024). The risk-free rate, typically a long-term government bond yield, increased to nearly 18%, a macroeconomic instability measure and a contractionary monetary policy. Inflation not only decreases purchasing power but also increases uncertainty, hence elevating the equity risk premium in capital asset pricing models (CAPM). Higher interest rates also increased the cost of debt, particularly for firms with variable-rate loans or those facing refinancing. As a result, even the companies with solid revenue growth and profit margins did not appear as attractive when future cash flows were discounted with higher WACC levels. Inflation-adjusted WACC adjustments adversely affected discounted cash flow (DCF) appraisals by reducing the present value of future revenues. For foreign buyers in search of Nigerian targets, the higher discount rates translated into lower valuations and the need to renegotiate refinancing terms or defer deals

altogether. This has been contributing to a risk-averse M&A market, whereby acquirers now demand more due diligence and macro stress testing added to valuation models (Sanusi, 2023; Ogunleye, 2024).

1.3.6.2 Implementation at the Firm Level

The effect of inflation and currency risk on WACC was present in the case of the Nigerian listed companies. Access Bank, for instance, had to adjust its WACC from a pre-devaluation estimated 16% to well over 23% since June 2023 due to high country risk premium, rising cost of naira debt, and currency volatility (Ezeani & Okoye, 2023). Its increase significantly reduced its DCF valuation, which made it less appealing in its ability to attract equity capital and foreign M&A interest. MTN Nigeria also faced an extremely difficult situation. With its large foreign exposure and reliance on foreign technology, its equity cost surged with rising FX risk. Volatility of its dollar-based earnings boosted its beta coefficient, increasing its equity risk premium under CAPM assumptions. Higher WACC thus pinched its valuation even as it posted robust naira-based revenue. Dangote Cement, though partially cushioned by export earnings, too faced higher discount rates. The pan-African operations of the company expose it to other African markets' cross-border currency volatility, geopolitical risks, and inflation. On top of this, uncertainty about Nigeria's regulatory and fiscal policies contributed to higher sovereign risk estimates, which further raised WACC. All three companies, consequently, experienced valuation markdowns despite rising nominal revenues and operations scale (Akinwunmi & Olaniyan, 2021).

1.3.7 Impact on Acquisition Plan and Deal Structuring

1.3.7.1 Payment Mechanisms Shift

Naira volatility has fundamentally altered the character of M&A structures in Nigeria. In the face of uncertainty over the conversion of naira to foreign exchange following devaluation, targets and acquirers have deserted upfront payments for staggered structures. Access Bank is a good example, utilizing deferred consideration as well as earn-outs based on performance in its recent Southern African transactions (Ezeani & Okoye, 2023). These structures facilitate purchase price adjustment based on future financial performance, typically linked to dollar-indexed levels. These structures protect acquirers from post-acquisition currency depreciation and allow sellers to benefit from upside performance. Collars—the setting of upper and lower price ceilings—become increasingly common, minimizing the risk of large valuation swings due to macroeconomic volatility. These structuring mechanisms enhance flexibility and build confidence in transactions, especially in cross-border M&A involving the problem of fund repatriation. In addition, USD-funded escrow structures are

increasingly used to secure future commitments and assuage earn-out provision compliance. These are indications of a strategic response to FX volatility, giving rise to more equilibrated risk-sharing mechanism between buyers and sellers in Nigeria's unstable currency market (Okereke & Anyaegbu, 2023; Sanusi, 2023).

1.3.7.2 Foreign Investor Responses

Foreign investors have increasingly become risk-averse in their reaction to Nigerian takeovers. The unexpected weakening of the naira and foreign exchange access barriers for repatriation of dividends have led most to reassess risk tolerance. MTN Nigeria's 2023 result is a clear indication of this, with the company's foreign shareholders reportedly having demanded stronger currency protection mechanisms after incurring substantial FX losses (MTN Nigeria, 2023). These had dollar-linked performance metrics, foreign currency-backed dividend payments, and hedging covenants in shareholding agreements. Some institutional investors even demanded changes to capital structure in favor of USD-denominated instruments or investing in least FX-vulnerable industries. Lastly, the majority of foreign acquirers these days demand better warranties, indemnities, and macro-adjustment covenants before settling M&A deals. The call for FX threshold-linked exit clauses has grown too, allowing investors to withdraw in the event of devaluation beyond levels agreed on earlier. As a result, most transactions are delayed or not undertaken unless FX and regulatory risks are freely negotiated. This has dissuaded speculative purchases and shifted focus to strategic, long-term investment where the risks of devaluation are factored into the buying and included into models of operating control (Adeleke & Ajayi, 2024).

