

# **Investing in Nigeria: *Exploring the Investment Potential of One of Africa's Leading Economies***

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# Outline

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- 2 • Economy in Recovery
- 3 • Risks and Opportunities
- 4 • Accessing Nigeria through the NSE
- 5 • Nigeria in the Fourth Industrial Revolution
- 6 • Conclusion
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# Introduction

Nigeria: Africa's Growth Story

# Nigeria: Africa's Growth Story ■■■

- ***As the largest economy in Africa, Nigeria has increasingly come into the spotlight as a premier global investment destination.***
- Five (5) years ago, growth was accelerating in almost all of Africa's diverse economies, but recently their paths have diverged due to the 2014 commodity down turn.
- The year 2017 saw a reversal of fortunes for Nigeria and many other African nations.



**Income level:** Lower Middle Income

**External Reserves:** US\$46.6 billion (March' 2018)

**External Debt:** US\$15.35 billion (September 2017)

**Total Population:** 185.9 million (2016 est.)

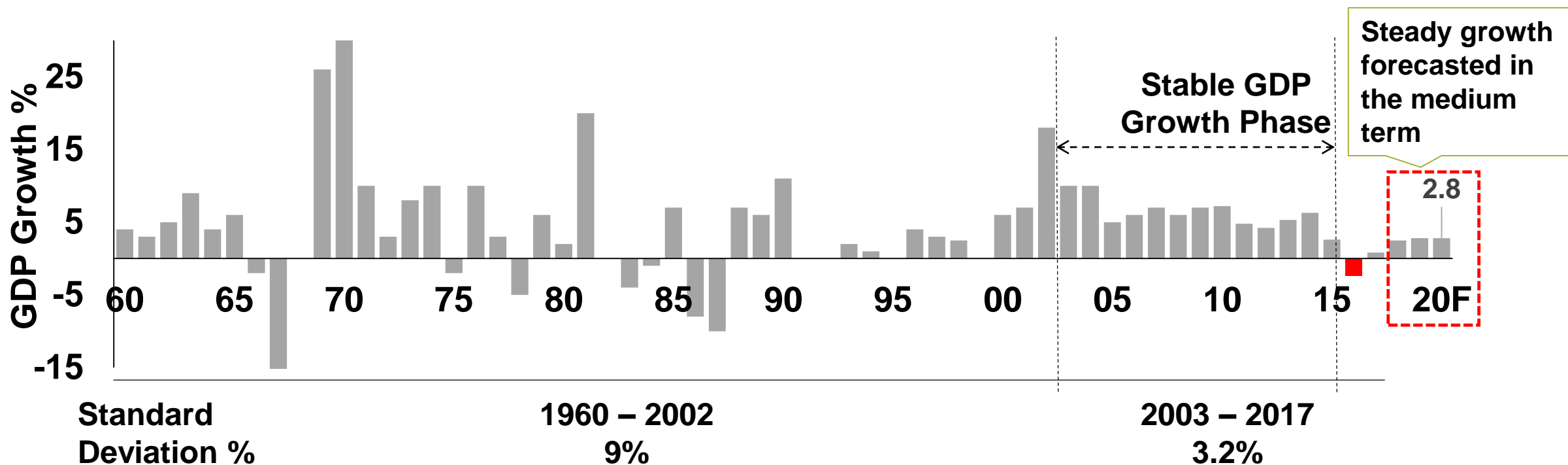
## **Resources:**

- Oil & Gas (1<sup>st</sup> largest oil reserves in Africa; 10<sup>th</sup> largest in the world)
- Mining: coal, minerals, precious metals
- Commodities: agriculture, timber, rubber

# Nigeria's Growth Economy

## Sustainable GDP Growth: On the road to recovery for Nigeria's GDP<sup>1</sup> (%) – 1960 to 2020F

- After decades of volatility, Nigeria's GDP growth has been more stable since the early 2000s.
- Nigeria suffered its 1<sup>st</sup> recession in >two (2) decades due to the global commodity downturn.
- The economy continues to recover with greater focus on diversifying major drivers of growth.



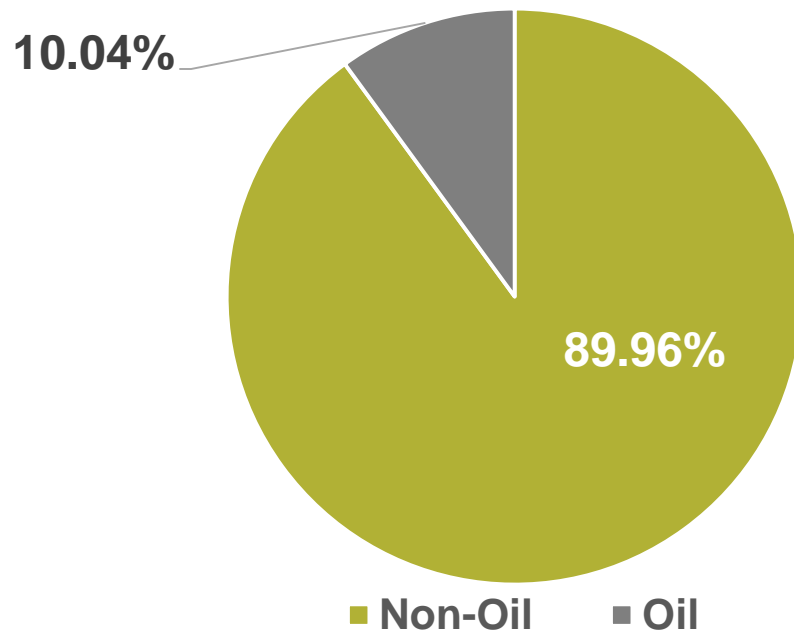
1. Data are from prior to the rebasing exercise. Rebased data, available from 2010 onward, includes additional economic sectors, making comparisons unreliable.

# Nigeria's Economic Diversification Profile

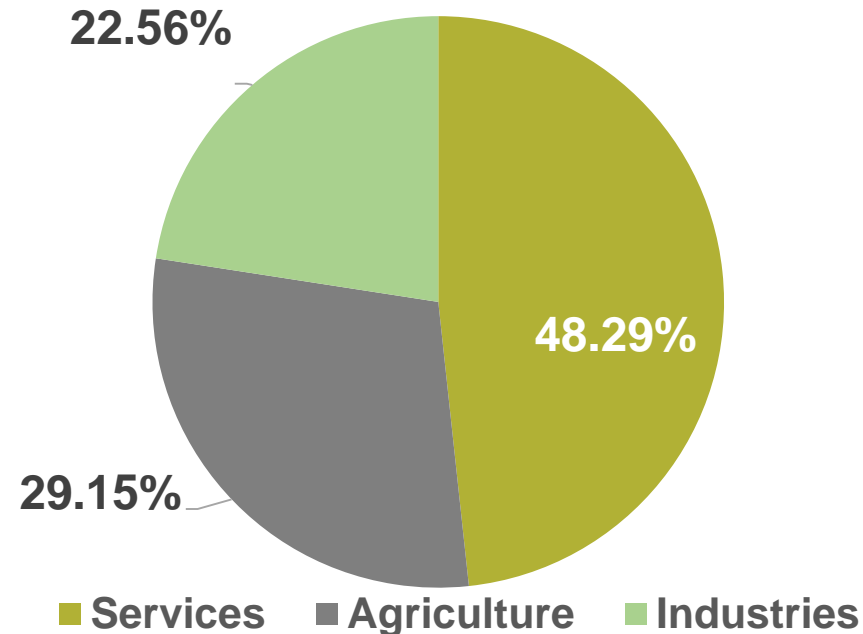
## Nigeria's Economy: Not Entirely Dependent on Crude Oil

- Albeit crude oil exports accounts for a significant portion of Nigeria's Federal Government income and total exports (i.e. >75% respectively), Nigeria's economy is ~ 90% Non-Oil based.
- According to Nigeria's National Bureau of Statistics, Services accounts for the largest portion of GDP, followed by the Agriculture sector.

