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Association of Nigeria

Outline

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2021 vs 2022 – *A year to remember*

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Economic Outlook – 2023,
the unusual year & Opportunities

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So far in 2022 – *How has the year come to you??*

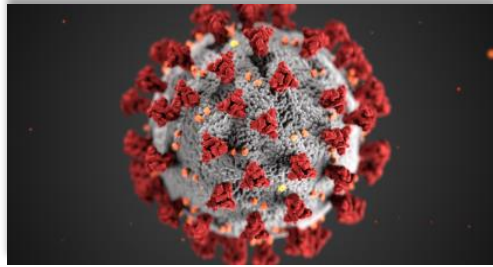
04

Summary

*2021 vs 2022 - A year to
remember*

2022: What Has Happened

- ❑ Worst is yet to come



POST-COVID
WORLD



HIGH ENERGY COST



RUSSIA INVADES UKRAINE



END OF QUANTITATIVE
EASING

2022: What Has Happened



**RECORD HIGH
INTEREST RATES**



**SPIRALLING
INFLATION**



**RISING DEBT STOCK &
DEBT SERVICING**



TEPID GROWTH

2021 vs 2022 - Current State of the Nigerian Economy

	2021	2022*	% change (2021/2022)
GDP Growth rate (%)	3.6	2.9	-0.7
FBN PMI (Avg. Points)	55	51.24	-6.8
Average Power Output (MWh/h)	4,559	4,735	-3.9
Money Supply (end-period; N'trn)	42.6	50.6	18.8
Inflation (Avg. %)	16.98	18.53	1.3
364-day T/bill (end-period, %)	4.90	13.05	8.2
Interest Rate (end-period, %)	11.5	16.5	5
Average FAAC (N'bn)	720	781.31	8.5
Unemployment (%)	33	35	2.0
Stock market cap (end-period, Ntrn)	22.33	26.68	19.5

Source: EIU, DMO, OPEC, FMDQ, CBN, FBN Quest, NBS, FDC Think Tank

2021 vs 2022 – Current State of the Nigerian Economy

	2021	2022*	% change (2020/2021)
Oil Price (Avg. \$pb)	70.96	99.51	40.2
Oil Production (Avg. Mbpd)	1.67	1.21	-27.54
Exchange Rate – Parallel (avg; N/\$)	515.99	651.21	26.2
IEFX (avg; N/\$)	410.43	426.87	4.01
Terms of Trade (\$'bn)	50.7	58.7	15.8
Current Account Balance (\$bn)	-1.85	4.53	344.1
Balance of Trade (\$'bn)	-3.25	4.21	230.3
External Reserves (end period, \$bn)	40.52	36.96	-8.8
Budget Size – N'trn	13.08	17.13	30.9
Ease of Doing Business Rank	135	130	5

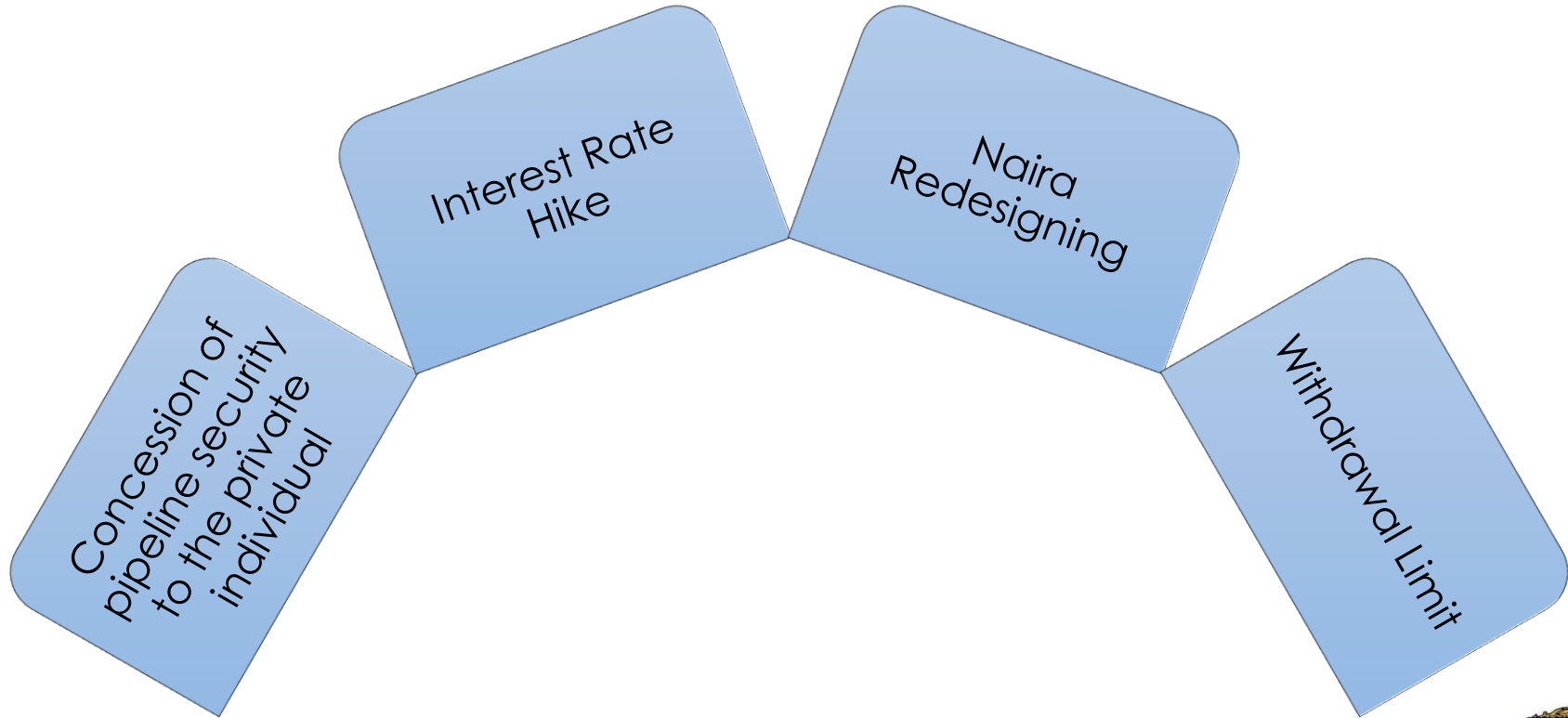
Source: EIU, DMO, OPEC, FMDQ, CBN, FBN Quest, NBS, FDC Think Tank

