The Economist's blog recently ran an article on Nigeria's Eurobond negotiations under the title 'The end is naira', highlighting the travails of the economy and the hapless mismanagement of the naira.

With the move to a closer to market exchange rate last month the question all financial sector investors must be asking is how much of the bad news is now priced into the market and is it now time to hit the re-investment trail?

The first question to answer is whether valuations are now compelling. The listed bank sector is currently trading at a P/Bv of 0.5x and P/E of 3.74x. This compares favourably to the average entry multiples of 5.94 witnessed post-2012 for private equity transactions in Africa (RisCura – Bright Africa, 2016). At current market rates the listed banking sector is valued at $7.3 billion, or $71 per adult. This compares to $1 416 per adult in South Africa, $222 per adult in Kenya and $142 per adult in India.

Compelling valuations

If valuations are compelling, the question is whether they will get better? Or whether the performance of the banks will continue to deteriorate? The answer to both of these questions is probably yes. Poor disclosure of NPLs, irregular re-scheduling of bad loans, the quality of securities held, exposure to the oil and gas market and currency mismatches, make it very difficult to assess the true health of the banks in the sector and, as the truth emerges, will likely make for bad reading for some time to come and potentially could lead to some bank failures.

The factors that have buoyed valuations in recent years are also in retreat – emerging market fund managers and strategic investors in banks are respectively held back by the fears of further weakening in emerging markets, and their home regulators. African PE firms on the other hand have raised significant amounts – $4.3 billion at last count with three of Africa's larger private equity funds reaching close in 2015, such as Helios Investors Fund III (with $1.1bn raised), Abraaj Africa Fund III ($990m) and African Development Partners Fund II ($725m) – and increasingly need sizable investments.

Set against these concerns is the reality of dealing making in Nigeria, which is complex (for all the disclosure and reporting issues noted above) and slow. Should investors be supporting the roll up of weaker institutions or wait until they have been repackaged by the regulator? Which is why any investor seeking to be in the market 18 months from now, needs to be building deep insights and relationships today.

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