**% OF OIL & NON-OIL SECTORS**



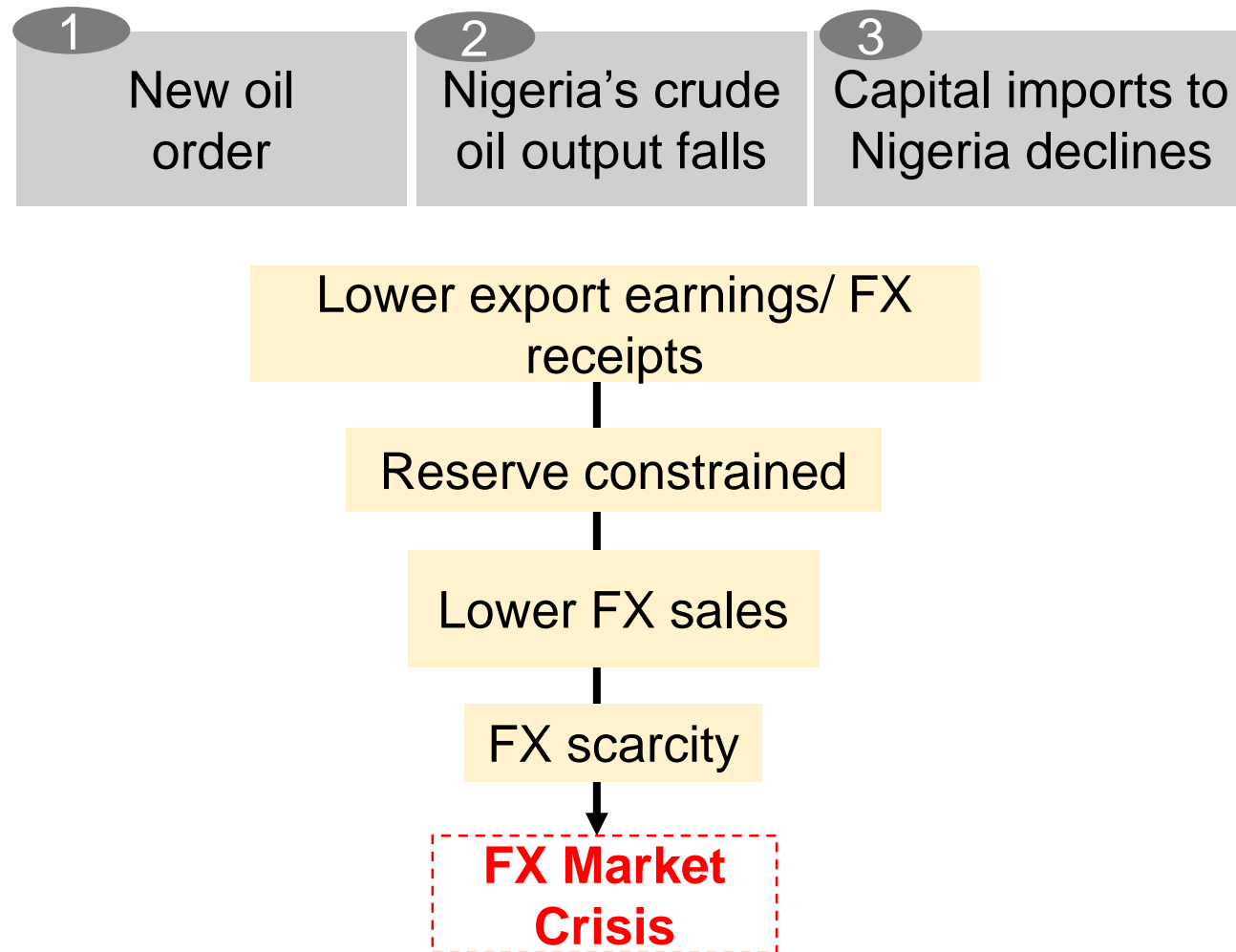
**% TO REAL GDP**



# Economy in Recovery

An In-Depth Assessment

# Fall in Global Oil Prices Affects FX Regime

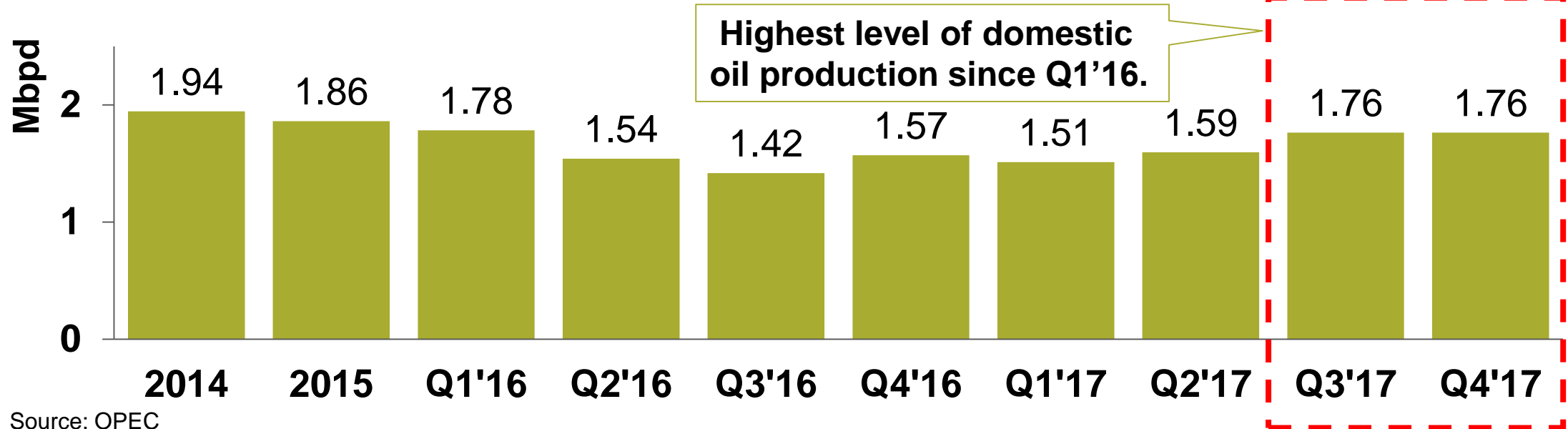


- As a primary source of Nigeria's Monetary FX inflows, following lower federal revenue from oil production, Nigeria's foreign exchange market underwent sustained volatility.
- FX supply side constraints, were exacerbated by geopolitical tensions which lowered domestic output.
- This led to constraints on the nation's foreign exchange reserves, FX volatility and a decline in foreign investment flows.