2021 vs 2022 – What are the LEIs Saying?

- ❑ 2022 has been turbulent with various headwinds and distortions in the global and domestic economy
- ❑ Impacting on the economic output
 - ❑ Growth is expected to be tepid and subdued and it is projected at 2.8% FY'2022
 - ❑ Inflation is on a 17-year record high
 - ❑ Forex market is turbulent due to forex rationing
 - ❑ Oil production is at a record low
 - ❑ Depriving the country the benefit from the windfall of the global higher oil prices
- ❑ 2022 has been indeed a year to remember

So far in 2022 - Policy Thrust

Policy Thrust



2023 - Unusual Year

RELEVANT TRENDS IN 2023 - EIU

- ❑ Global Real GDP growth to slow sharply in 2023 to 1.5% (2022 estimate: 2.9%)
 - ❑ Ripple effects of Russia-Ukraine war
 - ❑ Global monetary tightening
 - ❑ Economic slowdown in China
- ❑ Energy prices to remain elevated in 2023 due to
 - ❑ EU's ban on Russia's oil and its weaponisation of gas exports
 - ❑ OPEC production cuts
- ❑ Reduction in aggregate demand & ease on oil sanctions on Venezuela to put a floor on oil price increases

RELEVANT TRENDS IN 2023 - EIU

- Eurozone economy to fall into recession in 2023 to -0.3% (2022 estimate: 3%)
 - Russia's weaponisation of gas deliveries to result in energy shortages
- Commodity prices to drop in 2023 but will remain historically high keeping a floor under inflation
- Global inflation to dip to 6.5% in 2023 from an estimated 9.4% in 2022
- Policy rate to peak in H1 '23 and will remain high in 2023-24
- China's GDP growth to recover to 4.7% in 2023 from 3.3% in 2022
 - Loosening of its zero-covid policy will underpin recovery
 - But raises risk of surging covid cases

Nigeria in 2023 Forecast – EIU

Indicators	2022*	2023*	%Change*
Real GDP growth (%)	2.9	2.8	-0.1
Consumer price inflation (av; %)	19.5	16.3	-3.2
Government balance (% of GDP)	-5.4	-4.4	1.0
Current-account balance (% of GDP)	0.9	1.3	0.4
Interest Rate (av; %)	14.1	16.5	2.4
Exchange rate N:US\$ (av)- Official	426.9	468	9.6
Exchange rate N:US\$ (av)- Parallel	651.21	630	-3.6
Oil Production (mb, av)	1.14	1.33	16.7
Agricultural output growth (%)	3.6	2.5	-1.1

Nigeria in 2023

- ❑ Policymakers will promote the development of local industry aggressively
- ❑ Ban on imports of some items aimed at supporting the naira will continue in 2023
- ❑ Currency adjustment will be pursued
- ❑ Full impact of PIA will be felt, this will attract investors to the petroleum industry
- ❑ Outright subsidy removal to be considered in mid-2023
- ❑ Federal government finances will remain in deficit
- ❑ Tax reforms and harmonization of tax policies to close the deficit gap will be given full concentration
- ❑ Gradual securitization of government debt to relieve the fiscal stress
- ❑ CBN to continue its policy rate hike till the first half of 2023