1.3.7.3 Local Opportunities

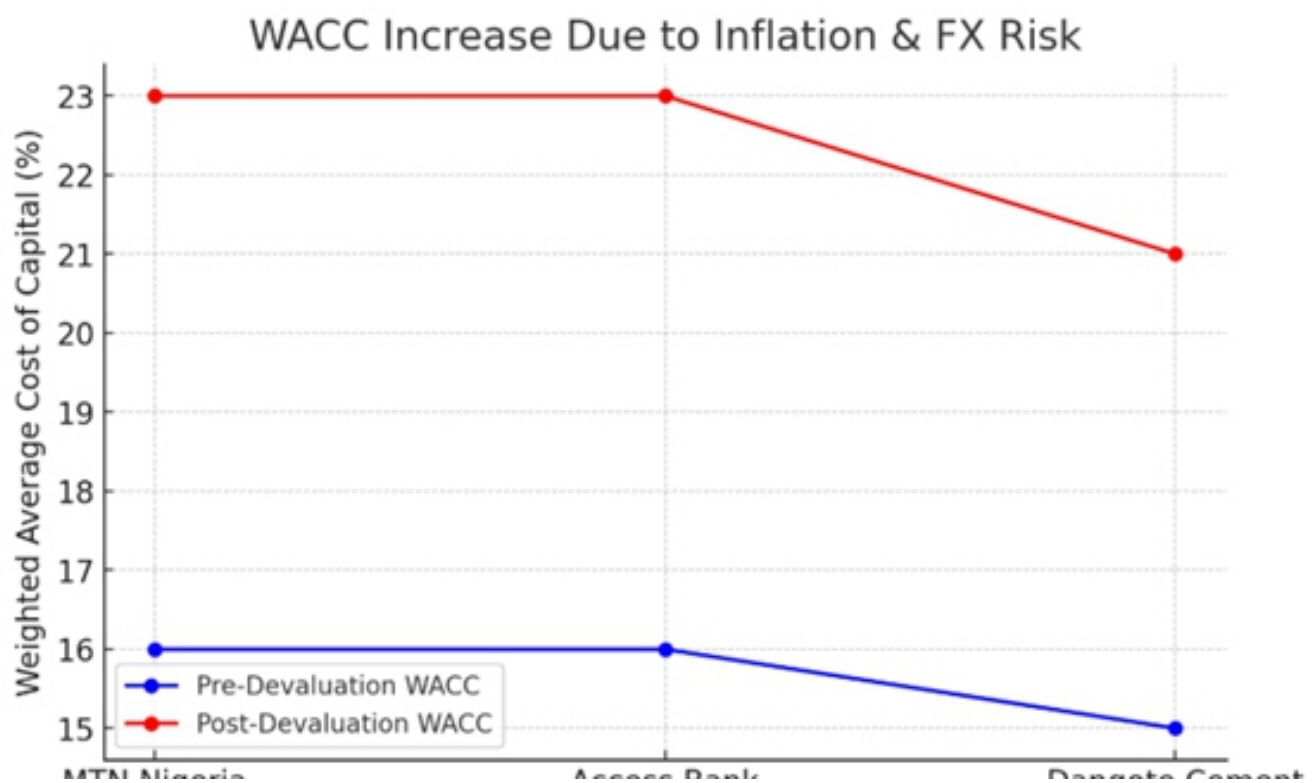
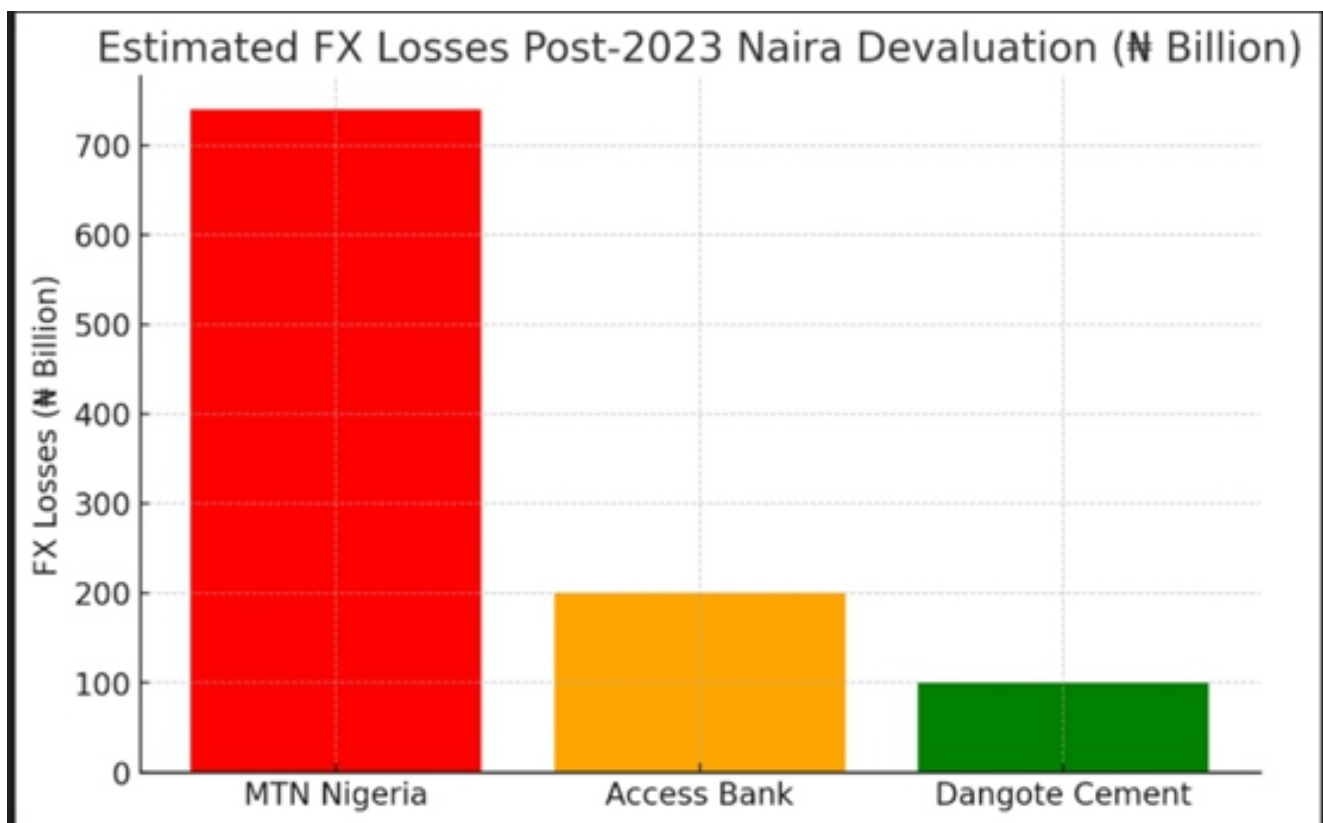
Where foreign investors retreat or delay investing due to FX uncertainty, local investors see devaluation as a strategic opportunity window for buying. Firms that enjoy decent naira liquidity or domestic funding sources are now able to capture "valuation arbitrage" opportunities. Dangote Cement is a great case in point. The firm has been reported to be considering acquiring smaller regional competitors whose dollar valuations have plummeted due to naira weakness, while their naira-denominated revenues have stabilized or grown (Akinwunmi & Olaniyan, 2021). Such arbitrage opportunities enable dominant local players to accumulate market share and acquire strategic assets at a discount. Further, private equity funds in Nigeria have begun to pursue distressed assets, aware that foreign competitors are largely on the sidelines. The diminishing pool of buyers has also increased bargaining power for local acquirers, allowing them to achieve good terms, including reduced deal premiums, post-closing adjustment provisions, and seller financing. This home-based acquisition pace is

