



ECONOMIC OUTLOOK 2024 INVESTMENT OPPORTUNITIES & RISKS

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**Capital Markets as
Catalyst of Growth**

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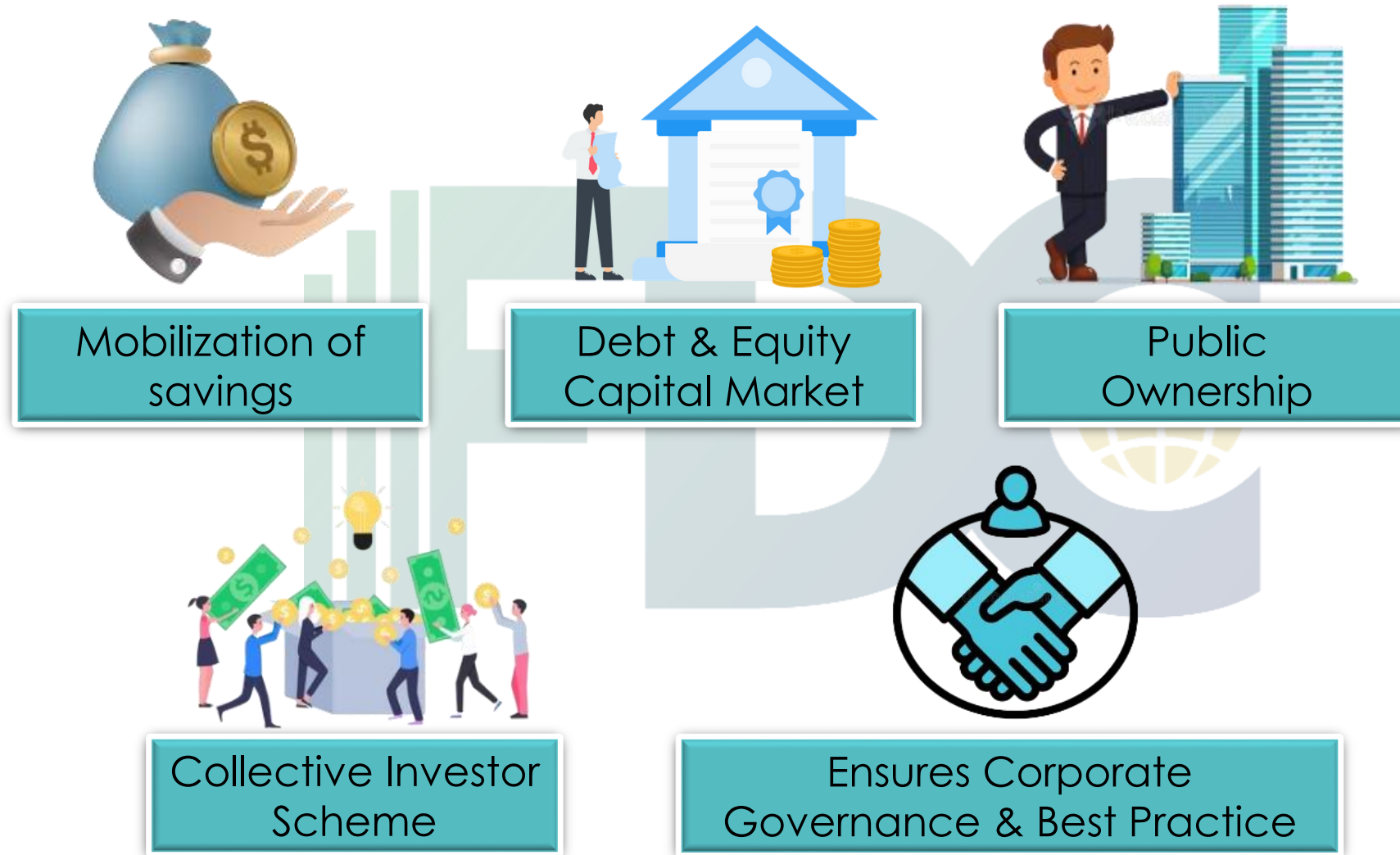