Specific Sectors to watch in 2023



Automotive



Energy



Financial Services



Agriculture



ICT & Telcoms



Aviation & Tourism

FINANCIAL INSTITUTION

Financial services have maintained a positive trajectory over last four quarters

Recovered from COVID shock in Q3'21

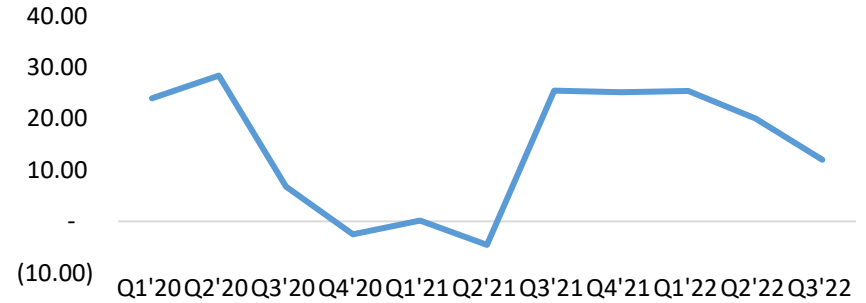
Grew by 25.5% in Q3'21

However, growth has been subdued in 2022

As a result of monetary tightening

Slowed to 12.03% in Q3'22

Financial services



Company	Stock Return	Revenue Projection FY'23
Zenith	↓ 8.55% to N23.5	↑ 15% to N842bn
Axa mansard	↓ 21% to N1.83	↑ 26% to N75.8bn
Custodian	↓ 32% to N5.35	↑ 18% to N101bn



FINANCIAL INSTITUTION

- ❑ NGX-pension is one of the safe-heaven stocks
- ❑ Grew by 5.72% YTD
- ❑ While banking stock has remained flat YTD
- ❑ NGX has gained 13.8%
- ❑ Despite the global distortion in the capital markets

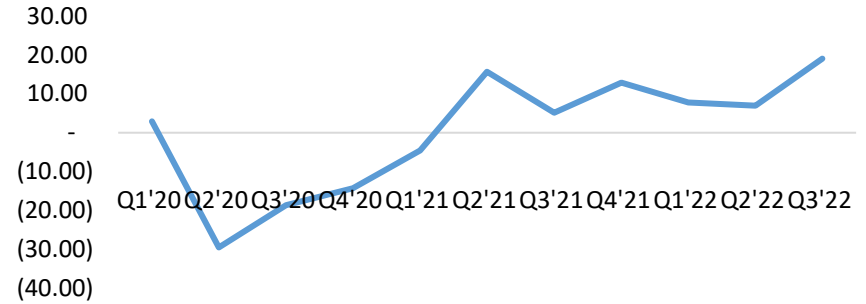


INSURANCE SERVICES



- Insurance services account for 11.2% of the total activities in the Financial sector
- It has maintained a positive trend post-COVID
- Grew with an average of 11.56% over the last six quarters
- 19.09% in Q3'22
- NGX-Insurance lost 17.1% YTD

Insurance Services



INSURANCE SERVICES



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of the total activities in the Financial sector

It has maintained a positive trend post-

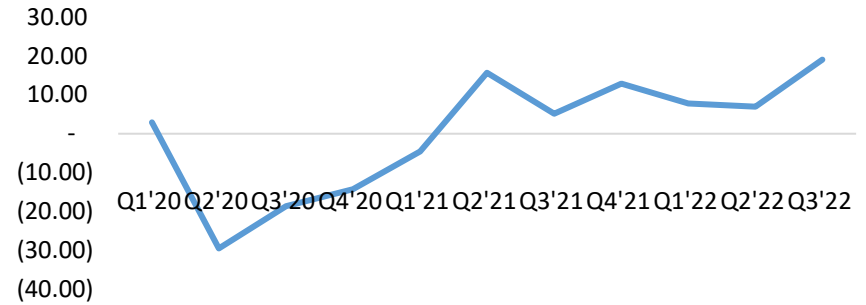
COVID

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Insurance Services



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Q1'23 – The Global Financial Services Outlook

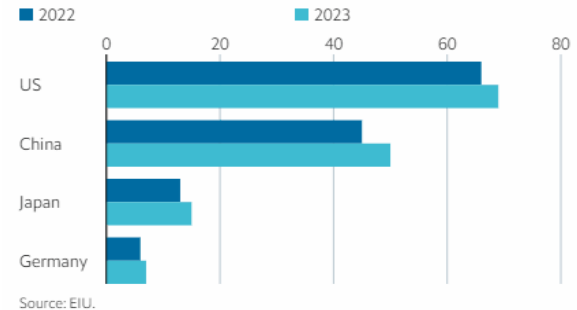
- ❑ Banks to face more difficult conditions as economic output weakens and interest rate hikes continue
- ❑ Developing countries with high debt burden will find it difficult to refinance their foreign debt
 - ❑ However, the IMF will continue to support countries that are at the verge of debt distress
- ❑ Fintech will be floundered by the current capital-market crunch as they try to outflank incumbents in banking, payments and other activities

