



**Capital Market Solicitors
Association**

The Nigerian Economy and Prospects in 2020

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December 7th, 2019

Audience Analysis

- ✓ An independent self-regulatory association of solicitors and commercial law firms
- ✓ A platform to articulate and promote the interest of legal practitioners specializing or dealing in capital market transactions
- ✓ Aimed at addressing the marginalization of Solicitors in capital market operations

Outline

- 01 2019/20 Challenges
- 02 Recent Shifts & Trends
- 03 2020 Economic Outlook
- 04 Capital Market
- 05 Sector Opportunities
- 06 Summary & Conclusions

2019/ 20 Challenges

Challenges

- ✓ The market place is a leveller
- ✓ Inflation is taxation without legislation – Milton Friedman
- ✓ Economic variables do not discriminate
- ✓ Cumulative inflation in the last 5 years – 752.92%
- ✓ Wage increase in the last 5 years is 66.7%
- ✓ Exchange rate depreciation in the last 5 years: 53%
- ✓ Average real estate vacancy ratio in Lagos & Abuja = 24%
- ✓ Income per capita has declined from \$2,719 in 2015 to \$2,236 in 2019

Challenges

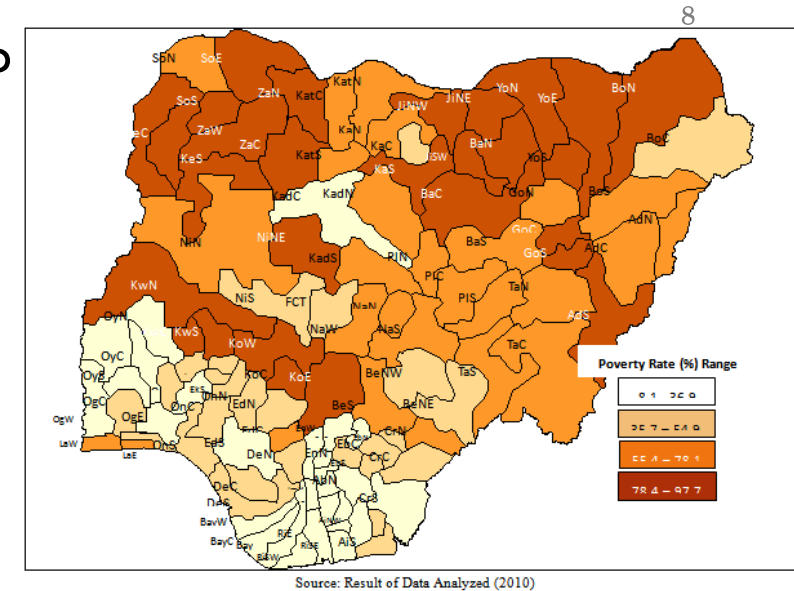
- ✓ Average poverty rate has increased from 33.1% in 2014 to 46.7% in 2018
- ✓ Dependency ratio of the average elite has increased sharply
- ✓ The level of income inequality i.e. the gini coefficient has spiked to 43.3
- ✓ Investment options have narrowed
 - ✓ The NSE returned -18.8% in 2018 and -14.09% in 2019
- ✓ The US dollar equity market (S&P 500) returned -4.4% in 2018 & -23.2% in 2019
- ✓ As already stated property values have fallen

Challenges

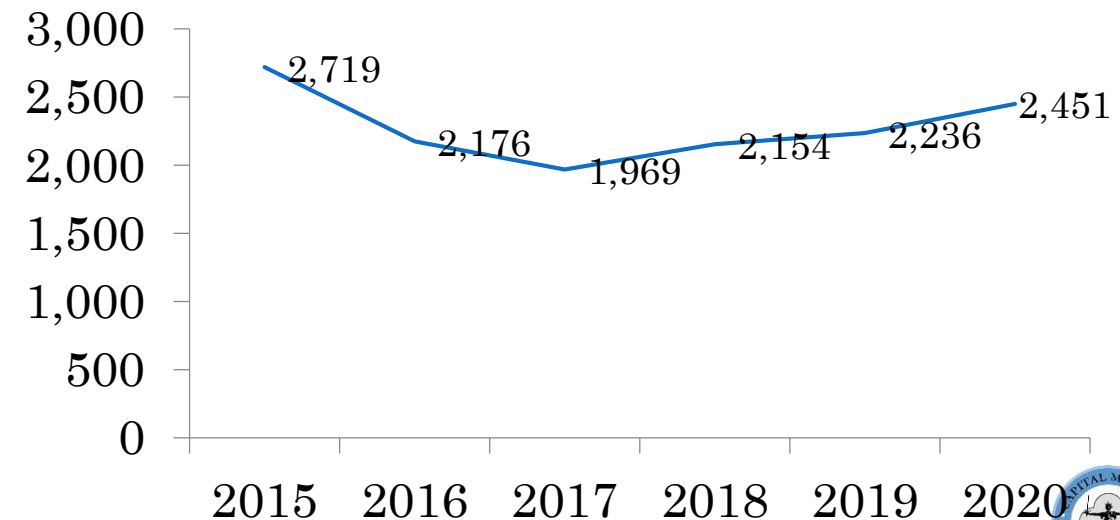
- ✓ In upper class markets, sale prices have declined from average of 20 years rent to 14 years rent
- ✓ Treasury bill rates have crashed from 15%p.a to 6%p.a
- ✓ Bank deposit rates are down from 12%p.a to 7%p.a
- ✓ Dividend yields are at an average of 5%p.a
- ✓ Meanwhile, inflation is at 11.61%
- ✓ Negative rate of return on money market instruments of 5.11% pa

Poverty & the Nigerian Consumer

- ✓ Aggregate consumption is \$386bn, 85.97% of GDP
- ✓ Consumer income is squeezed and strapped
- ✓ Challenges include:
 - ✓ Dwindling income per capita
 - ✓ High income inequality
 - ✓ Rising poverty rate
 - ✓ South West – 16%
 - ✓ North West – 45%
 - ✓ South East – 29%



GDP Per Capita (\$)