# Return of Nigeria Oil Production

## Domestic Oil Production on the Rise



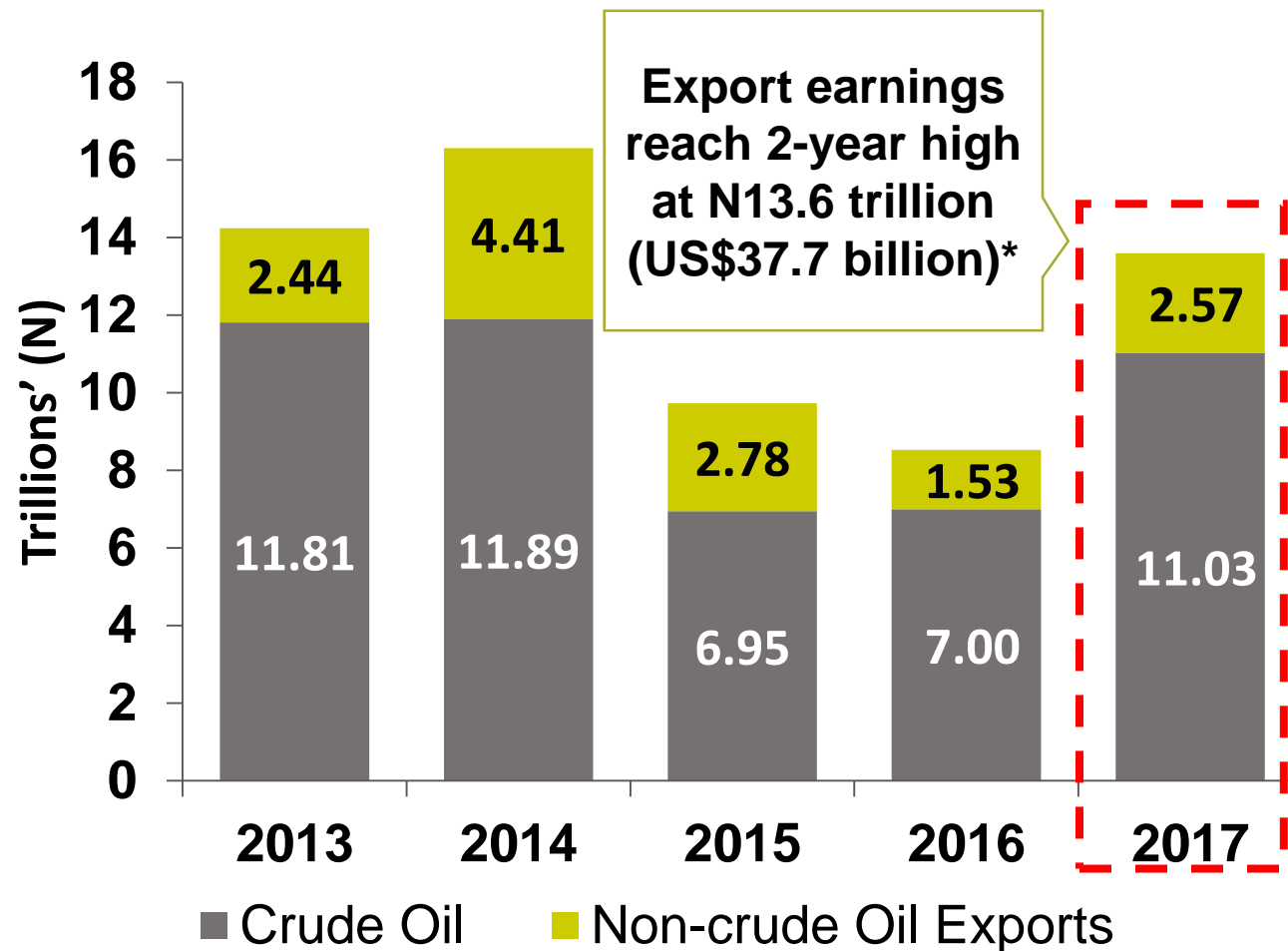
Source: OPEC

- As global oil prices fell, domestic production also fell since 2014, as a result of geopolitical tensions and attacks on oil infrastructure in the country.
- Negotiations between the government and factions of Nigeria's leading oil production regions (i.e. Niger Delta) have been successful as oil production is steadily recovering to its pre-commodity shock levels.

# Export Earnings Increase From Recession Levels

## Export earnings fall as oil prices fall

- Oil exports account for an average of 77% of the nations export earnings.
- The combination of low prices and reduced output had a significant impact on the nation.
- Nigeria saw 42% decline in crude oil earnings in 2015.
- In 2017, crude export earnings recovered strongly, rising over 57% to end close to its pre-recession levels.