Q1'23 – The Global Financial Services Outlook

- ❑ Corporate default and NPL to rise in 2023
 - ❑ But government will offer supports
- ❑ Capital markets will remain under pressure
- ❑ Indebted developing countries will have to proceed with only a limited safety net
- ❑ Tightening financial conditions and rising costs on dollarized debts will make debt rollover difficult

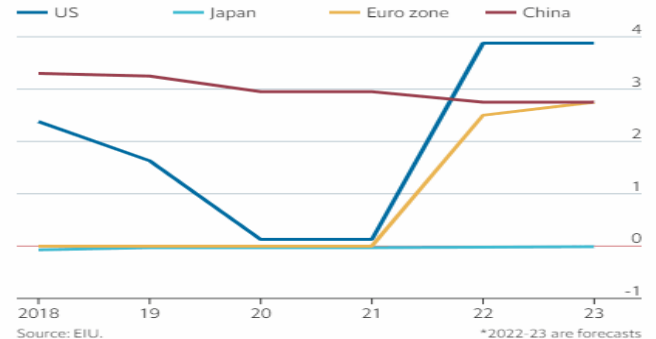
Lending will continue to rise in 2023

(total lending; US\$ trn)



No more easy money

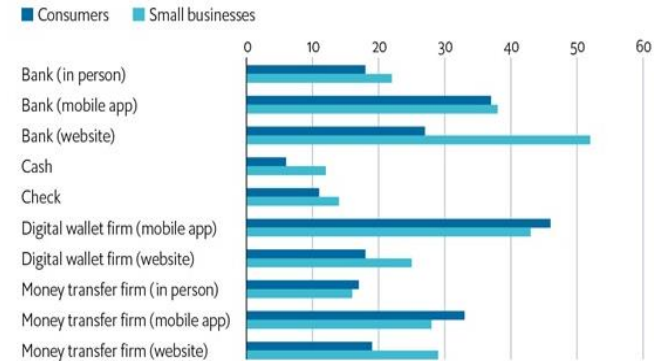
(policy interest rates*; end-period; %)



Q1'23 – The Global Financial Services Outlook

- ❑ Digital disruption to domestic payments will continue
- ❑ Russia-Ukraine war will cause parallel disruption to cross-border payment systems.
- ❑ Disrupting cross-border payments will mean adopting innovative solutions
- ❑ Countries will seek to interlink their national fast-payments systems,
 - ❑ To reduce intermediaries and bring down the cost of sending money abroad.

Means for making cross-border payments
(% of respondents during Dec 2nd 2021-Jan 7th 2022)*



Sources: Mastercard; EIU.

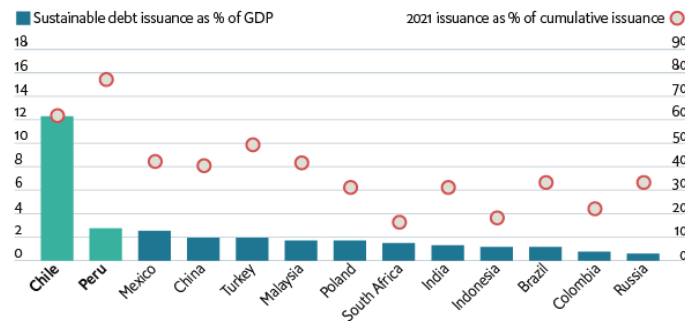
*Based on a survey of 7,586 consumers and 3,074 representatives of MSMEs across Brazil, Canada, Chile, China, Colombia, France, Germany, India, Mexico, Saudi Arabia, Singapore, South Africa, the UAE, the UK and the US.

Investment Opportunities in Finance – ESG Bond

- Recent growth of ESG markets provides fund-securing opportunities for
- Emerging market (EM) sovereigns & firms
- The number of EMs issuing ESG debt rose from five in 2015 to more than 30 in 2021
- ESG bond issuance was particularly high, reaching US\$190bn in 2021
- Triple the amount of issuance in 2020

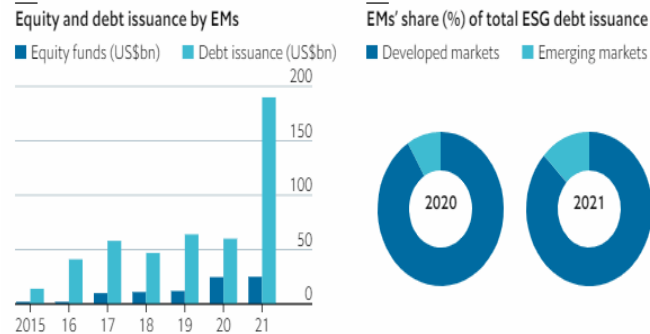


In 2021, Chile, Peru led emerging markets other than China on ESG debt issues (US\$ bn, in % terms)



Sources: Bloomberg NEF; IMF working paper.

ESG flows to emerging markets picked up in 2021



Sources: IMF; EIU.