AUDIENCE ANALYSIS

- Pioneer market operator in Nigeria
- A self-regulatory organization
- Recently demutualized from a non-for-profit organization
- Largest investor in CSCS
- Other subsidiaries include
 - Nigerian Exchange Ltd
 - NGX Regulation Ltd
 - NGX Real Estate Ltd

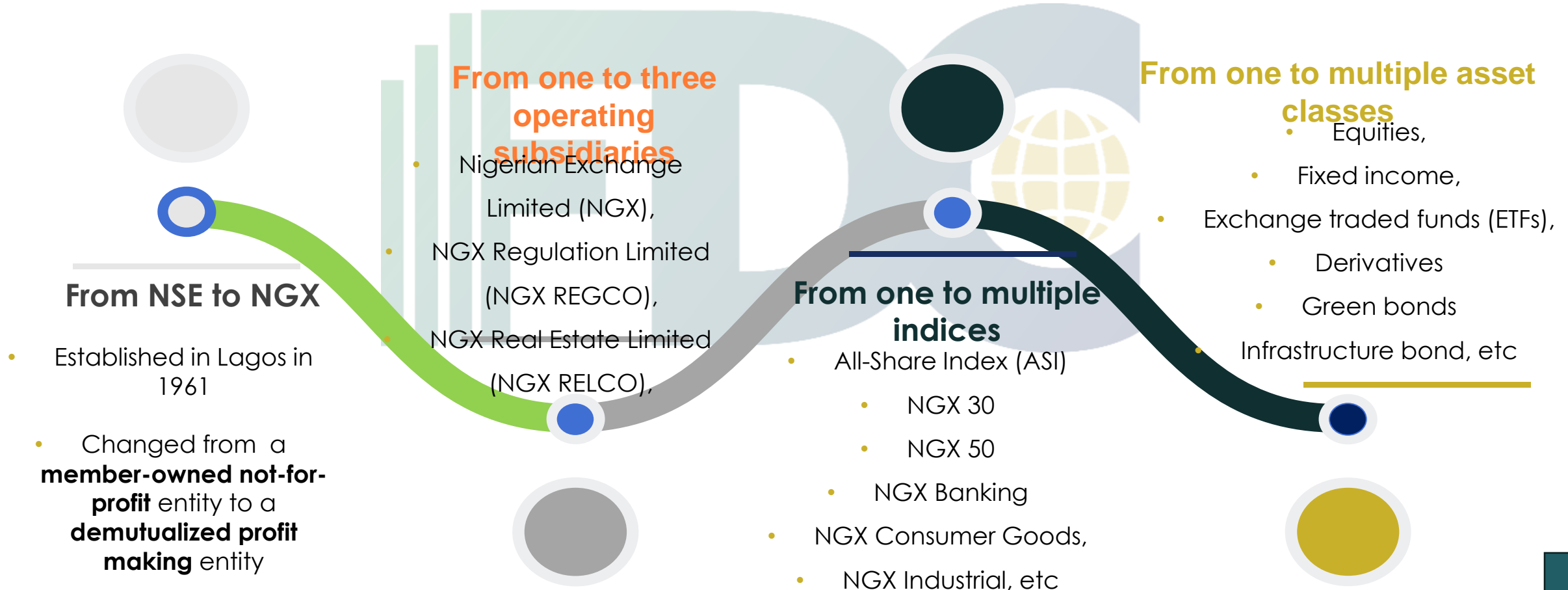


GOALS OF AN EXCHANGE



NGX – FROM A FRINGE PLAYER TO A DOMINANT PLAYER

- NGX has transitioned from a Lagos-based fringe player to a global player
- From a **member-owned not-for-profit** entity to a **demutualized profit making** entity