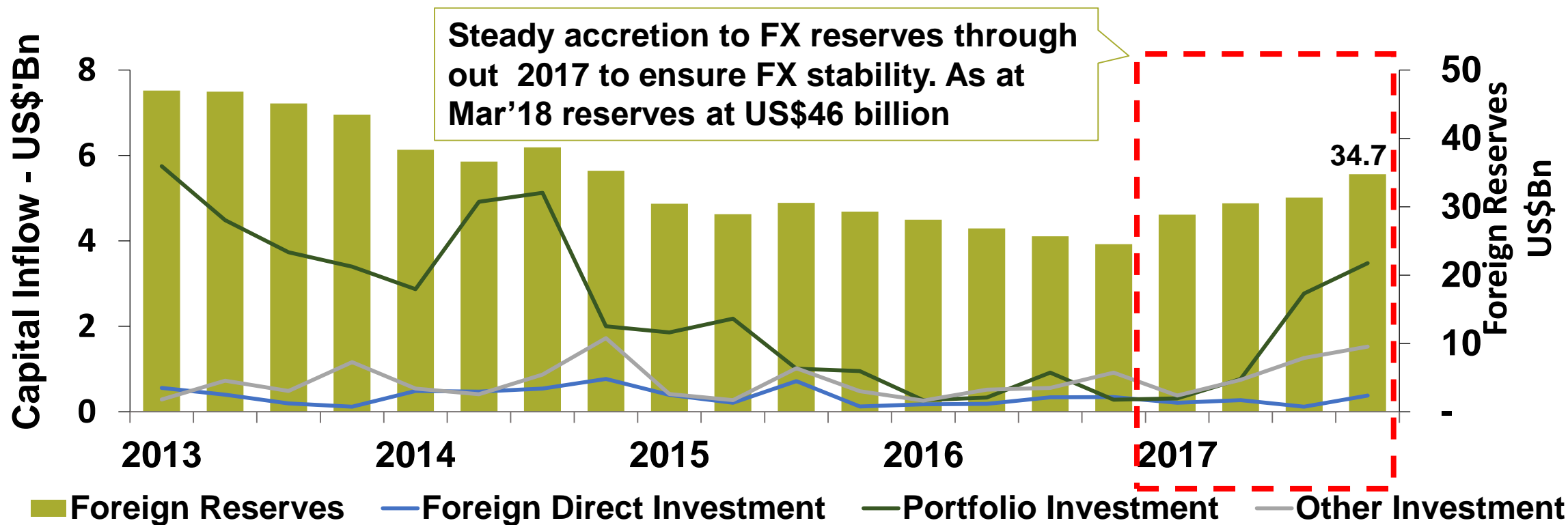


\*Exchange rate: N360/\$

# Foreign Reserves on the Rise

## Nigeria Emerges from FX Scarcity

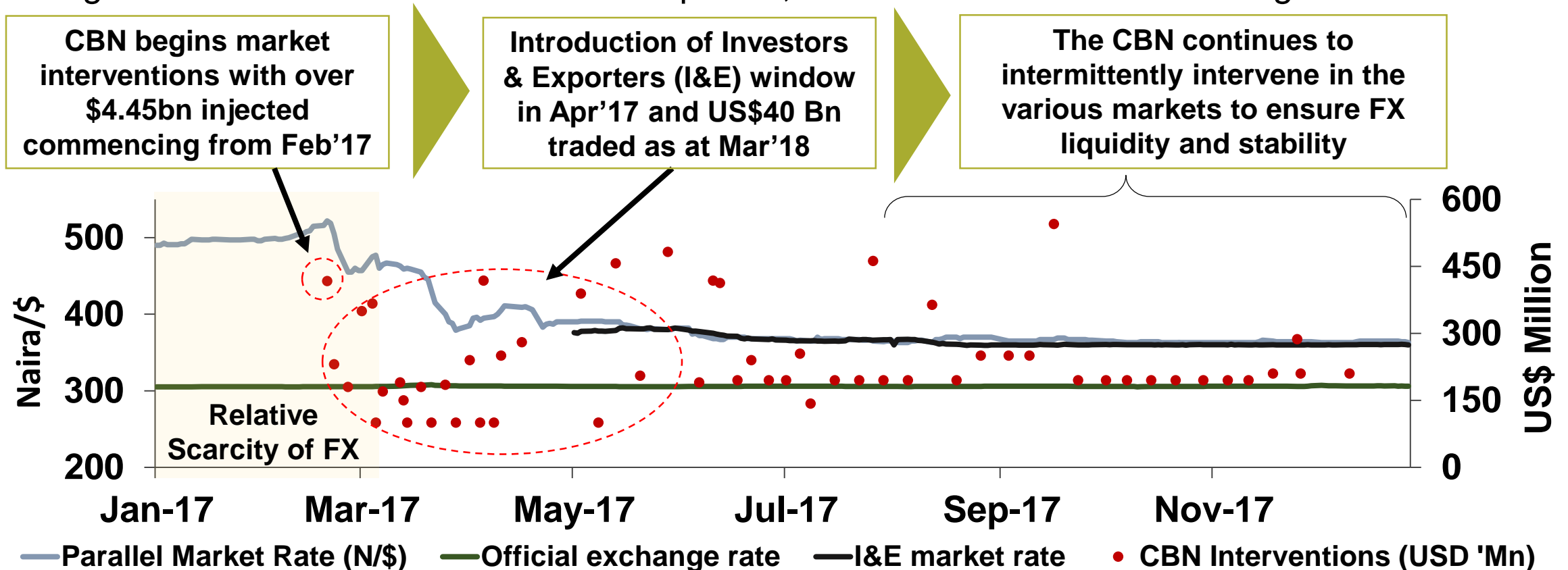
- Capital inflows fell and foreign exchange reserves were strained.
- On the back of a change in monetary policy and improving macroeconomic conditions, foreign capital flows improved with the largest portion coming via portfolio investors.



# Monetary Policy changes Stabilize Exchange Rate

## Monetary Interventions stabilize FX market

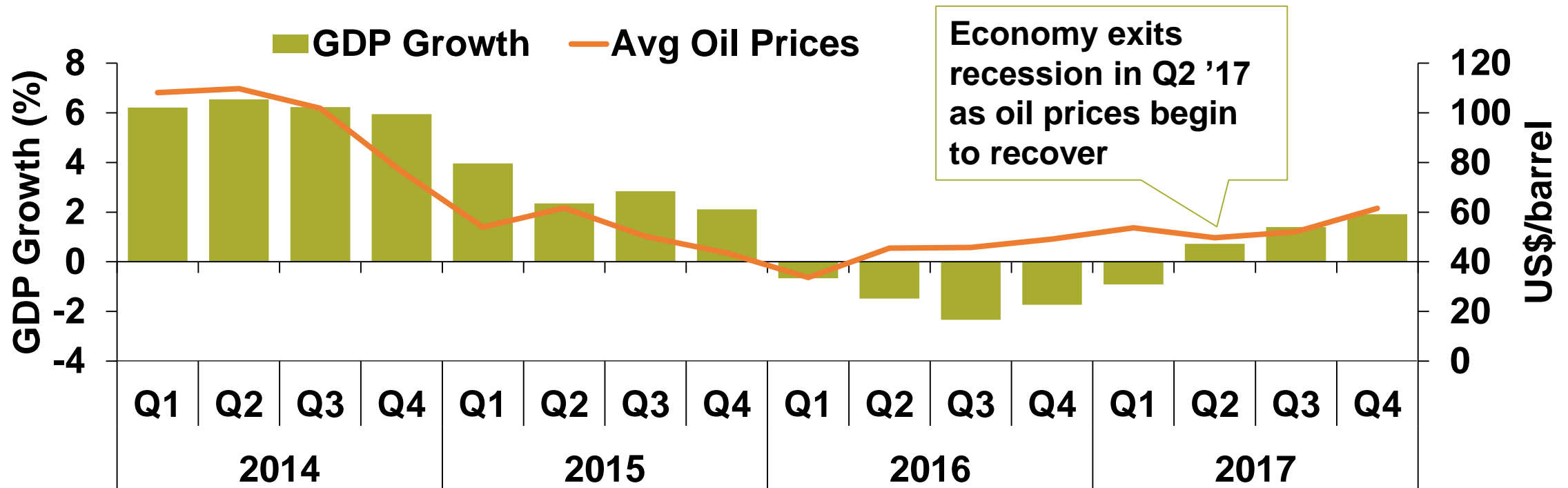
- The CBN continues to ensure liquidity via capital injections at ~ US\$200 million/injection.
- Nigeria's new FX windows remain transparent, credible and attractive to foreign investors.



# Stable Recovery Expected to Continue

## Nigeria's Real GDP Growth (%) – 2014 to 2017

- The economy exited recession with a marginal growth of 0.83% in 2017 and is expected to grow by 2.5% in 2018 based on the World Bank's projections.
- Growth has been driven by strong agriculture sector and recovery in global oil prices.