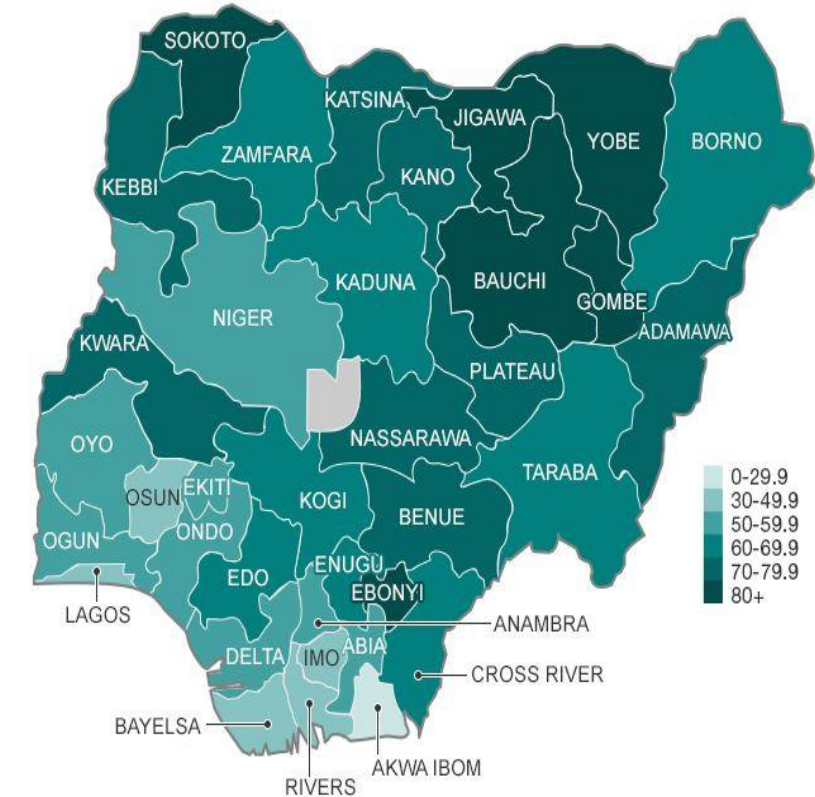


Poverty & the Nigerian Consumer

Source: EIU

Poverty

States showing % living in absolute poverty



Source: Nigeria National Bureau of Statistics

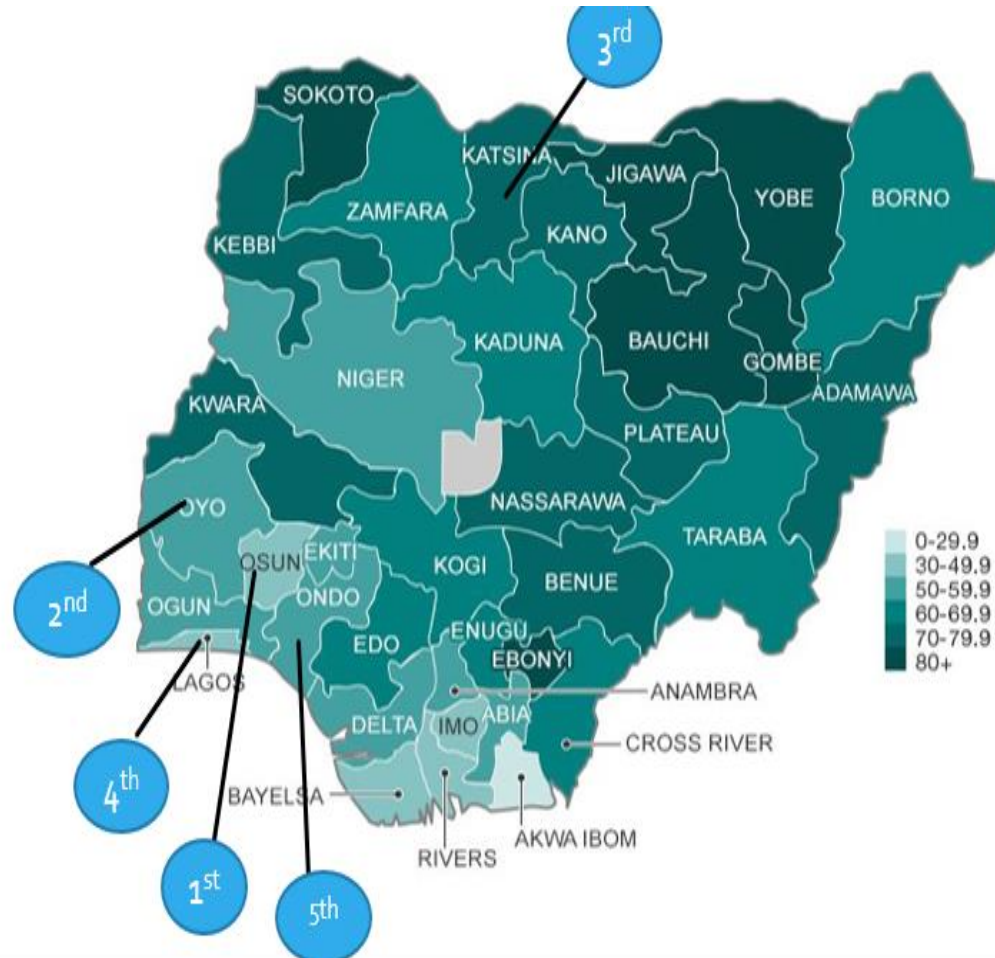
	Nigeria	African Average
Milk consumption (liters per person)	8.0	43.6
Meat consumption (kilogram per person)	9.0	30.4
Health care spending (US\$ per head)	81	358
Infant mortality rate (per 1,000 live birth)	68.4	43.0

Poverty & the Nigerian Consumer – The Resource Curse

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Source: NBS

Lowest Misery Index



States	Unemployment (%)	Inflation (%)	Misery Index	Rank
<u>Osun</u>	10.07	12.00	22.07	1 st
Oyo	10.34	12.28	22.62	2 nd
<u>Katsina</u>	14.33	9.29	23.61	3 rd
Lagos	14.55	12.87	27.43	4 th
<u>Ondo</u>	14.24	13.74	27.98	5 th

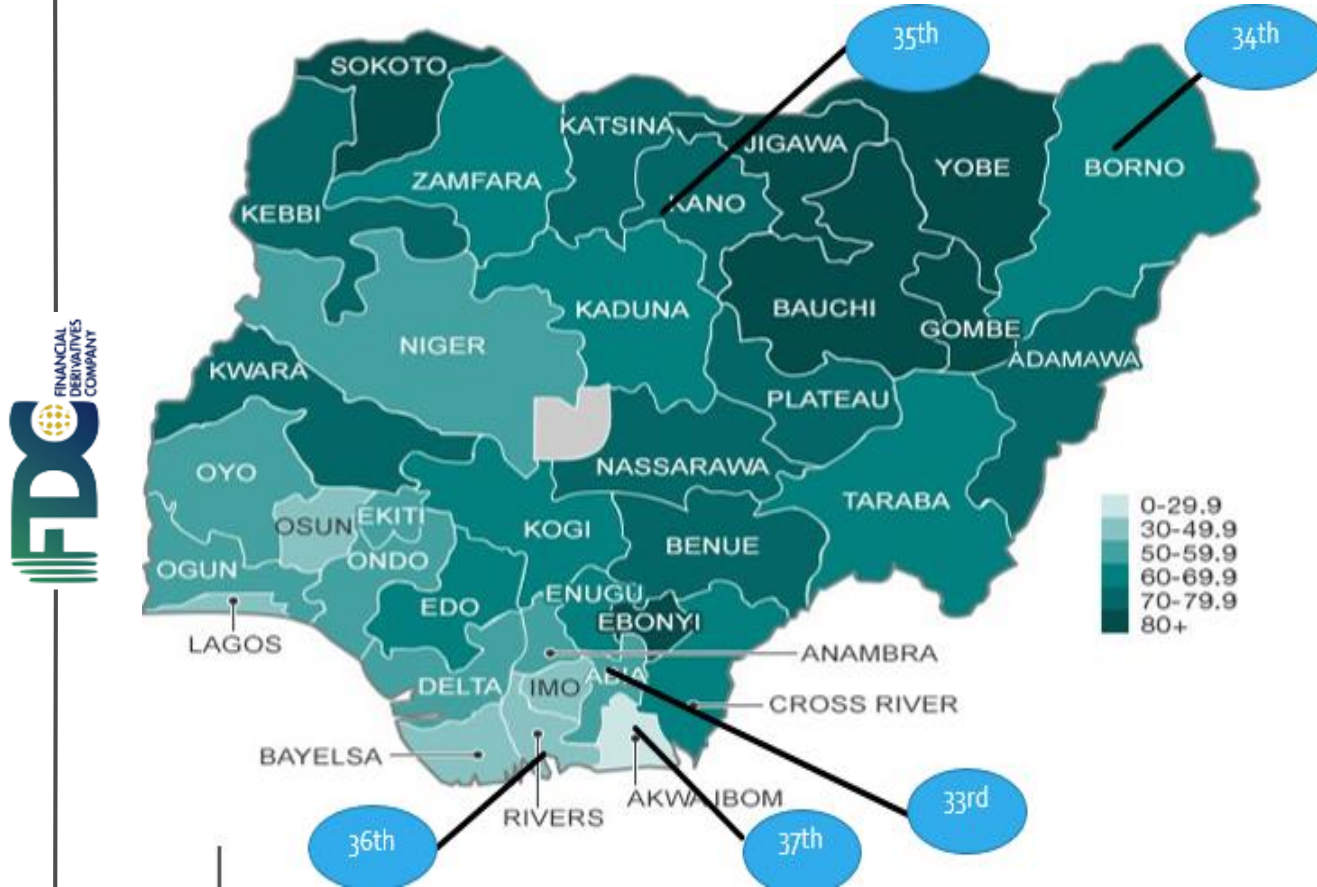
- ✓ Mainly in the South-West
- ✓ Non-resource rich states
- ✓ Share boundaries with Republic of Benin

Poverty & the Nigerian Consumer – The Resource Curse

Source: NBS

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Highest Misery Index



States	Unemployment (%)	Inflation (%)	Misery Index	Rank
<u>Akwa Ibom</u>	37.72	11.54	49.26	37 th
Rivers	36.38	11.77	48.15	36 th
Kano	31.25	12.43	43.68	35 th
<u>Borno</u>	31.39	11.31	42.70	34 th
<u>Abia</u>	31.61	10.88	42.49	33 rd

- ✓ Why the paradox?
- ✓ Fiscal abuse
- ✓ Internal conflict
- ✓ Complacency
- ✓ Governance breaches
- ✓ False sense of entitlement

Recent Shifts & Trends

Pros

- ✓ Naira appreciation to N359/\$ before falling back to N360/\$
- ✓ Reduced demand for dollars as smugglers have no need for now
- ✓ 30% decline in PMS utilization (approx. 18million litres a day)
- ✓ Subsidy amount reduced by approx. N135billion
- ✓ Supposed increase in custom duty