THE ROLE OF THE CAPITAL MARKETS

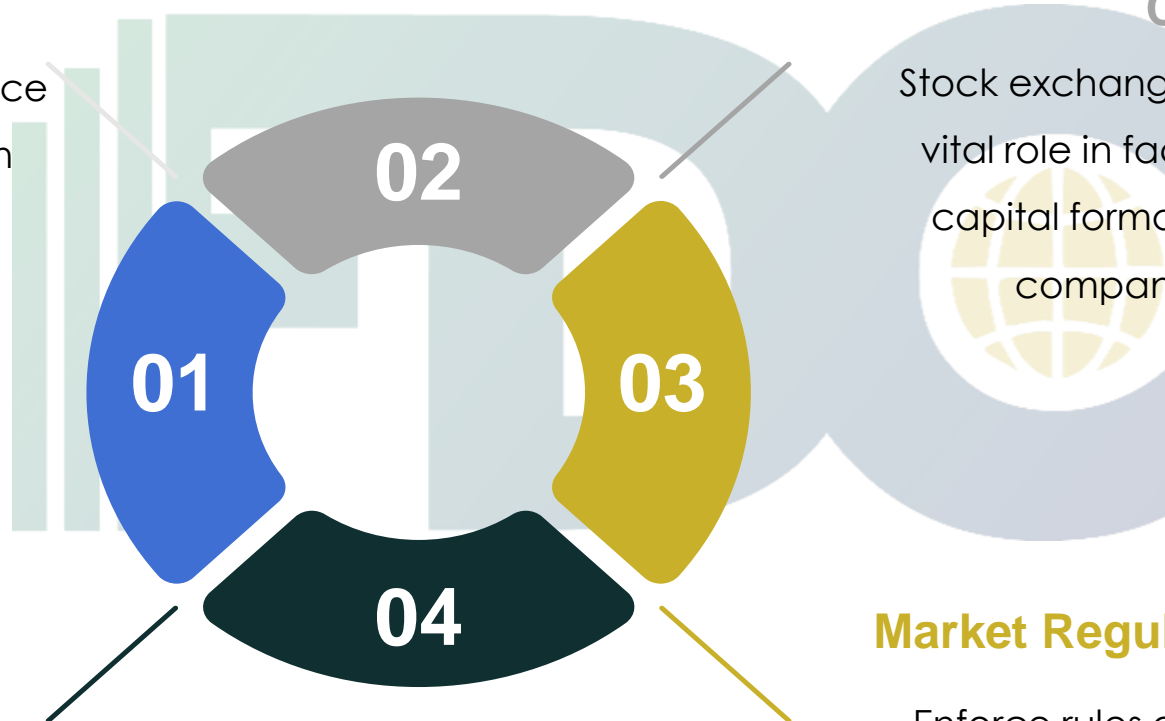
- It also serves as a veritable engine of growth and expansion.

Securities

Provide centralized marketplace where buyers and sellers can trade securities

Capital

Stock exchanges play a vital role in facilitating capital formation for companies



Price Discovery

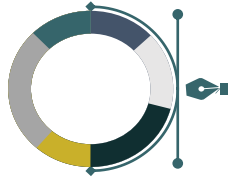
Facilitates price discovery by matching buy and sell orders to determine fair market prices.

Market Regulation:

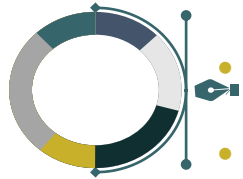
Enforce rules and regulations to ensure fair and transparent trading practices