# Risks and Opportunities

How Smart Investors Assess Nigeria

# Nigeria... on the Precipice of Greatness?

## Some key challenges

- ⊙ **Undiversified fiscal revenue sources** with heavy concentration on oil
- ⊙ **High unemployment** levels (especially youth unemployment).
- ⊙ **Low tax to GDP ratio**
- ⊙ **Quality and quantum of infrastructure**
- ⊙ **Quality of education**
- ⊙ **High Income Inequality**



# ...but Opportunities exist cognizant of Challenges

- ❖ Sizeable youthful and active labor force
- ❖ Favorable demography
- ❖ Abundant natural resources
- ❖ Gov't commitment to enhancing favorable business environment
- ❖ Economic visibility and attractiveness
- ❖ Strategic location — hub of West and Central African Markets
- ❖ Internally supported growth



*"WE RECOGNIZE THE PRIVATE SECTOR AS THE ENGINE OF GROWTH AND A VERITABLE PARTNER IN OUR ECONOMIC AGENDA, AND WILL THEREFORE GIVE THE FULLEST SUPPORT TO FOREIGN AND DOMESTIC PARTNERS."*

*PRESIDENT MUHAMMADU BUHARI*



# Ease of Doing Business

- In the midst of the economic recession, the government set up a presidential committee to look into the ease of doing business.
- The reforms by this committee have seen Nigeria move 24 places to 145<sup>th</sup> in the World Bank's 2018 Ease of doing business report.

## Specific areas of reforms

### Starting a Business

- Improved speed of business registration by allowing electronic stamping of registration documents

### Dealing with construction permits

- Increased transparency by publishing all relevant regulations, fee schedules and pre-application requirements online

### Registering Property

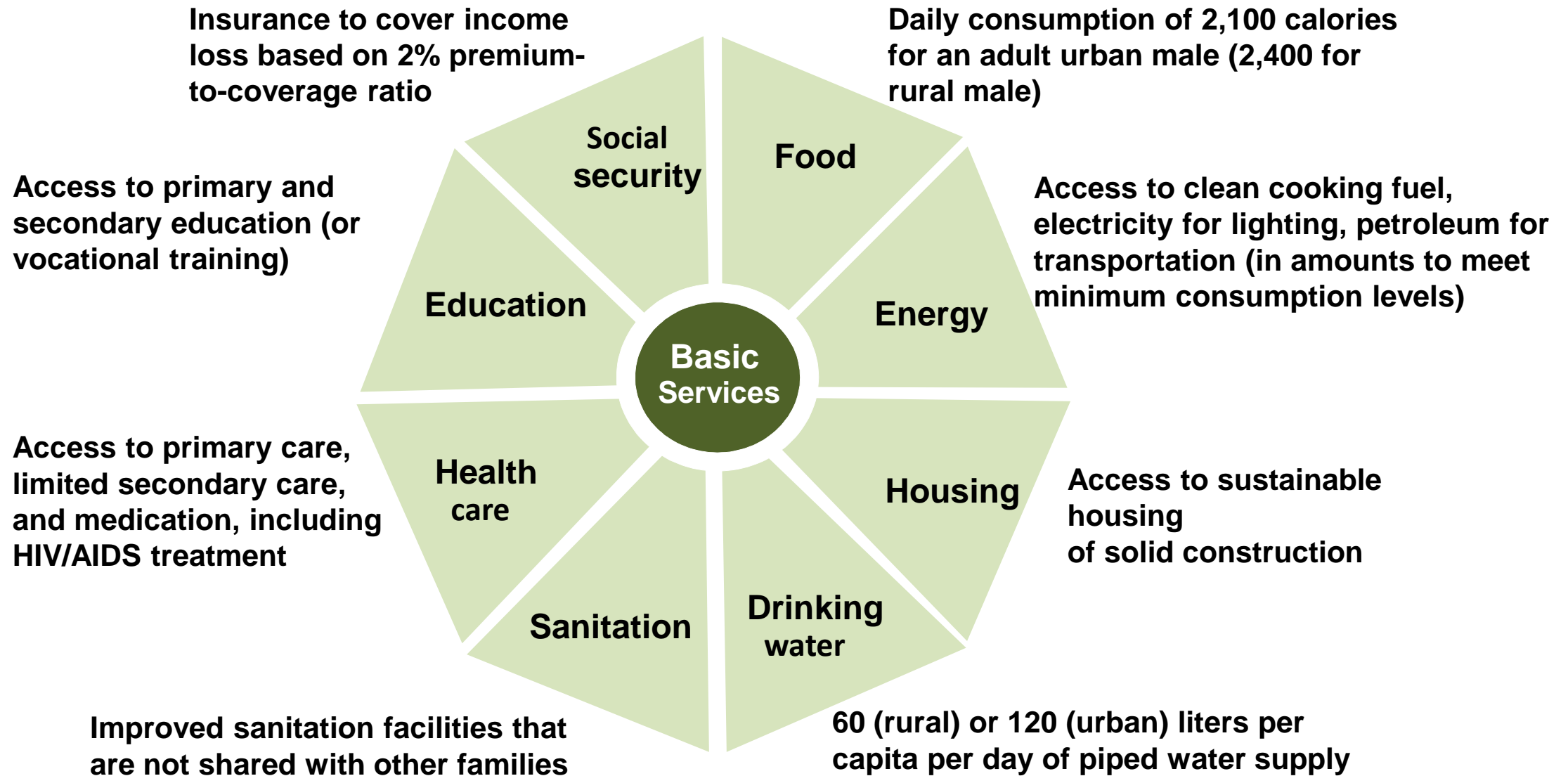
- Improved transparency by removing the sworn affidavit for certified copies of the land ownership records, and by publishing statistics on land transfers.

### Getting Credit

- Improved access to credit information from the credit bureau and established a modern collateral registry

# Nigeria's Investment Requirements include...

Source: McKinsey Global Institute (MGI)



# Government Priority Sectors

The Government of Nigeria has decided to focus on six major sectors under the ***Economic Recovery Growth Plan*** (ERGP) which contributes to a huge portion of the economy's GDP

## Agriculture

- Integrate the agriculture value chain and improve access to markets
- Fast-track the development and execution of irrigation projects
- Expand the use of dams for commercial farming and aquaculture

## Manufacturing

- Establish special economic zones to provide dedicated infrastructure to support hub productivity
- Build adequate transport infrastructure to connect manufacturing hubs
- Provide incentives such as 3 year tax holiday for companies legible for pioneer status

## Solid Minerals

- Clarify tax and regulatory systems surrounding mining activities
- Expand electro-magnetic and gravity exploration to complete resource mapping
- Provide import duty waivers for the importation of mining machinery

# Government Priority Sectors Cont'd

## Services

- Stimulate financial inclusion initiatives
- Strengthen enforcement of intellectual property rights and crack down on piracy
- Improve security to encourage domestic and international mobility

## Construction & Real Estate

- Stimulate construction by building affordable housing
- Recapitalize Federal Mortgage Bank of Nigeria to meet housing needs across Nigeria