Cons

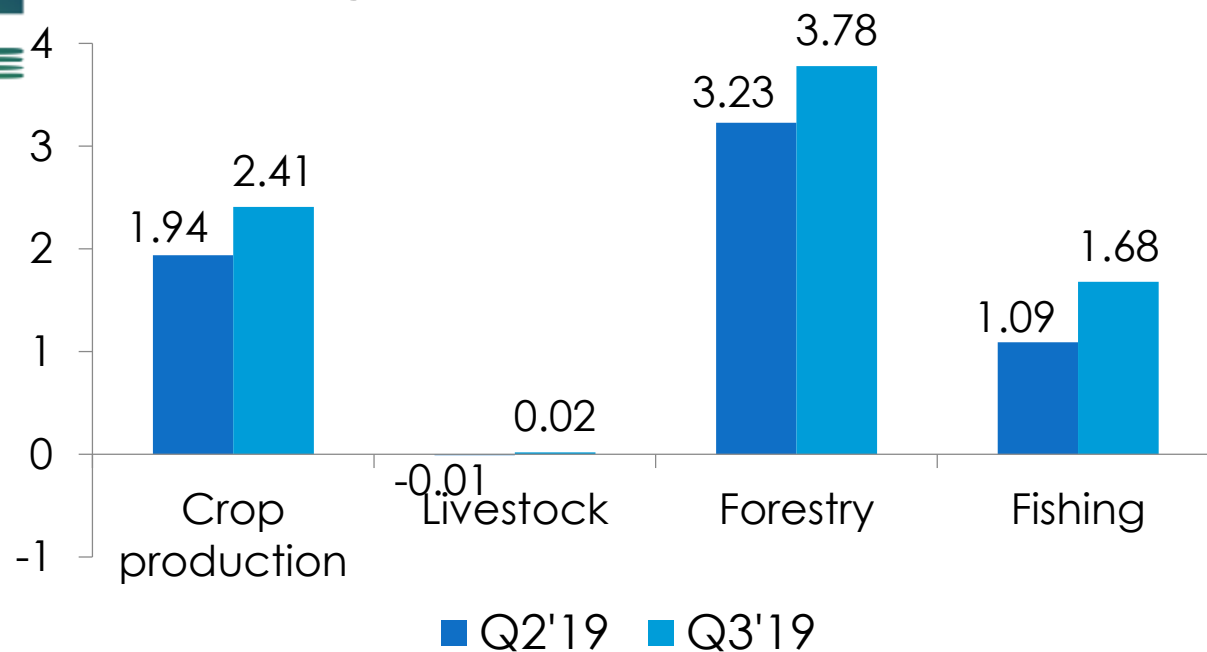
- ✓ Disruption in economic activities in border communities - trading sector contracted by 1.45% in Q3
- ✓ Reputational damage for Nigeria as a member of World Trade Organization (WTO) & giant of ECOWAS
- ✓ 123,000 bags of rice seized in a month

Border Closure - Impact on Sectors

Positive - Agric

- ✓ One of the fastest growing sectors in Q3
- ✓ Increased to 2.28% from 1.79% in Q2
- ✓ Driven largely by higher crop production

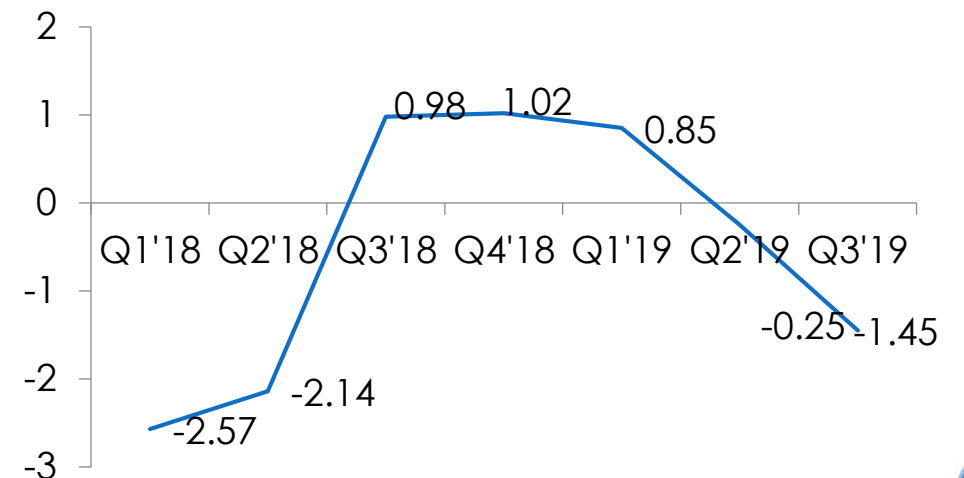
Agric Sector Growth (%)



Negative – Wholesale & Retail Trade¹⁴

- ✓ Sector contracted further to -1.45% in Q3 from -0.25% in Q2
- ✓ After three consecutive quarters of positive growth

Trade Sector Growth (%)



New Guidelines Introduced

- ✓ Loan-to-deposit ratio (LDR) up to 65%
- ✓ OMO restrictions for corporate and retail investors

Why?

- ✓ Boost lending to the real sector
 - ✓ Stimulate economic growth
- ✓ Curb regulatory arbitrage

Impact

- ✓ Increased credit to the private sector
 - ✓ Up 13.6% to N25.80trn
- ✓ OMO restriction limits investment outlets
 - ✓ Creates a huge demand gap
 - ✓ Shift to equities
- ✓ Boost in market liquidity
 - ✓ Average opening position spiked 75.41% to N326.04bn
 - ✓ NIBOR down 476bps to 6.61%

Sharp Decline in Interest Rates

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- ✓ Interest rates on fixed income securities now lower than inflation rate
 - ✓ Negative real rate of return
 - ✓ A disincentive to savings and investment in fixed income securities

	Apr'19	Jun'19	Sept'19	Nov'19	% Change (Sept/Nov)	
T/bills rate - 91 days (%p.a)	10.15	9.74	11.10	7.80	-3.00	↓
	12.5	10.75	11.75	9.00	-2.75	↓
	12.74	11.14	13.30	10.00	-3.30	↓
Bond rates (%p.a)	14.62	14.49	14.49	-	-	
Lending rates (%)	23.00	21.00	20.00	16.00	-4.00	↓
Inflation rate (%)	11.37	11.22	11.24	11.61 (Oct)		

Green = Inflation < market rates; Red = Inflation > market rates



Risks: Domestic Economy – Illustration

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Given

$$Y = C + S$$

N100 N70 N30 *Import = N63

If interest rates declines

$$\bar{Y} = C \uparrow + S \downarrow$$

N100 N80 N20 *Import = N72 ↑

- ✓ Lower interest rates will discourage savings and increase consumption
- ✓ Marginal propensity to import will also rise
- ✓ Savings shortfall to negatively impact investment

External Sector Vulnerability



Terms of Trade

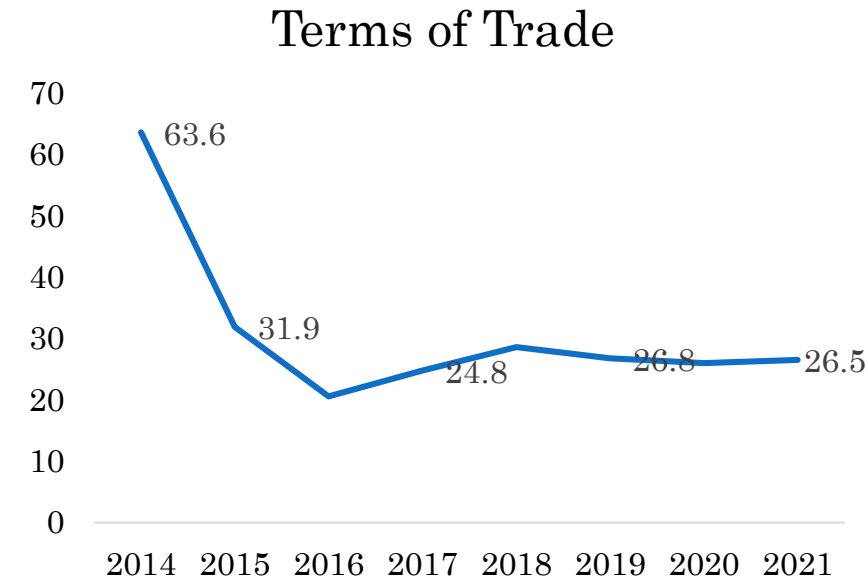
- ✓ Ratio of a country's export prices to its import prices
- ✓ Calculated as: $\text{Index of export prices} / \text{index of import prices} * 100$



- ✓ Projected to decline to 26.0 in 2020

✓ Drivers:

- ✓ Rising import prices: 19.7% of Nigeria's imports from China
- ✓ Falling export prices: oil demand growth projected to fall which would lead to a decline in price

