Investing in Nigeria: Exploring the Investment Potential of One of Africa’s Leading Economies

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Outline

1. Introduction
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 (1st largest oil reserves in Africa; 10th 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 (%) – 1960 to 2020F

• After decades of volatility, Nigeria’s GDP growth has been more stable since the early 2000s.
• Nigeria suffered its 1st 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.
Economy in Recovery

An In-Depth Assessment
Fall in Global Oil Prices Affects FX Regime

1. New oil order
2. Nigeria’s crude oil output falls
3. Capital imports to Nigeria declines

- Lower export earnings/FX receipts
- Reserve constrained
- Lower FX sales
- FX scarcity
- FX Market Crisis

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

Domestics Oil Production on the Rise

- 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.

Source: OPEC
Export Earnings Increase From Recession Levels

Export earnings fall as oil prices fall

- Oil exports account for an average of 77% of the nation’s export earnings.
- The combination of low prices and reduced output had a significant impact on the nation.
- Nigeria saw a 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.

Steady accretion to FX reserves throughout 2017 to ensure FX stability. As at Mar’18 reserves at US$46 billion

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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.

CBN begins market interventions with over $4.45bn injected commencing from Feb’17

Introduction of Investors & Exporters (I&E) window in Apr’17 and US$40 Bn traded as at Mar’18

The CBN continues to intermittently intervene in the various markets to ensure FX liquidity and stability

Monetary Policy changes Stabilize Exchange Rate

Parallel Market Rate (N/$) — Official exchange rate — I&E market rate — CBN Interventions (USD 'Mn)
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.

Economy exits recession in Q2 ’17 as oil prices begin to recover
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 145th in the World Bank’s 2018 Ease of doing business report.

### Specific areas of reforms

<table>
<thead>
<tr>
<th>Starting a Business</th>
<th>• Improved speed of business registration by allowing electronic stamping of registration documents</th>
</tr>
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<tbody>
<tr>
<td>Dealing with</td>
<td>• Increased transparency by publishing all relevant regulations, fee schedules and pre-application requirements online</td>
</tr>
<tr>
<td>construction permits</td>
<td></td>
</tr>
<tr>
<td>Registering Property</td>
<td>• Improved transparency by removing the sworn affidavit for certified copies of the land ownership records, and by publishing statistics on land transfers.</td>
</tr>
<tr>
<td>Getting Credit</td>
<td>• Improved access to credit information from the credit bureau and established a modern collateral registry</td>
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Nigeria’s Investment Requirements include…

- Insurance to cover income loss based on 2% premium-to-coverage ratio
- Daily consumption of 2,100 calories for an adult urban male (2,400 for rural male)
- Access to primary and secondary education (or vocational training)
- Access to clean cooking fuel, electricity for lighting, petroleum for transportation (in amounts to meet minimum consumption levels)
- Access to primary care, limited secondary care, and medication, including HIV/AIDS treatment
- Access to sustainable housing of solid construction
- Improved sanitation facilities that are not shared with other families
- 60 (rural) or 120 (urban) liters per capita per day of piped water supply

Source: McKinsey Global Institute (MGI)

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## 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

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## 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. 29th, 2018, NGN/$ = 360.40 (I&E FX window)
**Net Asset Value (NAV) excluded in Market Cap

PRODUCT

<table>
<thead>
<tr>
<th>PRODUCT</th>
<th>171 Equities</th>
<th>91 Bonds</th>
<th>9 ETFs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(N15.00 Tn)</td>
<td>(N9.86 Tn)</td>
<td>(N7.71 Bn)</td>
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LISTINGS

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<thead>
<tr>
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<th>166 Listed Companies</th>
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<tr>
<td></td>
<td>3 Domestic Companies</td>
</tr>
<tr>
<td></td>
<td>1 Foreign &amp; 152 Domestic Companies</td>
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<tr>
<td></td>
<td>ASeM 10 Domestic Companies</td>
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~(N375.25 Bn)**

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NSE is a Globally Recognized Exchange
The NSE currently provides a wide range of products and remains committed to enhancing investors’ ability to diversify risk through new product offerings.
NSE ASI as Africa’s leading index performer and closes 2017 at 38,243.19, 11% shy of its nine year high of 43,039.42.

<table>
<thead>
<tr>
<th>Index</th>
<th>Value</th>
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<tr>
<td>NSE ASI</td>
<td>42.30%</td>
</tr>
<tr>
<td>Nairobi ASI</td>
<td>28.39%</td>
</tr>
<tr>
<td>EGX 30</td>
<td>22.18%</td>
</tr>
<tr>
<td>JSE/FTSE ASI</td>
<td>17.47%</td>
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<tr>
<td>BRVM Comp.</td>
<td>-16.81%</td>
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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.

1. **Equity Val. Traded (N’Tn)**  
   - 2016: 0.5
   - 2017: 1.2
   - Increase: 121%

2. **Bond Value Traded (N’Bn)**  
   - 2016: 1.0
   - 2017: 0.7
   - Decrease: -24%

3. **ETF Value Traded (N’Bn)**  
   - 2016: 0.3
   - 2017: 0.4
   - Increase: 33%
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

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The Fourth Industrial Revolution

FIRST
Mechanization, steam power

SECOND
Electrical energy, assembly line, mass production

THIRD
Automation, computers, electronics

FOURTH
Cyber Physical Systems, internet of things, networks

1780
1870
1969
TODAY
The Fourth IR offers Nigeria a ‘leapfrog opportunity’ to sustainable economic growth by:

<table>
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<tr>
<th>Financial Access</th>
<th>Efficiency</th>
<th>Transparency</th>
</tr>
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<tr>
<td>▪ Enhanced access to financial products and services irrespective of customers’ physical location via emerging technologies.</td>
<td>▪ Use of distributed ledger technologies for new ways of structuring market infrastructures</td>
<td>▪ 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.</td>
</tr>
<tr>
<td>▪ Targeted customer engagement through insights gained from data analytics.</td>
<td>▪ Low latency access to trading servers supported by cloud technology.</td>
<td>▪ Data-driven regulation for a more proactive approach to managing systemic risk.</td>
</tr>
<tr>
<td>▪ Use of emerging technologies for emerging markets.</td>
<td>▪ APIs allowing new applications to be built on top of pre-existing products/services.</td>
<td>▪ Enhanced capacity of market operators to manage compliance requirements through the use of regulatory technologies.</td>
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</table>
Conclusion

Looking Beyond The Horizon
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.
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.

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