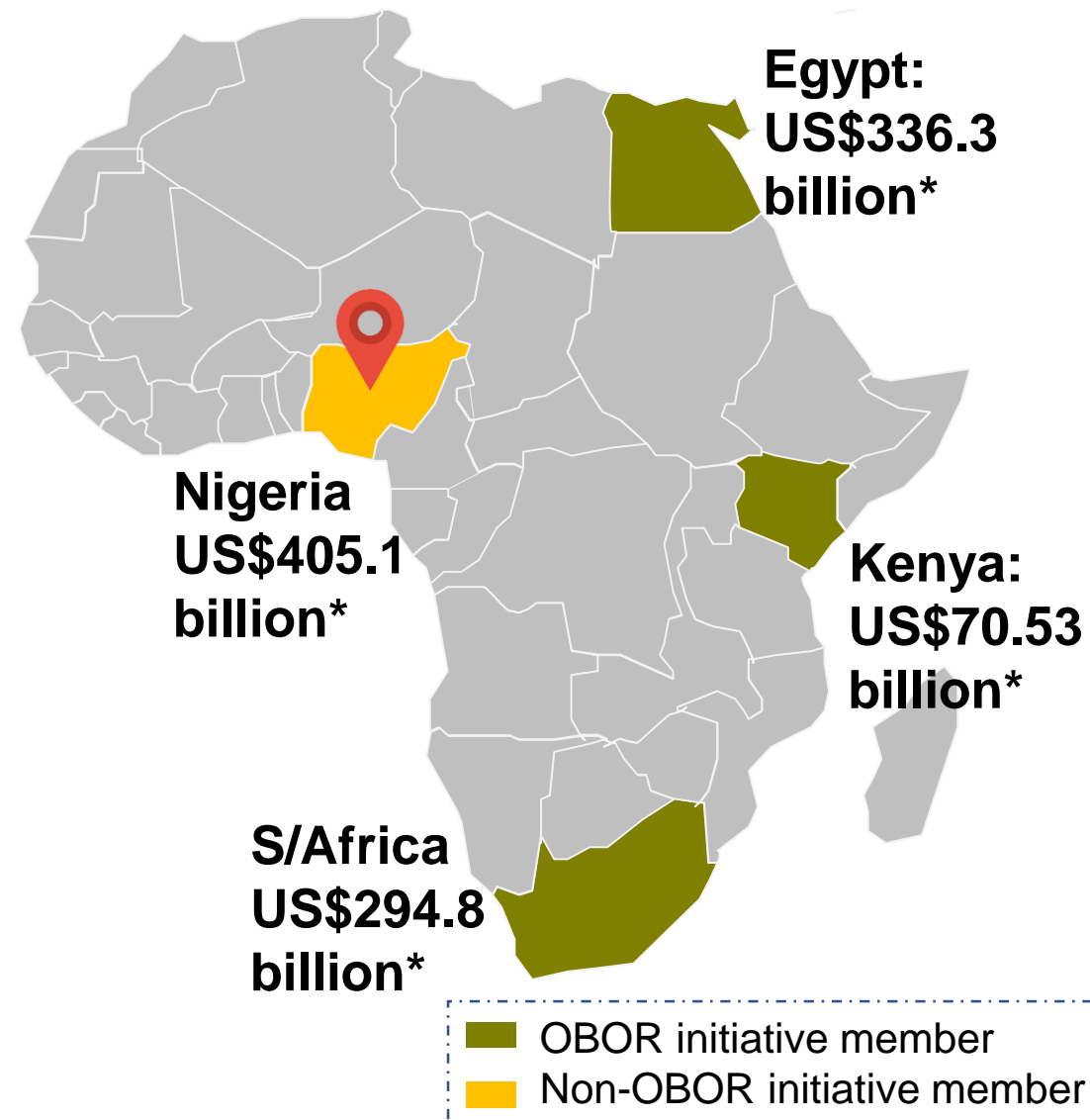
## Oil & Gas

- Revamp refineries to increase local production capacity
- Finalize gas production sharing contract terms to ramp up gas production
- Improve Niger Delta security, expand infrastructure within the Niger Delta

# The OBOR Opportunity

- ❖ The One Belt One Road (OBOR) initiative aims to connect Asia, Europe, the Middle East and Africa with a vast logistics and transport network to promote global interconnectedness (i.e. trade, services, culture, etc.)
- ❖ Currently, at least three (3) African countries including Kenya, Egypt and South Africa are signed up to the initiative. This, however, excludes Nigeria.
- ❖ The OBOR initiative will benefit from the inclusion of Africa's largest economy and financial hub of West Africa.
- ❖ This would further strengthen economic and cooperative ties between China and Nigeria, building upon bilateral agreements such as the recently signed US\$2.4 billion currency swap deal.

\* 2016 World Bank GDP figures



# Accessing Nigeria through the NSE

Africa's Growth Catalyst

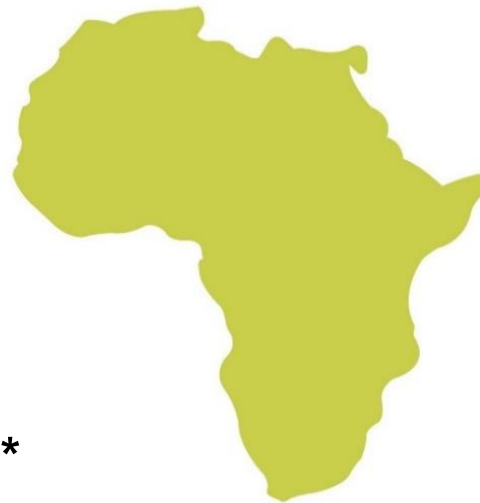
# Overview of the NSE

## The Sustainable Stock Exchange Championing Africa's Growth

Servicing the

# No. 1

Economy in Africa  
with a Market Cap  
of N24.87Tn (\$69.08Bn)\*



\*Mar. 29<sup>th</sup>, 2018, NGN/\$ = 360.40 (I&E FX window)