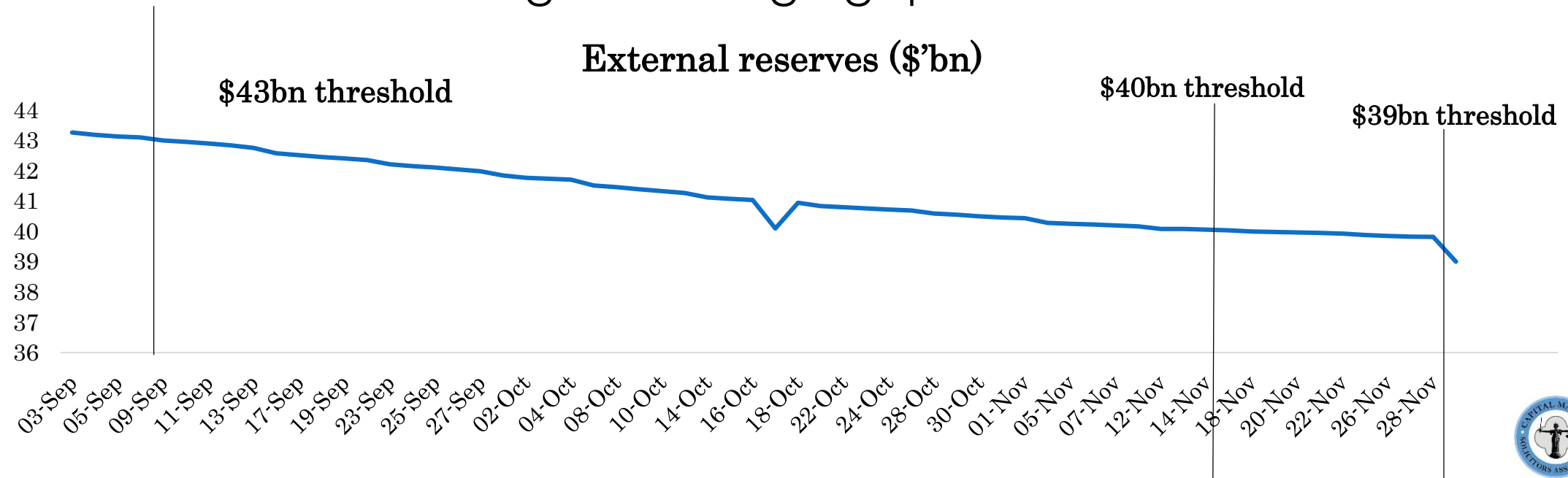


Source: EIU

External Reserves

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- ✓ External reserves has lost 8.03% YTD (now at \$39.62bn)
- ✓ Projected to fall to \$38bn in 2019 and to remain flat in 2020 due to lower oil prices (\$63pb) and production (1.79mbpd)
- ✓ Could spook investors and result in capital outflows
- ✓ Which would create a foreign exchange gap



Forex Market – Will the Naira Fall in 2020??

Source: EIU, FDC Think Tank

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	2018	2019	2020	% change (2020/2019)
Terms of trade (2010=100)	28.6	26.8	26.0	-2.99
Balance of Trade (\$bn)	22.3	17.1	23.0	34.5
External reserves (\$bn)	43.12	39.62	38.0	-4.09
Share of world exports (%)	0.33	0.34	0.33	-0.01
Interest rate/inflation differential (%)	-0.17	-5.11	6.00	11.11

Purchasing Power Parity			
	Dec-19		
	=N=	US \$	PPP (=N=/US\$)
Bottle of Pepsi (50cl)	100	2.65	37.74
Beer (60cl)	260	2.91	89.35
Hamburger (Johnny Rock)	3,800	4.59	827.89
Indomie	2,100	3.65	575.34
Toyota Corolla	21,000,000	21,980	955.41
Bottled Water (150cl)	120	1.31	91.60
Big Loaf Bread	400	2.39	167.36
Irish Spring Soap (1 cake)	250	0.86	290.70
Chicken Drumsticks (1 ki)	1,800	4.15	433.73
Eggs (Big Size)	1,000	4.47	223.71
Average PPP			369.28
Naira Price at IEFX			362.71
PPP (%)			
Decision: Naira is		overvalued	1.81%
Spot Rate (Parallel)			360
Outcome: Compared to IFEX rate of N362.71/\$1, the Naira is overvalued by 1.81%			

Likely Outcomes in 2020:

- ✓ Naira could depreciate to N375/\$ at the I&E window
- ✓ Multiple exchange rate systems to persist
- ✓ CBN will remain committed to defending the naira

2020 Economic Outlook



Performance of the LEIs

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LEI	May	June	% Change	October	November	% Change	Q1'20 Outlook
GDP Growth (%)	2.10 (Q1'19)	2.12 (Q2'19)*	0.02	2.28 (Q3'19)	2.3 (Q4'19*)	0.02	2 -2.3(Q4'19)*
Production (mbpd; avg)	1.72	1.86	0.14	1.81	1.81*	-	1.75-1.8
Rig count (end-period)	14	14	5.88	18	18	-	18-20
Oil Price (\$pb; avg)	70.42	63.26	-7.16	59.58	62.48	2.9	60-62
External Reserves (end period \$'bn)	45.12	41.85	-3.27	40.46	39.82	-0.64	38-39
Exchange rate- Parallel Market (end period- N/\$)	361	360	--0.27	359	360	0.28	360-362
Average Opening Position (N'bn)	289.48	321.08	31.6	267.64	293.13	25.49	300-400
Inflation (end period- %)	11.4	11.24	-0.16	11.61	11.72	0.11	11.70 -11.75

Performance of the LEIs

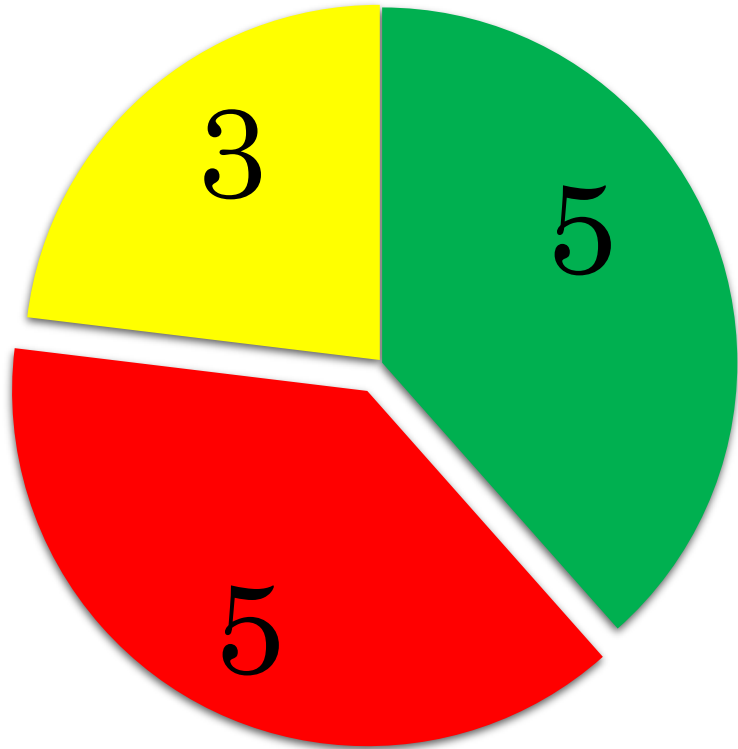
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LEI	May	June	% Change	October	November	% Change	Q1'20 Outlook
91-day T/Bill (end-period %)- PMA	10.00	10.50	0.50	9.49	6.49	-3.00	7-9
91-day T/Bill (end-period %)- SMA	10.51	11.32	0.81	11.49	7.0	-4.49	8-10
Stock Market (N'trn) (end-period)	13.68	13.21	-0.47	12.83	13.03	13.03	13-14
Forex sold through I&E window (\$'bn)	4.11	3.56	-0.55	4.74	5.23	5.23	10-12
Forex sold by CBN (\$'bn)	0.95	2.85	1.9	0.64	0.34	-0.3	2-3

LEIs Trends

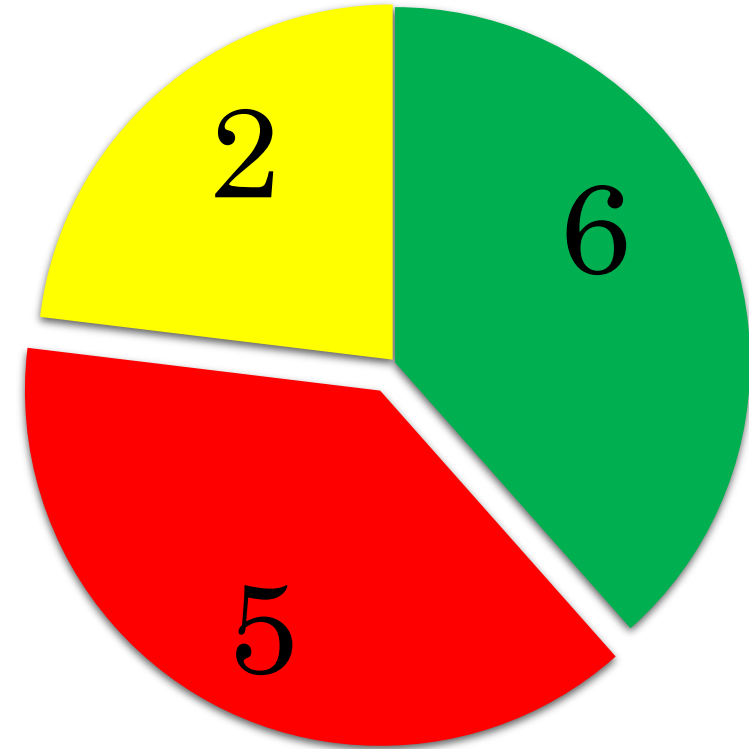
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June, 2019