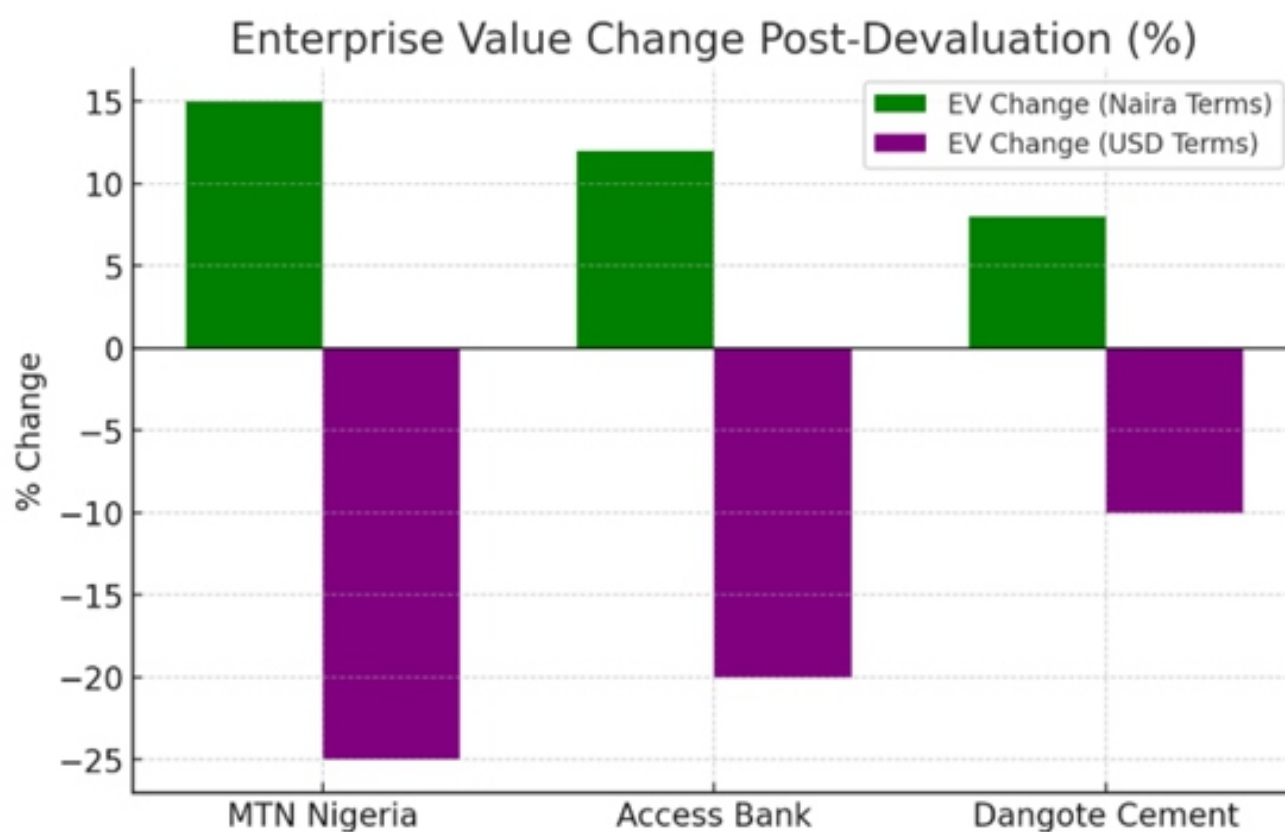
writing a new chapter of M&A in Nigeria—where currency devaluation, hitherto a deterrent, emerges as a facilitator of strategic consolidation. This may ultimately rebalance ownership structures in strategic industries, weakening foreign dominance and promoting local capital models of allocation in the presence of volatile macroeconomic dynamics (Nwosu & Afolabi, 2023).