STOCK MARKET IS A MARKET FOR VALUE AND GROWTH



An investment platform for those who are risk-lovers



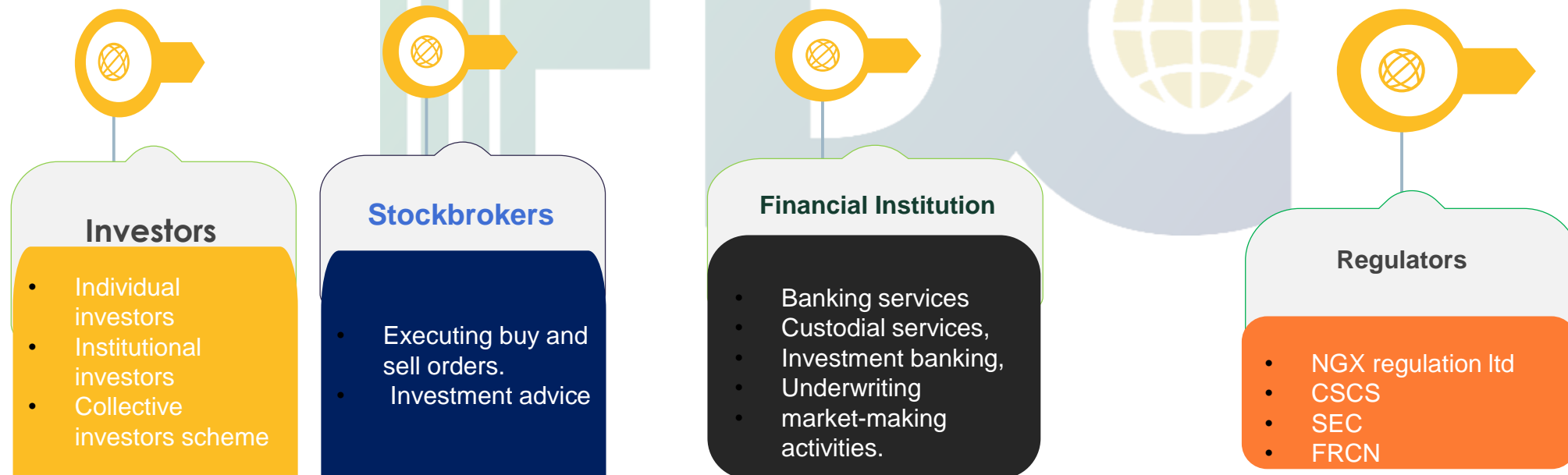
- Listed companies are more transparent (theoretically) than private companies
- Due to regulatory control
- Disclosure and governance requirements



- The stock price is the present value of future earnings
 - Dividend
 - Capital appreciation
 - Growth stock
 - Value stock

KEY PLAYERS IN THE EQUITIES MARKET

- The stock market is a dynamic and complex arena where various players participate in buying, selling, and trading securities.
- It helps create an environment that fosters trust, transparency, and efficiency within the market



Nigerian Capital Market



COMPONENTS OF THE CAPITAL MARKET

- The capital market encompasses various entities and instruments that channel funds to productive sectors



NIGERIAN STOCK EXCHANGE – MARKET DEPTH IS SHALLOW

Listed Companies on NGX

155 companies

Top 10 Companies on NGX

N30trn

Total Market Capitalization

N43.95trn

% of total

70%

- This is indicative of high concentration power
- Heightens the market risk
- Lowers the investor confidence



TOP FIVE STOCKS ON NGX

| Companies | Market Cap (N'trn) | PAT | Total Tax Paid | Dividend Paid |
|----------------|--------------------|-----------------|------------------|---------------|
| Airtel Africa | N7.52trn | (N9.7bn) | N134.6bn | N92.5bn |
| MTN Nigeria | N6.19trn | N147bn | N85bn | N320.8bn |
| Dangote Cement | N5.74trn | N227.5bn | N127bn | N337bn |
| BUA Foods | N3.74trn | N105.6bn | N5.78bn | N81bn |
| BUA Cement | N3.45trn | N76bn | N9.68bn | N94.8bn |
| Total | N26.64trn | N546.4bn | N362.06bn | N926bn |

- Top five capitalized stocks on NGX pay a huge sum of N362bn and N926bn as tax and dividend respectively

NIGERIA VS. JOHANNESBURG

TOP FIVE STOCKS ON NGX

| Companies | Sector | Market Cap |
|----------------|--------------------|------------------|
| Airtel Africa | Telecommunications | \$8.2bn |
| MTN Nigeria | Telecommunications | \$6.77bn |
| Dangote Cement | Cement | \$6.28bn |
| BUA Foods | Food | \$4.09bn |
| BUA Cement | Cement | \$3.77bn |
| Total | | \$29.11bn |



TOP FIVE STOCKS ON JSE

| Companies | Sector | Market Cap |
|-------------------------|------------------------------|-----------------|
| Naspers | Retail | \$29bn |
| First Rand | Diversified Financial sector | \$21.5bn |
| Standard Bank Group | Banking | \$18.5bn |
| Capitec Bank Holdings | Banking | \$12.2bn |
| Anglo American Platinum | Materials | \$12bn |
| Total | | \$93.2bn |