■ Positive
■ Negative

November, 2019



✓ **5 Greens, 5 Reds, 3 Ambers**

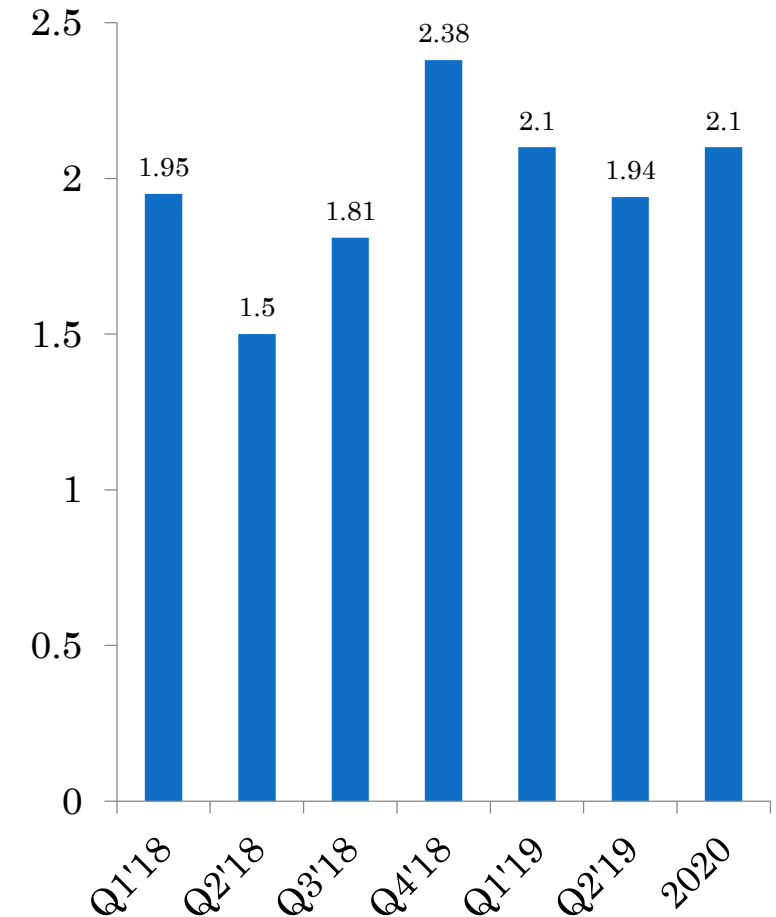
✓ **6 Greens, 5 Reds, 2 Ambers**

✓ Economy improving slowly but bumpy days still ahead

Output Outlook - 2020

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- ✓ Economy to remain in a low growth cycle
 - ✓ Projected to grow at 2.10% in 2020
 - ✓ Below population growth (2.6%)
 - ✓ Underperforming SSA average (2.4%) and global average (3%)
 - ✓ A far cry from ERGP target of 7% by 2020
- ✓ Constraints to growth:
 - ✓ Low credit to the private sector
 - ✓ Low investments
 - ✓ Huge infrastructural deficit (\$300bn)



Source: NBS, FDC Think Tank

Revenue Outlook - 2020

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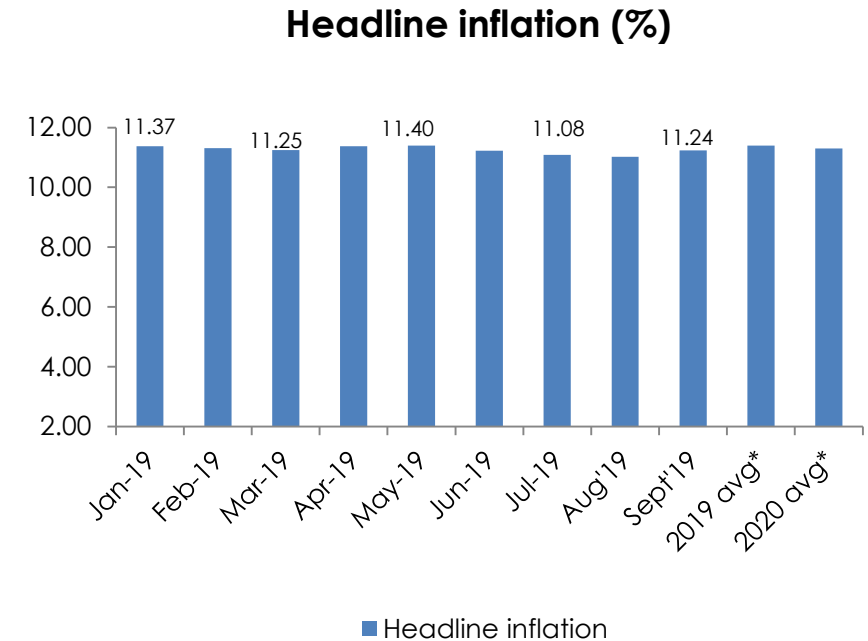
2020 budget:

- ✓ Oil revenue (N2.64trillion)
- ✓ Non-oil revenue (N1.81trillion); Other sources (N3.7trillion)
- ✓ Likely depletion of fiscal buffers
 - ✓ Lower oil prices (Slow demand growth)
 - ✓ Lower oil production (OPEC quota)
 - ✓ Or both
- ✓ Oil prices are subject to geopolitical tensions in the middle east, rising US shale production, slow demand growth
- ✓ Crude output is subject to strict enforcement of OPEC quota

Inflation - 2020

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- ✓ Inflation to average 11.3% in 2020
- ✓ Above CBN's single digit target
- ✓ Driven by:
 - ✓ Widening forex restrictions on food imports
 - ✓ Inadequate local supply
 - ✓ The hike in VAT from 5% to 7.5%
 - ✓ Increased logistics costs



Source: NBS, *: FDC Think Tank



Inflation/Interest Rate Differential

	Inflation (%)	Interest rate (%) (10-year bond)	Interest rate differential
Nigeria	11.61	14.23	2.62
USA	1.8	1.74	-0.06



- ✓ Inflation/interest rate differential in favour of Nigeria
- ✓ Expected to encourage capital inflows into the country
- ✓ Risks to inflows:
- ✓ Exchange rate uncertainties
- ✓ Policy uncertainties

Capital Market Performance

Capital Market Transition- Pre & Post Recession



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Numeric Quota	2016	2019	Direction
ASI (points)	26,874.62	26,855.52	↓
Market Cap (Equities) (N'trn)	9.25	12.96	↑
No of listed companies	175	166	↓
Foreign Portfolio Investment (FPI) (\$'mn)	1,812.88	14,438.37	↑

- ✓ Sanitization of capital market
- ✓ Proper supervision
- ✓ Improved information dissemination

Stock Market Review

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- ✓ NSE's performance was largely bearish in Q3'19
 - ✓ NSE ASI  7.8% to 27,630.56 points in Q3'19
 - ✓ Negative investor confidence due to policy uncertainty
 - ✓ Increasing uncertainties on implementation of structural reforms
 - ✓ Unfulfilled economic potential
- ✓ Excess liquidity in money market stoking market recovery
- ✓ NSE ASI  2.45% in November