\*\*Net Asset Value (NAV) excluded in Market Cap

### PRODUCT



**171**  
Equities  
(N15.00 Tn)

**91**  
Bonds  
(N9.86 Tn)

**9**  
ETFs  
(N7.71 Bn)

**45**  
Memo. Listings  
~(N375.25 Bn)\*\*

### LISTINGS



**166**  
Listed  
Companies



**3** Domestic  
Companies



**1** Foreign & **152**  
Domestic Companies

**ASeM** **10**  
Domestic Companies

# NSE is a Globally Recognized Exchange





# NSE Product Offerings

## Equities

- Ordinary
- Preference
- Others

## Collective Investment Schemes

- Equity
- Fixed Income
- REITs

## Derivatives

- To be introduced in 2018

## Fixed Income

- Sovereign
- Sub-national
- Corporate
- Sukuk
- Green
- Others

## Exchange Traded Funds

- Index
- Commodity
- Others

## Depository Receipts

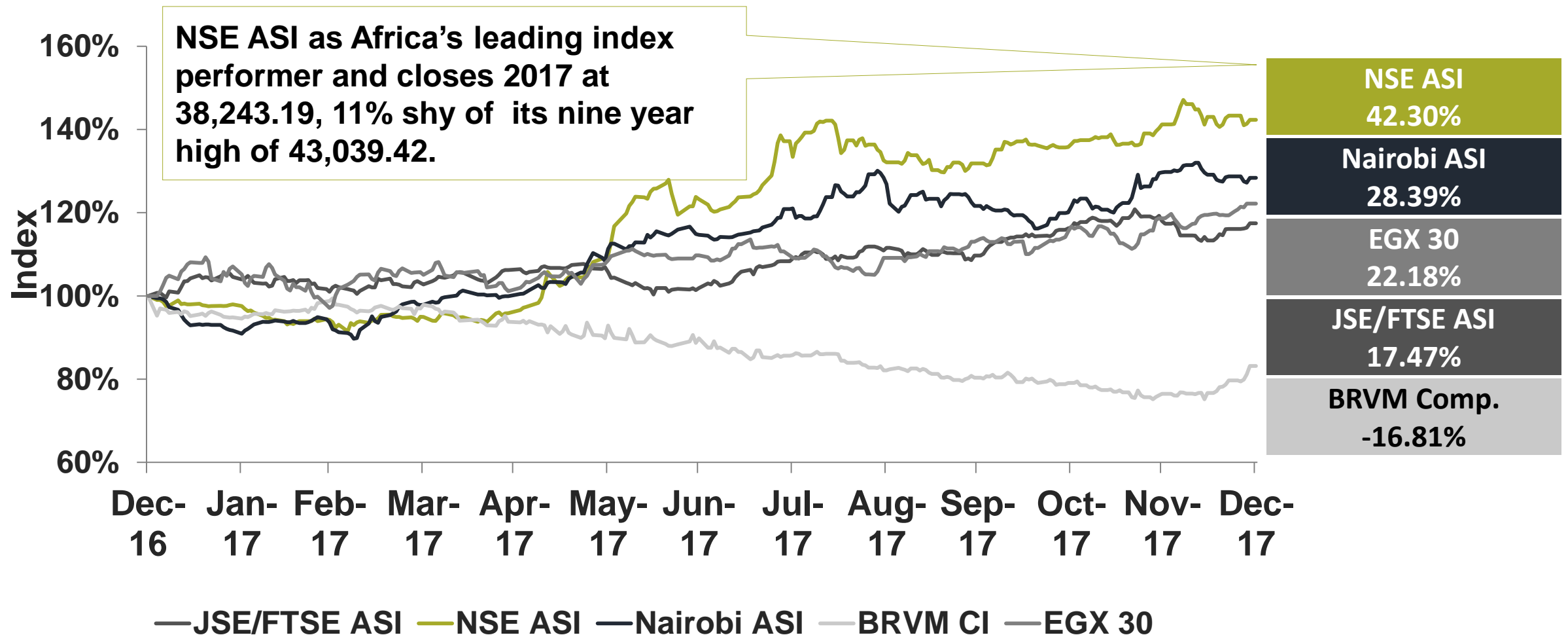
- To be introduced



The NSE currently provides a wide range of products and remains committed to enhancing investors' ability to diversify risk through new product offerings.

# NSE Market Snapshot (1/3)

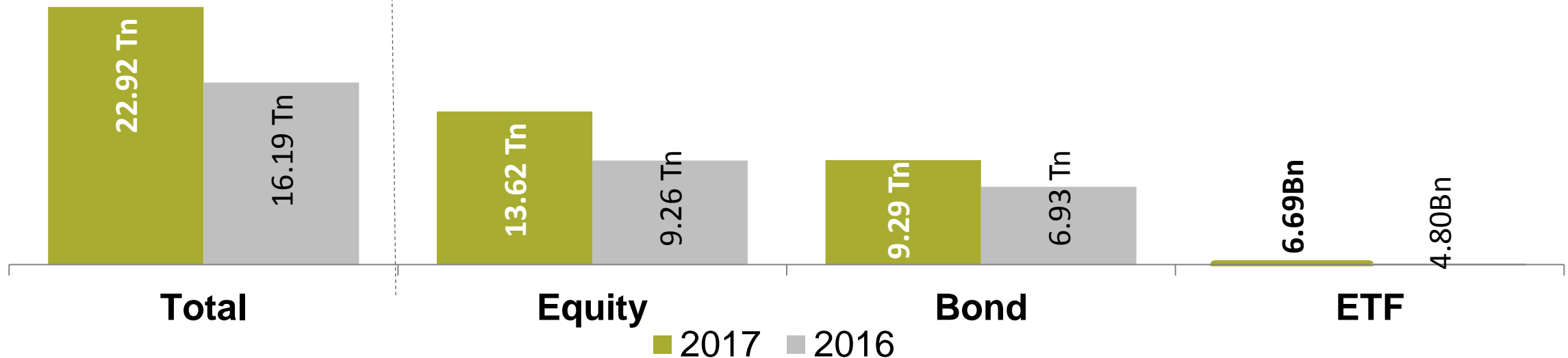
No. 1 Benchmark Exchange in Africa...



# NSE Market Snapshot (2/3)

## Nigerian capital market continues to recover...

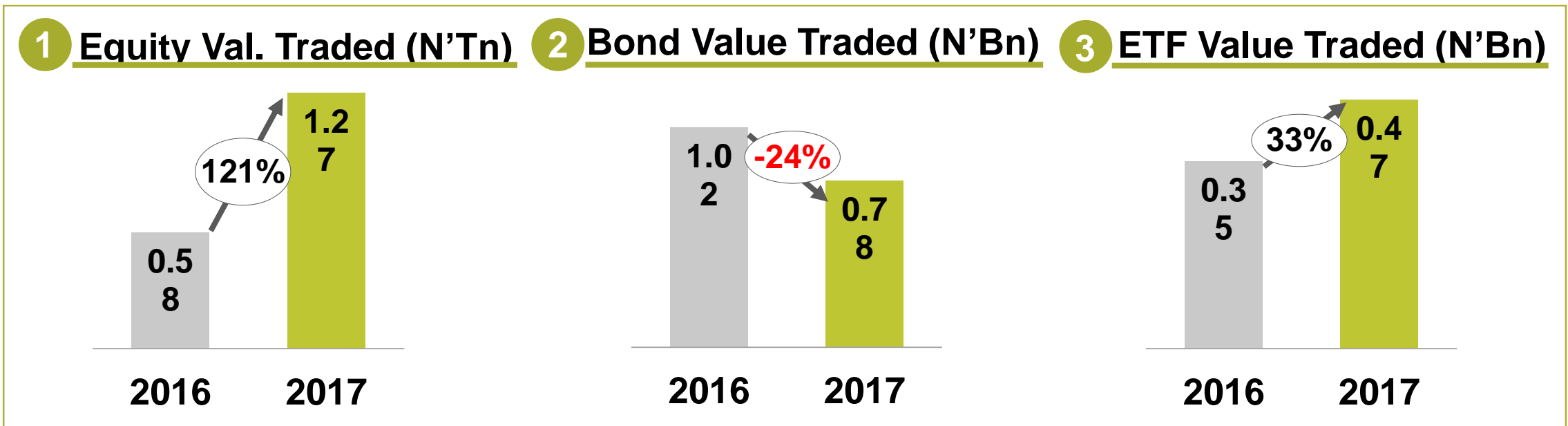
- Foreign inflows outpaced outflows in 2017, with positive net flows sustaining from March 2017, and peaking in August 2017 on the back of positive economic data releases.
- Bond yields gradually moderated from 2016 levels amidst easing inflation and greater FX stability.
- Annual turnover in the ETF market jumped 33% in 2017, following various initiatives undertaken during the year to support the issuance of market beneficial ETFs.