FINANCIAL SERVICES - Opportunities

E- Payment &
Fintech
services

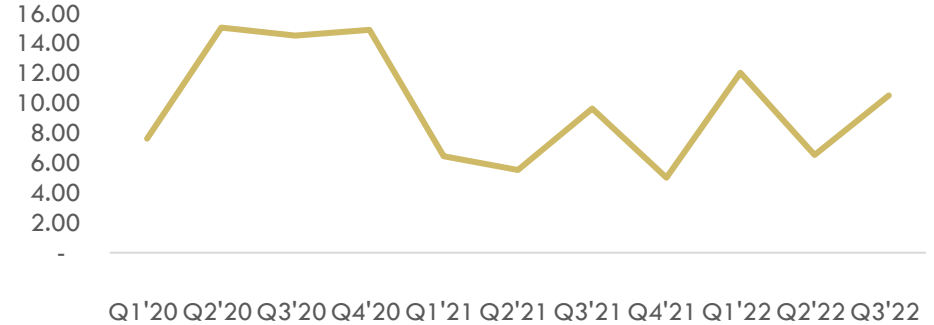
Green Bond
and
Sustainable
Finance

Nigeria's
Gradual
Securitization
of its debt

TELECOM INDUSTRY

- ICT has been one of the major contributors to the Nigerian GDP
- Accounts for 12%-13% of GDP
- grew by an average of 9.3% in the last two years
- Telecommunication has ben the major driver of the sector

ICT Growth (%)



Company	Stock Return	Revenue Projection FY'23
MTN Nigeria	↑ 5.58% to N214	↑ 27% to N2.09trn
Airtel Africa	↑ 55.8% to N1,488	↑ 27% to \$5.98bn

TELECOM INDUSTRY - 2023 OUTLOOK

- ❑ Mobile telecoms to boost global economy as productivity improves
- ❑ Spread of 5G technology to middle-income countries will take 5g subscriptions past 1bn
- ❑ Smartphones sales to decline amid recessions & semiconductor supply problems
- ❑ Broadband to reach more homes in the developing world
- ❑ Operators struggle to finance investments despite passing higher costs to consumers

INFORMATION TECHNOLOGY - 2023 OUTLOOK

- IT spending will be on the rise in 2023 despite looming recession risks & interest rate hikes
- Ability for technology to predict demand, track supply & secure data puts technology on high demand
- Cloud computing to grow as remote work becomes mainstream
- Automation will accelerate as business work to counter high wages & supply problems
- Firms will be prompted to build mobile networks to improve connectivity & tighten security
- Cyber-security risks loom as digitilisation increase

ICT – Opportunities

Local
Manufacture
of Equipment
– investment
in ICT
infrastructure

Switching and
Transmission
Equipment -
No Nigerian
company
providing this
service
currently

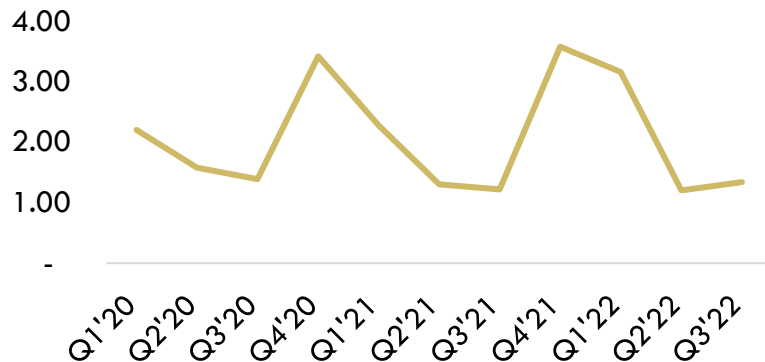
Cable – there
will be a higher
demand for
cables as
telecoms
expand

Facilities and
Services
Provision –
investment in
5G Facilities

AGRICULTURE

- Agric sector has been the major contributor to the Nigerian economy
- Contributes between 25%-30% to GDP
- Grew by 2.92% over the last four quarters
- Accounts for 45% of the employment
- The sector is battling with insecurity and lack of storage facilities

Agric Sector Growth (%)



Company	Stock Return	Revenue Projection FY'23
Okomu Oil	↑ 18% to N167.5	↑ 65% to N62bn
Presco	↑ 37% to N120.5	↑ 73% to N102bn

AGRICULTURE - 2023 OUTLOOK

- War in Ukraine & climate change to fuel food insecurity in 2023
 - UN expects 19m more people to be undernourished with 830m going hungry worldwide
- Fertilizer shortages, high energy prices & aftermath of 2022 droughts will hobble planting
- Wheat & maize production to drop while grain exports from Ukraine remain low
- Sky-high food prices will decline as aggregate demand falls on low disposable income