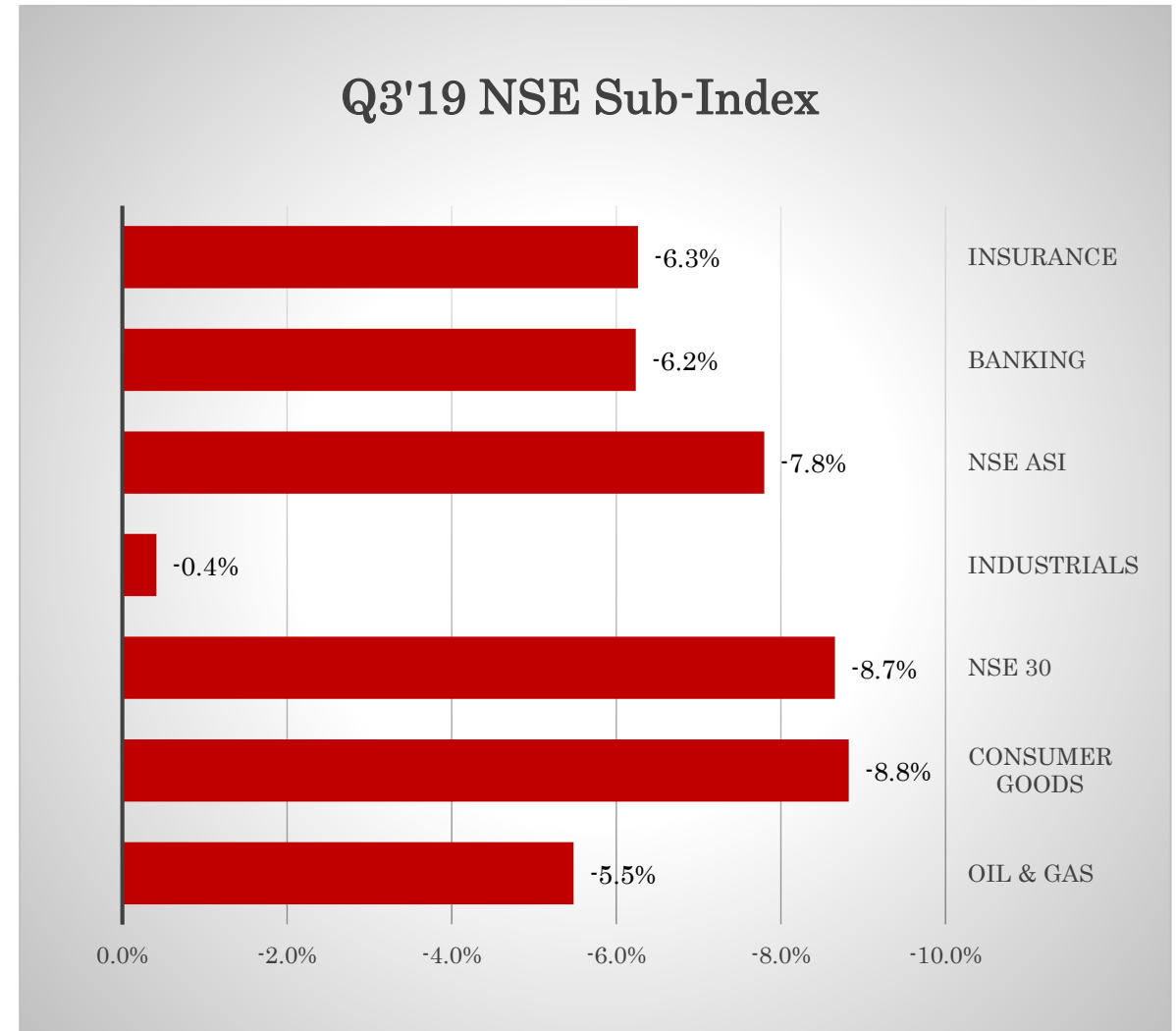


Sub-Index Performance – Q3'19

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- ✓ All sub-indices closed negative
 - ✓ Negative earnings surprise
- ✓ Industrial sub-index recorded the least loss (-0.4%)
- ✓ Consumer goods recorded the worst performance
 - ✓ Driven by unimpressive earning result especially by Brewers

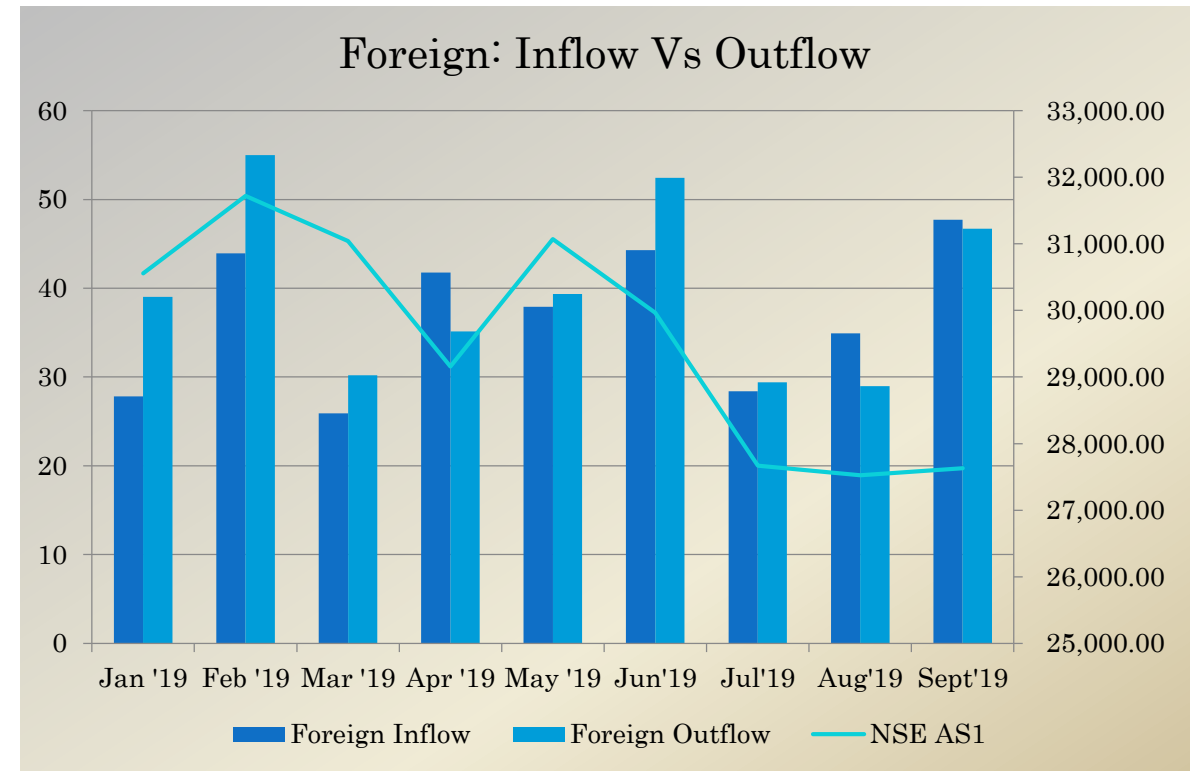
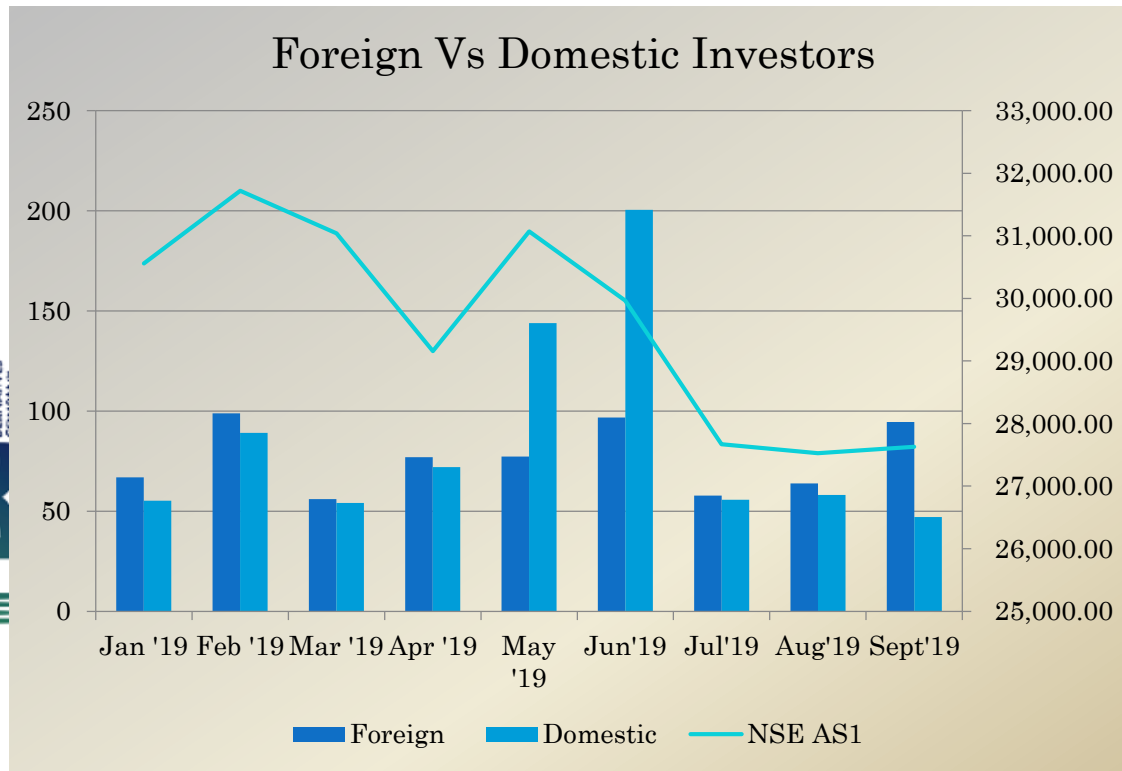


Source: NSE



International Vs Domestic Investors

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- ✓ Foreign investors outperformed domestic investors significantly in September
- ✓ Total domestic transactions decreased by 19.91%
- ✓ Foreign outflow almost equal to inflow in the month



Outlook for Q1'20

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- ✓ Likely bullish investors' sentiment
 - ✓ Declining yields on fixed income instruments
- ✓ Institutional investors
 - ✓ Need to rebalance portfolios
 - ✓ Take advantage of lower prices to reduce average cost of portfolio
- ✓ Retail Domestic investors
 - ✓ Realise loss and convert to USD instruments
 - ✓ Take advantage of lower prices – favour value over growth stocks
- ✓ Foreign investment in equities to gradually increase

Outlook for Q1'20

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- ✓ Litigation likely to increase because of the various policies
- ✓ Investors are unlikely to take a long position due to policy uncertainties
- ✓ Exchange rate volatility
 - ✓ Carry trade assumes you can get your money back at historical exchange rate
- ✓ Huge trust deficit in the government and policy makers

Corporate Actions

Performance of SEC Registered Funds

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SEC Data - as at September 27, 2019