# NSE Market Snapshot (3/3)

## Total Value Traded Moves Upwards...

- Equity trading surged by 121% driven by improved company results and favorable FX policy.
- Bond market turnover declined by 24% in 2017 as investors sought higher returns in money market and equity instruments.
- Trading activity for ETFs rose by 33% buoyed by share price appreciation and new issuances.



# **Nigeria in the Fourth Industrial Revolution**

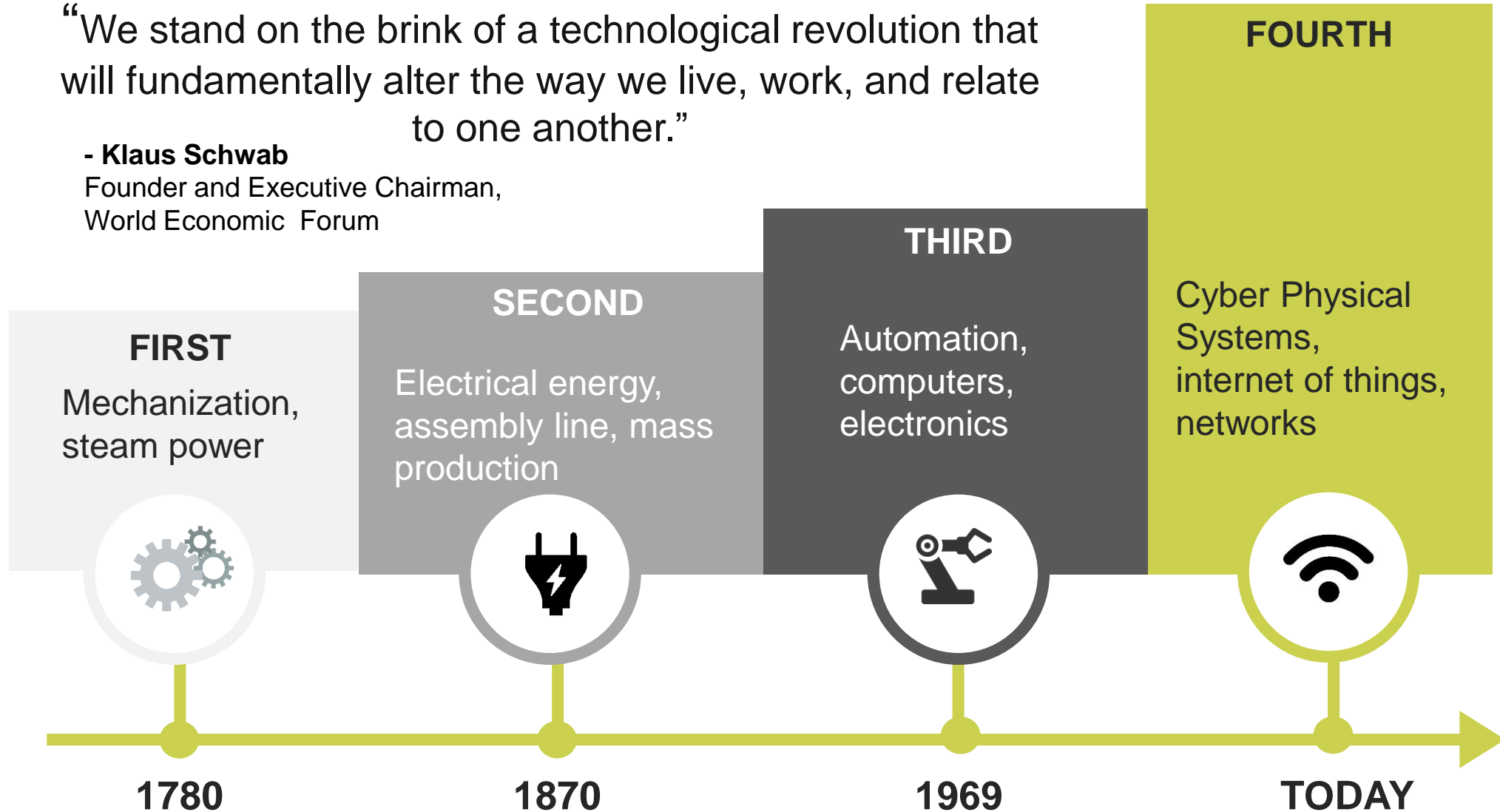
'Leapfrog' Opportunity

# The Fourth Industrial Revolution

“We stand on the brink of a technological revolution that will fundamentally alter the way we live, work, and relate to one another.”

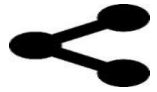
- Klaus Schwab

Founder and Executive Chairman,  
World Economic Forum



# ...And What It Means for the NCM

The Fourth IR offers Nigeria a 'leapfrog opportunity' to sustainable economic growth by:



## Financial Access

- Enhanced access to financial products and services irrespective of customers' physical location via emerging technologies.
- Targeted customer engagement through insights gained from data analytics.



## Efficiency

- Use of distributed ledger technologies for new ways of structuring market infrastructures
- Low latency access to trading servers supported by cloud technology.
- APIs allowing new applications to be built on top of pre-existing products/services.



## Transparency

- Timelier detection and response to market infractions via big data and analytics e.g The NSE employs predictive analytics in our market surveillance system, SMARTs.
- Data-driven regulation for a more proactive approach to managing systemic risk.
- Enhanced capacity of market operators to manage compliance requirements through the use of regulatory technologies.

# Conclusion

Looking Beyond The Horizon



# Nigeria: An African Growth Story...



- The World Bank forecasts that Nigeria's economy will grow by 2.5% in 2018, driven by: (i) a stronger global economy; (ii) higher global oil prices and output; (iii) FX market stability; and (iv) fiscal stimulus.
- Thus, amidst a stable economic backdrop, higher growth and investment-friendly policies, prospects for the Nigerian capital market in 2018 are encouraging.
- In 2018, the NSE will focus on rolling out its 2018-2021 Strategic Plan, which will position the NSE as a more agile and globally-competitive demutualized exchange, with a broader, diverse range of products and quality listings to meet the needs of our global investors and wider stakeholder community.

# Nigeria: An African Growth Story...



**Africa's largest Economy (Nigeria) will remain the region's single largest consumer market, accounting for 15 percent of overall growth in consumer spending to 2025.**



**Mckinsey Global Institute,**  
*Mckinsey&Company*

*...Come Join the Growth Story*

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