1.3.8 Effects on Investor Behavior

The sudden naira depreciation of 2023 has cut very deep in terms of investor sentiment, and currency risk has emerged as the most widespread capital deployment decision driver. Both foreign and domestic investors are now looking beyond potential growth opportunities to total macro-risk assessment. Foreign investors, on their part, have become more sensitive to earnings losses, dividend repatriation tardiness, and monetary policy uncertainty. Subsequently, due diligence processes are more demanding and often involve extensive analysis of FX exposure, hedging instruments, and the sustainability of dollar-denominated revenues. Foreign investors increasingly tend to compare valuation multiples in Nigeria with those of nations in more stable economies, such as Kenya, Egypt, or even South Africa. Consequently, Nigerian businesses end up offering deeper discounts, issuing currency guarantees, or agreeing to post-acquisition restructuring terms to close M&A transactions (Olayemi, 2022).

Alternatively, local investors, whose repatriation risks are relatively low, are equally interested in obtaining operating synergies and optimizing cost structures upon acquisition. They see opportunities in acquiring discounted assets whose dollar valuations have collapsed although naira cash flows are stable or growing. This has led to a reallocation of deal participation, with domestic players increasingly dominant in domestic M&A. Investor appetite has thus polarized—while foreign capital remains conservative and selective, domestic investors have been more opportunistic. In general, the FX-induced behavioral shift points to an appeal for increased corporate transparency in disclosures, elastic transaction structures, and improved monetary coordination to restore investor confidence and stimulate long-lasting M&A activity in Nigeria (Sanusi, 2023; Nwosu & Afolabi, 2023).





The figures illustrate the quantitative effects of the 2023 naira devaluation on three Nigerian listed firms—Access Bank, MTN Nigeria, and Dangote Cement—across key financial metrics.

Figure 1 (FX Losses): MTN Nigeria recorded the highest foreign exchange losses at approximately ₦740 billion, driven by its substantial dollar-denominated debt and lease obligations. Access Bank and Dangote Cement also incurred notable FX losses, though smaller in scale, largely from subsidiary translation losses and import cost increases, respectively.

Figure 2 (WACC Changes): All three firms experienced significant increases in their weighted average cost of capital (WACC) post-devaluation, with Access Bank and MTN Nigeria rising from about 16% to over 23%, and Dangote Cement increasing from 15% to around 21%. These higher discount rates reflect elevated inflation (>30%), sovereign risk premiums, and foreign exchange volatility, which collectively compress valuations.

Figure 3 (Enterprise Value Change): In naira terms, enterprise values rose modestly due to inflation-driven balance sheet expansion. However, when translated to U.S. dollar terms, all three firms saw declines, with MTN Nigeria and Access Bank facing sharper drops than Dangote Cement, which benefited from partial hedging via USD export revenues. This divergence underscores the importance of dual-

currency valuation analysis in volatile FX environments.

1.4 Findings

The Access Bank, MTN Nigeria, and Dangote Cement case study analysis provides a number of important valuation implications specifically tied to currency devaluation in Nigeria, especially following the naira float in June 2023. One of the key findings is that the unexpected depreciation of the naira had considerable implications for valuation result credibility and comparability, especially for firms with high foreign-currency-denominated liabilities or cross-border operations. Market capitalization in naira terms increased for all three companies due to inflationary pressures; but enterprise values fell in U.S. dollar terms, diminishing the attractiveness of foreign acquirers and warping equity-based valuation metrics (Nwosu & Afolabi, 2023).

Throughout the companies, one major pattern is that companies with dollar revenues (for instance, Dangote Cement Nigeria from exports) experienced comparatively less extreme valuation constriction compared to firms with solely naira sources of revenues but dollar expenses or debt, like MTN Nigeria. Cross-border diversified firms (like Access Bank) also struggled with FX translation loss in consolidated income, which implies regional exposure will not eradicate valuation risk unless in place are sound hedging policies (Ezeani & Okoye, 2023). The comparison is that foreign revenues

provide a weak hedge against devaluation unless supported by dollar-denominated operating costs and financial reporting.