Fund Manager	Fund Name	NAV	Closing Price (N)	Q/Q Performance
Lotus Capital Limited	Lotus Halal 15 ETF	426,570,000.00	8.85	-10.61%
Stanbic IBTC Asset Mgt. Limited	SIAML ETF 40	644,527,231.23	120.92	-10.98%
Stanbic IBTC Asset Mgt. Limited	Stanbic ETF 30	410,216,100.97	105	-13.83%
Vetiva Fund Managers Limited	Vetiva Banking ETF	301,511,327.33	3.4	-1.70%
Vetiva Fund Managers Limited	Vetiva Consumer Goods ETF	119,632,410.51	5.59	-23.00%
Vetiva Fund Managers Limited	Vetiva Griffin 30 ETF	1,822,320,658.62	13.36	-13.10%
Vetiva Fund Managers Limited	Vetiva Industrial ETF	96,499,553.30	10.93	-15.82%
Vetiva Fund Managers Limited	Vetiva S & P Nigeria Sovereign Bond ETF	527,139,149.07	175.77	-10.81%

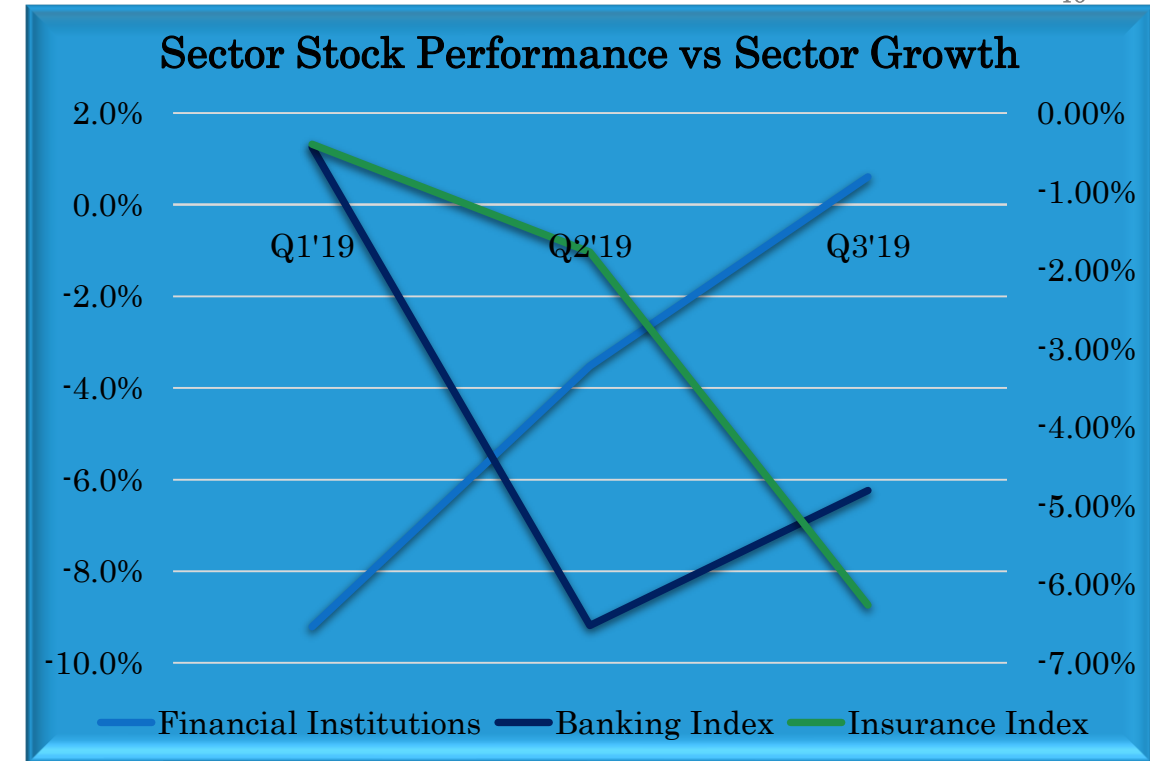
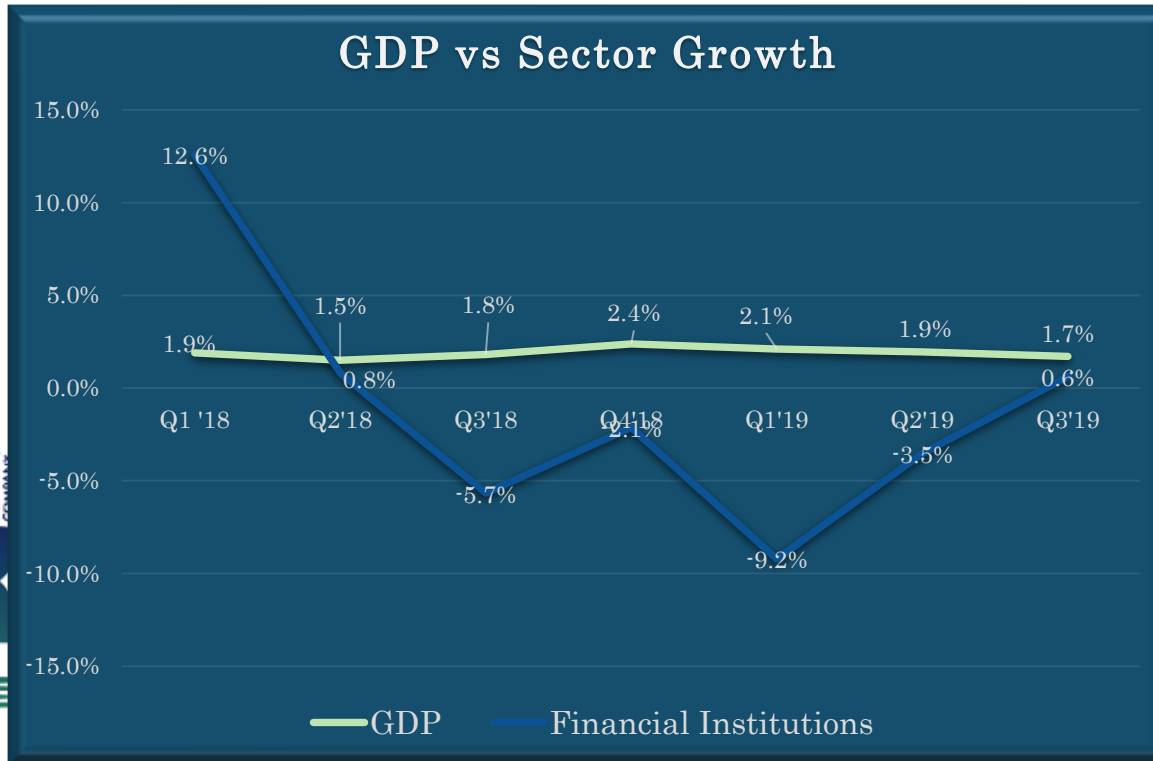




Sector Opportunities

Financial Services

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- ✓ A drag on the economy as it has consistently underperformed in the last six quarters
- ✓ Due to multiple regulations
- ✓ Likely consolidation in the sector due to pressure
- ✓ Banking and insurance sectors' stock performance shows inverse relationship with industry growth
- ✓ Average earnings of top three banks (excluding Access Bank) increased by 9% in 9M'19
- ✓ Q3'19 performance driven by increase in institutional investors' exposure to the sector

Financial Service Outlook – Global EIU

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- ✓ Bank balance sheets and lending will expand by 6.5% in 2020
- ✓ Asia and Australia will be the fastest growing regions in both regards
- ✓ With balance sheets rising by 7.6% and economy growing by 4.3%
- ✓ Both measures will expand by 3.5% on average in North America
- ✓ Prevailing headwinds for financial firms will endure in 2020
- ✓ Stricter financial rules both on an internal and national basis
- ✓ Financial firms in emerging markets will have a relatively straightforward task in 2020
- ✓ Take advantage of growth in number of customers
- ✓ Greatly expand access to services to build businesses and earn profit



Opportunities for CMSA

- ✓ Legal documentation and advisory services
- ✓ Advocacy cases- on high NPLs

Banking Industry Outlook

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- ✓ Fundamental shift in market dynamics

- ✓ Shift from product to experience

- ✓ Assets to data

- ✓ Ownership to shared data

- ✓ Building/buying to partnership



- ✓ New ecosystem to feature the emergence of roles that challenge traditional banking assumptions

- ✓ Assuming a position that aligns with core capabilities and external environment key to success