Agriculture - Opportunities

Storage
Facilities

Technology &
Irrigation

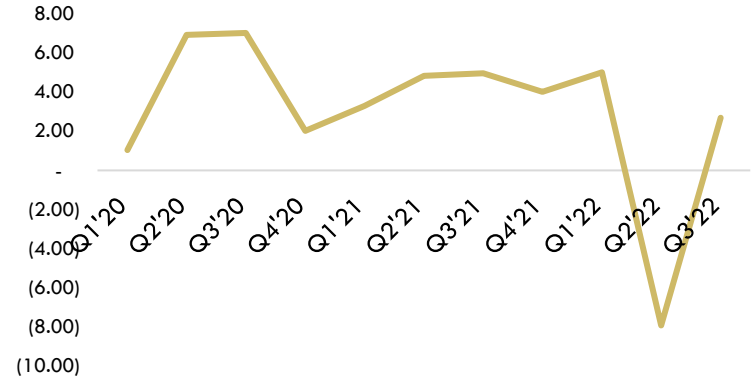
Investment in
Value Chain



AUTOMOTIVE INDUSTRY

- ❑ Nigeria's automotive industry is quite large
 - ❑ 6,500 cars were sold in 2021
- ❑ The market depends on imported vehicles
- ❑ The sector was supported by a stable Exchange rate in 2021
- ❑ Grew by 4.26%
- ❑ However, the exchange rate fluctuation in 2022 has subdued the sector's growth
- ❑ Contracted by 7.96% in Q2'22
- ❑ But reversed the contraction in Q3'22, grew by 2.19%

Motor Vehicle and Assembly Growth (%)



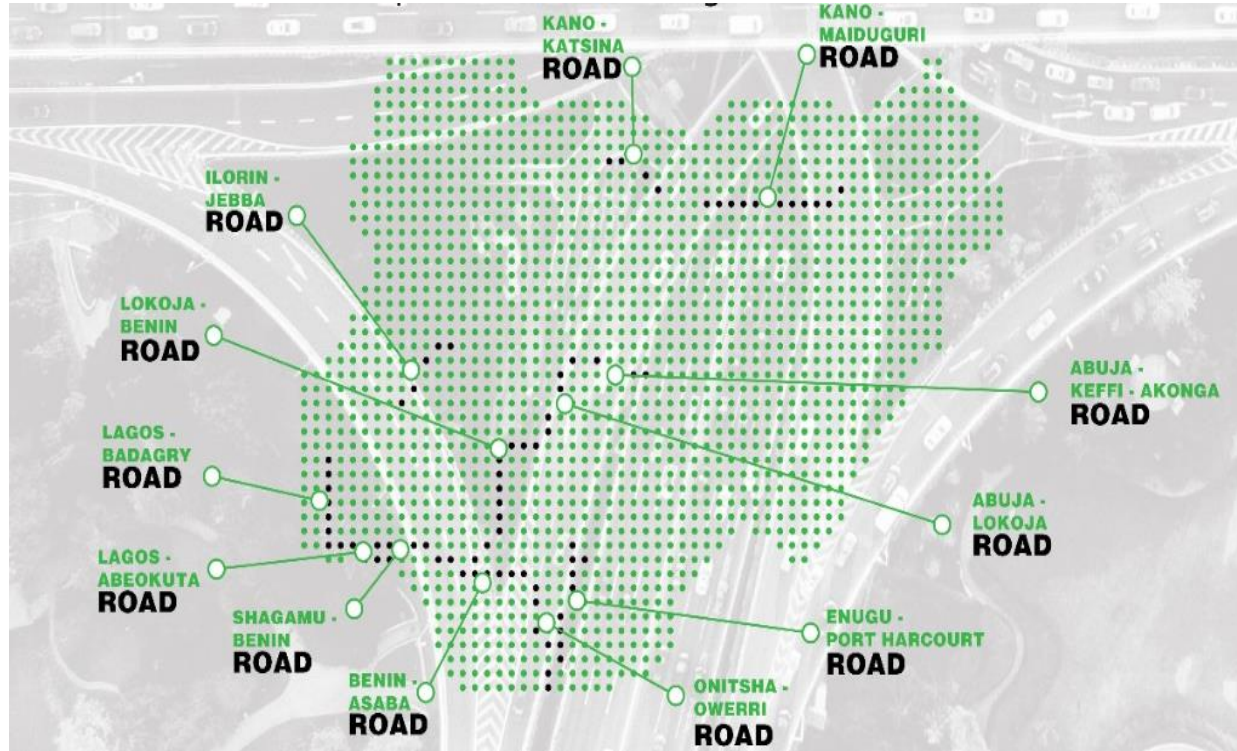
Company	Stock Return	Revenue Projection FY'23
ABC Transport	↓ 19.5% to N0.25	↑ 30% to N8.5bn
Redstar Express	↓ 34.5% to N2.26	↑ 32% to N16.7bn

AUTOMOTIVE INDUSTRY - 2023 OUTLOOK

- ❑ Growth in the automotive industry will be slowed by
 - ❑ Energy crises
 - ❑ Slower global demand
 - ❑ Continued supply chain problems
- ❑ New vehicle sales to increase by 1%
 - ❑ Remains 14% below 2019 levels
- ❑ Sales of electric vehicles to accelerate less sharply
 - ❑ To grow by 25% from almost 100% increase in 2021
- ❑ Carmakers to struggle to pass rising costs to buyers as disposable income falls