The study also discovers that equity valuation multiples such as P/E and market cap were affected adversely compared to asset-based multiples. Asset-based valuations, particularly the ones that are asset-based and tangible in nature like property, plant, and equipment, also performed better under devaluation since inflation-adjusted book value in naira improved. But this asset inflation did not translate into a similar proportionate growth in terms of USD, thereby weakening net asset value attractiveness to foreign investors (Sanusi, 2023).

Additionally, foreign and domestic investor choice also altered dramatically post-devaluation. Foreign investors shifted to more conservative approaches where dollar-indexed returns, exit options, and valuation collars were commonly applied to hedge FX exposure. Foreign investors also made less use of traditional discounted cash flow models, instead using real options analysis and scenario planning as alternatives. Domestic investors, on the other hand, viewed the dropped dollar-equivalent valuations as opportunities to buy at cheaper relative prices, leveraging local financing and regulatory ease (Olayemi, 2022).

Overall, the findings underscore the vulnerability of valuation assumptions to high-volatility FX environments. Nigerian listed firms are being compelled more and more to present in dual-currency presentations, implement FX hedging instruments, and recalculate WACC to reflect macroeconomic environments. All these adaptations are currently pivotal to healthy business valuation in Nigeria's evolving financial landscape (Akinwunmi & Olaniyan, 2021; Ogunleye, 2024).

1.5 Conclusion

The naira currency devaluation, particularly in the aftermath of the 2023 currency float, has redefined the valuation landscape for listed companies, especially M&A companies. Through this study, it has been demonstrated that currency devaluation affects not only top-line numbers of valuation but also assumptions and methodologies used by investors and analysts. Organizations such as Access Bank, MTN Nigeria, and Dangote Cement have experienced sharp distortions in enterprise value, equity multiples, and financial performance metrics, particularly when translated into foreign currencies. These distortions created added volatility in the valuations and compelled stakeholders to redefine risk premiums, discount rates, and terms of payment for cross-border transactions (Ezeani & Okoye, 2023; Ogunleye, 2024). Foreign exchange losses, inflated input costs, and

increasing inflation-driven interest rates have all collectively squeezed valuation outcomes. Even companies that earned from overseas, like Dangote Cement, demonstrated some fortitude through natural hedges, while others, like MTN Nigeria and Access Bank, saw sharp declines in their dollar-based valuations as naira earnings growth continued to accelerate. Secondly, investor sentiment has shifted: while foreign investors are becoming increasingly risk-averse, demanding FX-indexed returns and cover, local investors are seizing undervalued opportunities, resulting in divergent buying approaches (Olayemi, 2022).

1.6 Recommendations

In response to the identified challenges and changes, strategic interventions are needed among different stakeholder groups. For corporate valuers and investment analysts, it is necessary to update valuation models to incorporate dual-currency reporting, scenario-based forecasting, and dynamic discount rates. Blind application of discounted cash flow (DCF) models without currency volatility adjustment, sovereign risk, and inflation can create distorted results. Analysts should use real options valuation and Monte Carlo simulations to capture uncertainty more accurately.

For M&A decision-makers, deal structuring should be more adaptable. Instruments like earn-outs, delayed payments, FX-linked price adjustment, and escrow accounts must become the norm. Boards and CFOs will also have to prioritize currency risk management, including forward contracts and natural hedging. In addition, valuation negotiations should increasingly be in local and hard currency terms, especially for cross-border deals.

For policymakers and regulators such as the Central Bank of Nigeria (CBN) and Securities and Exchange Commission (SEC), there is a request for more transparent FX policies, promotion of hedging instruments, and transparent financial disclosures that encompass macroeconomic risk. They ought to provide capacity-building programs for local financial analysts to effectively tackle valuation in uncertain environments. Subsequent research may consider comparative studies of other African economies with similar FX and inflation patterns, such as Ghana or Kenya, to ascertain whether Nigerian trends represent a regional trend or abnormality. This will enhance both applied financial choice on the continent and academia.

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