- Top five stocks in the Johannesburg stock market have a total market cap of \$93.2bn



PEER COMPARISON- FIVE YEAR TREND

| | 5-year avg Growth | 2023 |
|-----------------|-------------------|---------------|
| S&P 500 | 16.17% | 26.29% |
| Shanghai SE | 4.46% | -3.70% |
| NGX | 20.37% | 45.90% |
| Johannesburg SE | 8.33% | 5.26% |
| Ghana SE | 6.76% | 28.08% |
| Nairobi SE | -2.68% | -10.44% |

- 
- Nigerian equities market outperforms others
 - Performance boosted by new listings of capitalised stocks, policy reforms & lower interest rates



MARKET CAP IN THE LAST 5-YEARS – PEER COMPARISON

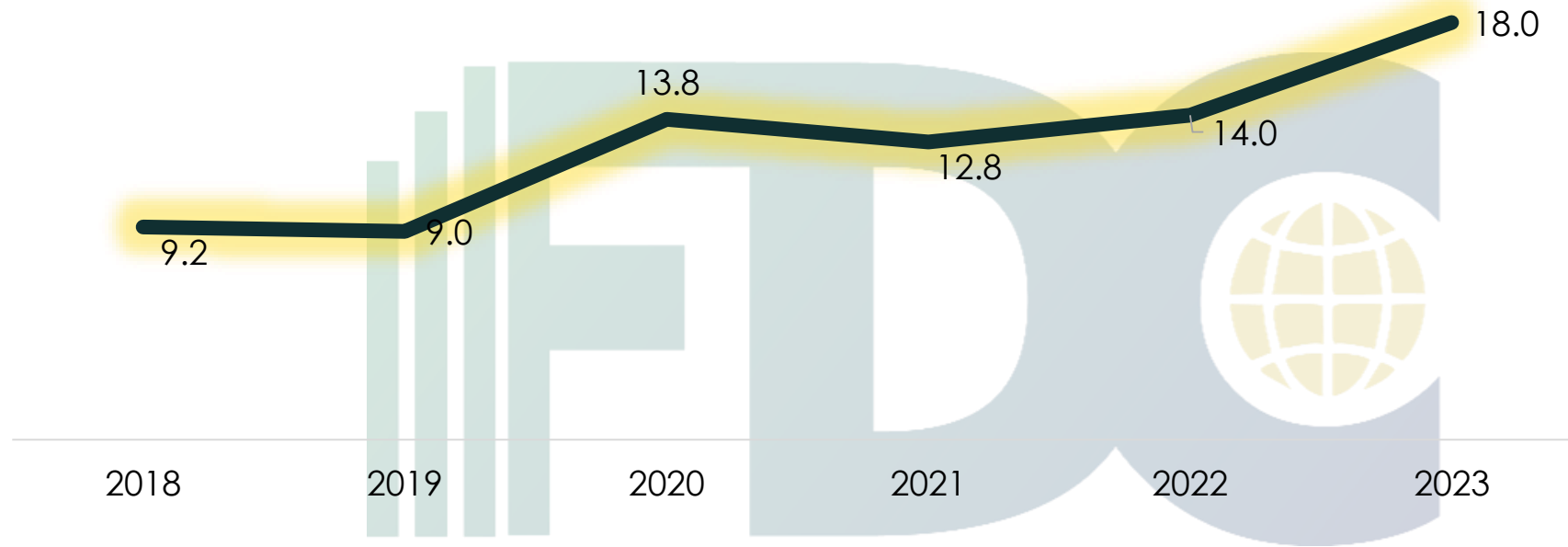
| Country | 2019 | 2023 | % Change |
|--------------|-------------|------------|----------|
| Nigeria | \$35.81 bn | \$67.82 bn | 89.39 |
| South Africa | \$1.25 trn | \$1.23 trn | -1.6 |
| Indonesia | \$522.63 bn | \$662.08bn | 26.7 |

- Nigeria's market cap is small relative to its peers
- Primarily due to
 - Poor investment culture
 - Rent seeking subsidy-obsessive economy