AUTOMOTIVE INDUSTRY – Opportunities

- ❑ Nigeria concessions 12 federal highways
- ❑ FGN concessions 12 federal highways or a total of 1,963km
 - ❑ Represents 5.6% of Nigeria's 35,000 km federal roads
- ❑ Can the government alone



GLOBAL consumer goods & retail - 2023 OUTLOOK

- Inflation to push up global retail sales by 5% in 2023
 - Demand for low budget items to increase due to impact of high inflation on consumption pattern
- But low sales volume & surging costs will weaken profits
- Rollouts of automation technologies will limit wage growth
- Retail employment unlikely to return to pre-covid level
- Online sales to slow but online share of retail to increase of global retail sales

Company	Stock Return	Revenue Projection FY'23
Nestle	↓ 37% to N980	↑ 25% to N439.8bn
Flourmills	↓ 2.65% to N27.6	↑ 53% to N1.77trn
Guinness Nigeria	↑ 77.7% to N69.3	↑ 29% to N266.8bn



Economic Outlook -2023

Key Events that will Shape 2023

Q1 (Jan-Mar)

End of old naira notes as legal tender - **Jan 31st**

Presidential Election - **Feb 25**

Governorship election - **Mar 11**

Q2 (Apr - Jun)

Census - **Apr**

Transition - **May 29**

Formation of the 10th Assembly - **June**

Key appointments (SSG, Chief of staffs, etc)

Q3 (July - Sep)

650,000 bpd

Dangote Refinery to come on

Redemption of the \$500mn Eurobond

Preparation of supplementary budget

Q4 (Oct - Nov)

New policies

Move from imperfect market to perfect market

Nigeria in Q1'23 - EIU

❑ 2: CBN Policy

- ❑ MPR likely to peak at 17%
- ❑ The requirement that banks hold reserves of 32.5% of deposits likely unchanged
- ❑ Planned securitization of an overdraft the government has with the CBN worth 20trn will may begin

❑ Reasons

- ❑ To curb persistent inflation
- ❑ Prevent capital flight



❑ Impact on investors

- ❑ Credit conditions may remain tight in Q1'23.
- ❑ Less funds for investment

Nigeria in Q1'23 - EIU

❑ Interest rate hike

- ❑ Interest rate rise should begin to tame inflation
- ❑ But economic growth may slow

❑ Inflation to persists

- ❑ Fueled by global shocks
- ❑ Largely on consumable goods

❑ Oil sector

- ❑ Foreign Investment in oil & gas is one to watch
- ❑ High global energy demand should make Nigerian oil assets more attractive
- ❑ The oil & gas business environment will remain excessively dominated by NNPC

Outlook - Inflation

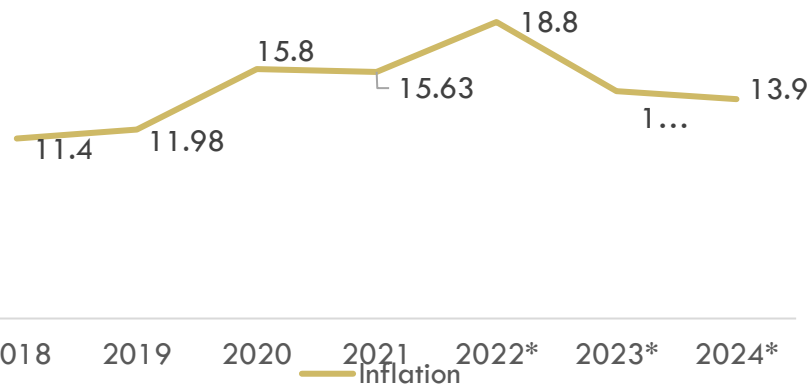
- ❑ Inflation to taper in 2023
- ❑ Higher above the CBN 9% target-ceiling
- ❑ Due to

- ✓ The time lag in the effect of the MPR hike in 2022

- ✓ Decline in the global commodity price

- ✓ Expected reduced

(temporal) exchange rate pressure



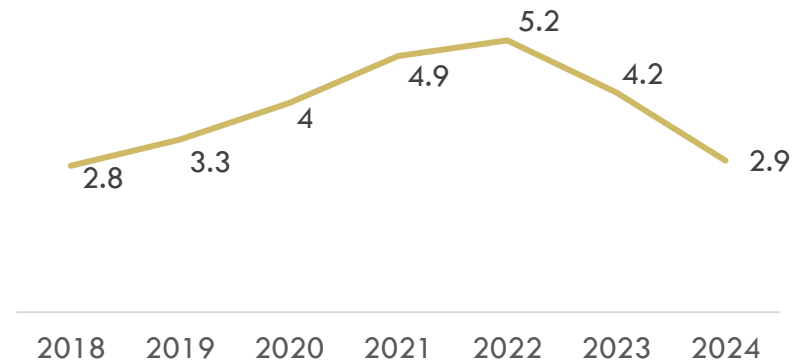
Outlook – Fiscal balance

- ❑ The Nigeria fiscal position will remain in deficit throughout 2023
- ❑ However, it is projected to decline by about 1%