- ✓ Increasing financial disintermediation to put pressure on earnings

- ✓ Over N193 billion raised in CPs so far in 2019

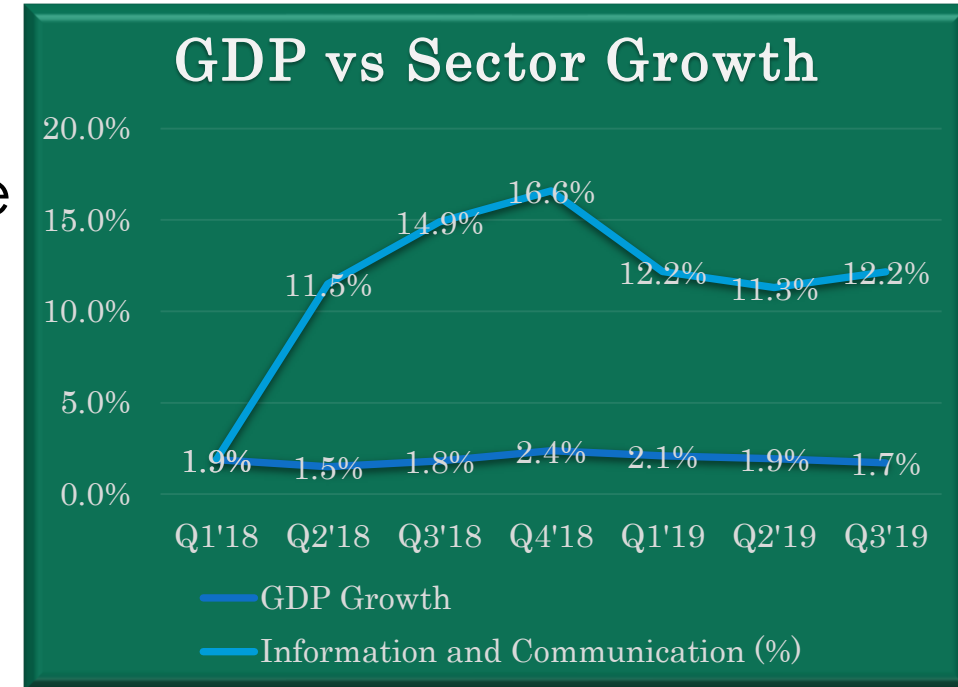
- ✓ Need for malleable strategy due to increasing regulatory risk







Telecommunications

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- ✓ One of the fastest growing sectors
- ✓ Significantly outperformed GDP growth in the last six quarters
- ✓ Listing of the two telecom giants on the local bourse increased market capitalization
- ✓ Represents 26.9% of market capitalization
- ✓ MTN recorded the highest return relative to peers due to;
- ✓ Strong fundamentals (highest EBITDA margin at 53.7%)
- ✓ Showcases 5G network capability



Name	YTD Change
MTN	 20.20%
Airtel	 25.10%
NCR	 33.90%
Etranzact	 25%

Telecommunications Outlook

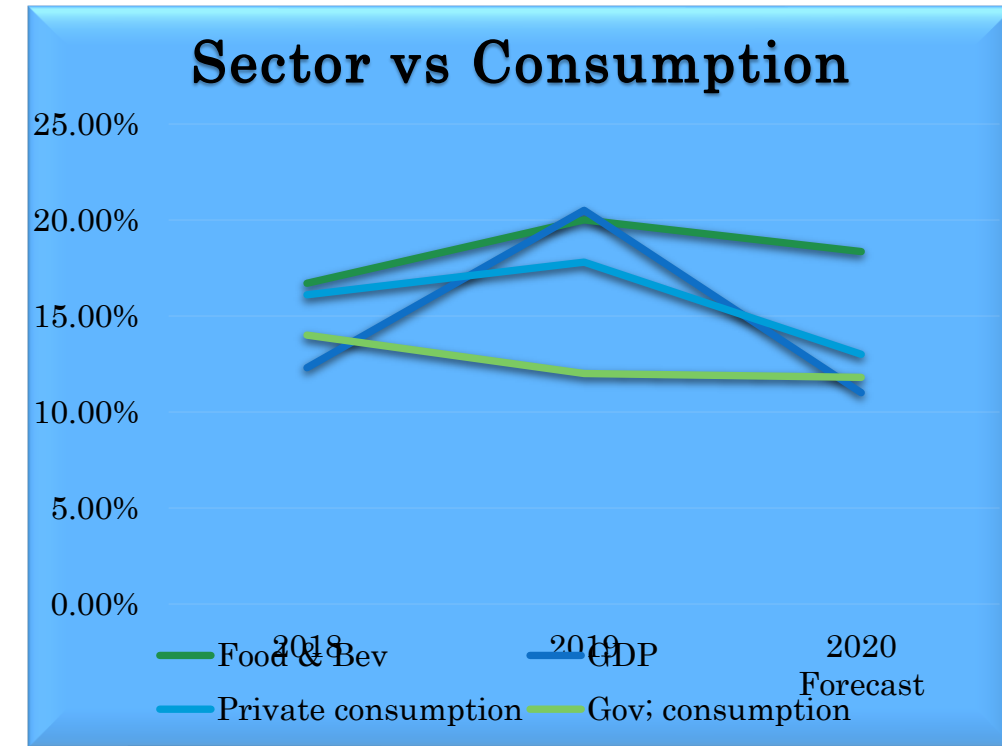
45

- ✓ Sector growth to outperform economic growth
- ✓ Government commitment to drive financial inclusion
- ✓ To benefit from licensing of PSBs
- ✓ According to the World Bank, 4% of unbanked adults in the world reside in Nigeria
- ✓ 10% of the unbanked have access to mobile phones and internet
- ✓ SSA is the fastest growing digital payments market in the world
- ✓ CAGR of 35% between 2018 and 2023
- ✓ Likely collaboration between telcos and banks to drive financial inclusion

Food & Beverage

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- ✓ Positive correlation between sector growth and private consumption
- ✓ Negative correlation between government consumption and sector growth
- ✓ Slope of sector growth flatter than slope of GDP growth
- ✓ Sector adversely affected by the forex ban on food items
- ✓ Consumer goods sector ranked the worst performing index on the local bourse at -27.66%



Food & Beverage - Outlook

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- ✓ Untapped opportunities due to:
- ✓ Growing population - Nigeria expected to be one of the most populous country by 2050
- ✓ Demographics that support growing urbanization
- ✓ Government commitment to diversify the economy
- ✓ Border closure extension to stimulate backward integration
- ✓ Boost in earnings due to declining borrowing cost
- ✓ Weak consumer spending and rising inflation to weigh on profitability

Opportunities for CMSA

- ✓ Legal documentation and advisories to facilitate trade alliances
- ✓ Positive trade outlook will also deepen int'l trade & other licence agreements
- ✓ Minority shareholder rights and cases that require legal expertise
- ✓ Projected de-listings also provide opportunities for legal services

Agriculture

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- ✓ Expanded by 2.28% in Q3'19 – recorded positive growth in the last 7 quarters
- ✓ Major players: Okomu oil, Presco, livestock feed
- ✓ Recorded highest contribution to GDP in Q3'19 at 29%
- ✓ Sector key to diversification of the economy – supported economic stability against a backdrop of volatility in the oil prices
- ✓ Positive growth expected to continue in the short to medium term
 - ✓ As the government commits to grow non-oil revenue
 - ✓ Sector benefits from grants and support from multilateral organizations
 - ✓ Benefit from border closure as local production is encouraged to meet growing demand



Summary & Conclusions



✓ Outlook under current policies is challenging

✓ Current account deficit expected to persist

✓ Minimum wage payment and new VAT rate will result in higher inflation

✓ Growth will remain unchanged at 2%

✓ Inflation in 2020 will average 11.3% - widening forex restrictions plus inadequate local supply

✓ Export revenue expected to decline on falling oil prices

✓ Policy will remain interventionist



	Probability	Impact
Nigeria re-enters recession	Moderate	High
The authorities improve respect for contracts and private property in effort to boost foreign investment	Moderate	High
The banking sector undergoes another crisis	Moderate	High
There is a military coup	Low	Very High

✓ **Challenges:**

- ✓ VAT increase
- ✓ Resurgence of toll gates
- ✓ Cost reflective electricity tariff
- ✓ Higher inflation rate (border closure effect)

✓ **Palliative:**

- ✓ Payment of the new minimum wage

2020 Outlook – The Government

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- ✓ Higher tax revenue and improved tax collection
- ✓ Increased borrowing to meet revenue shortfall
- ✓ Supplementary budget expected in Q2
- ✓ Economic policy will remain interventionist
- ✓ Border closure will most likely be extended beyond January 2020
- ✓ High possibility of more forex restrictions

Investment Outlets	2019	2020
91-day T/Bill (%)	Started at 10.9% and closed at 6.5%	Lower but stable yields
Real estate	Vacancy factor high at 24% due to dwindling consumer disposable income	Marginal appreciation in property values driven by improved power supply and completion of Lagos-Ibadan railway
Naira equities	Lost 14.09% YTD	Performance to be driven by <ul style="list-style-type: none"> • Strong earnings • Smooth implementation of structural reforms
Dollar equities	Major indices recorded gains (S&P 500 gained 23.2% YTD)	Bull run to slow amid <ul style="list-style-type: none"> • Upcoming election • Unresolved trade war
Eurobonds	Waning corporate activities amid declining appetite for dollar borrowings	Declining yields as monetary authorities maintain dovish stance

THANK
YOU