Reason

- ❑ Oil export earnings to rise in 2023
- ❑ Due to
 - ✓ OPEC+ output cuts & Russian's oil price cap
 - ✓ Expected subsidy removal
 - ✓ Improved debt recovery

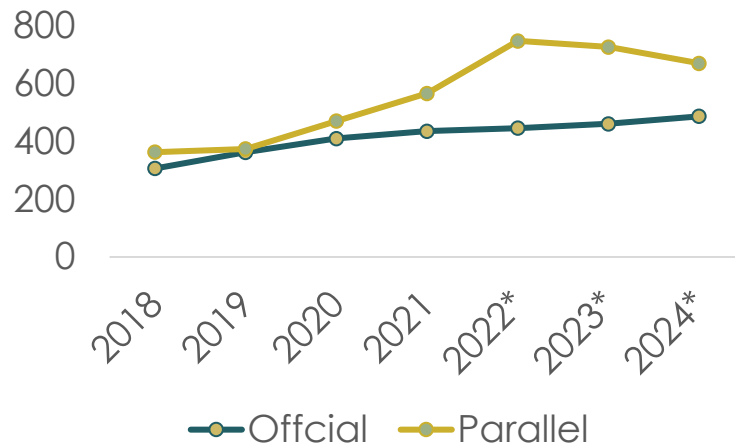
Fiscal deficit



Outlook – Exchange rate

- ❑ The naira in 2023 will remain overvalued
- ❑ The CBN will continue to manage exchange-rate
- ❑ But Foreign-exchange supply will often be too low to consistently clear the market
- ❑ Due to
 - ✓ insufficient foreign earnings

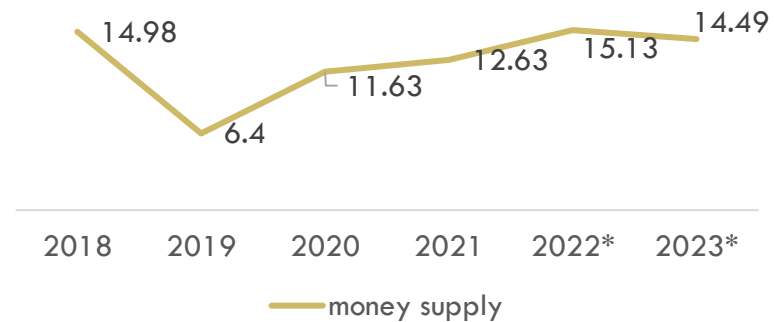
Exchange Rate



Outlook – Money supply

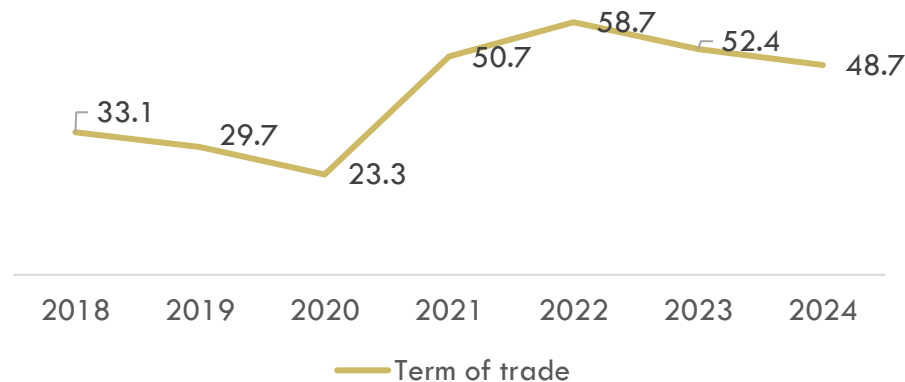
- ❑ The money supply is expected to decrease slightly in 2023
- ❑ Due to
 - ✓ the CBN's cash withdrawal limit policy
 - ✓ Likely increase in the MPR in early 2023, expected to squeeze bank's balance sheet

money supply



Outlook – term of trade

- ❑ The Nigeria's term of trade is likely to deteriorate in 2023
- ❑ Due to
 - ✓ Oil price volatility



Summary

Summary & conclusion

- ❑ The Nigerian economy in the coming quarter is will be driven by the telcos, real estate & agriculture
- ❑ The monetary policy tightening is expected to peak in Q1 '23
- ❑ Inflation is also expected to begin tapering owing to the accumulated effect of the CBN policy
- ❑ Investors expected to tread cautiously due to political uncertainties
- ❑ Budget balance to remain in fiscal deficit in 2023
- ❑ Tight & unprecedented three-way race for the presidency



CONCLUSION

Thank
you