INTEGRATION OF THE NGX TO THE NIGERIAN ECONOMY

Stock Market Capitalization (% of GDP)



- Stock market cap as a % of GDP is minimal
- The NGX is not well integrated with the economy

NIGERIA AND ITS PEERS

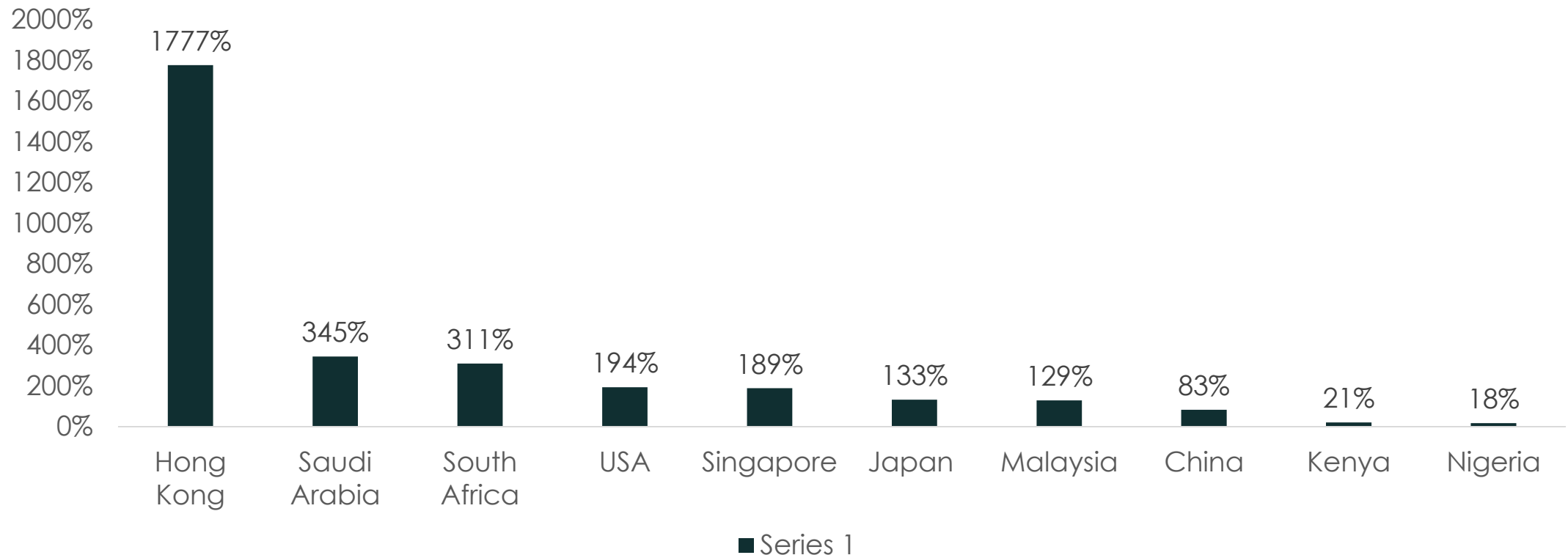
- Nigeria ranks 60th out of 67 global stock markets
- Ranks 8th out of 11 markets in Africa
- A well-integrated market shares in the prosperity of its economy

| S/N | Countries | Stock Market Capitalization (% of GDP) |
|-----|--------------|--|
| 1 | Hong Kong | 1,777% |
| 2 | Saudi Arabia | 345% |
| 3 | South Africa | 311% |
| 4 | USA | 194% |
| 5 | Singapore | 189% |
| 6 | Japan | 133% |
| 7 | Malaysia | 129% |
| 8 | China | 83% |
| 9 | Kenya | 21% |
| 10 | Nigeria | 18% |

NIGERIA AND ITS PEERS

- Nigeria ranks 60th out of 67 global stock markets
- Ranks 8th out of 11 markets in Africa
- A well-integrated market shares in the prosperity of its economy

Market Capitalization as a % of GDP



WHAT GROWTH STRATEGY?

Consumption-led strategy?

Export-led strategy?

Government-led strategy?

Investment-led strategy?

Nigeria in need of an investment-led strategy





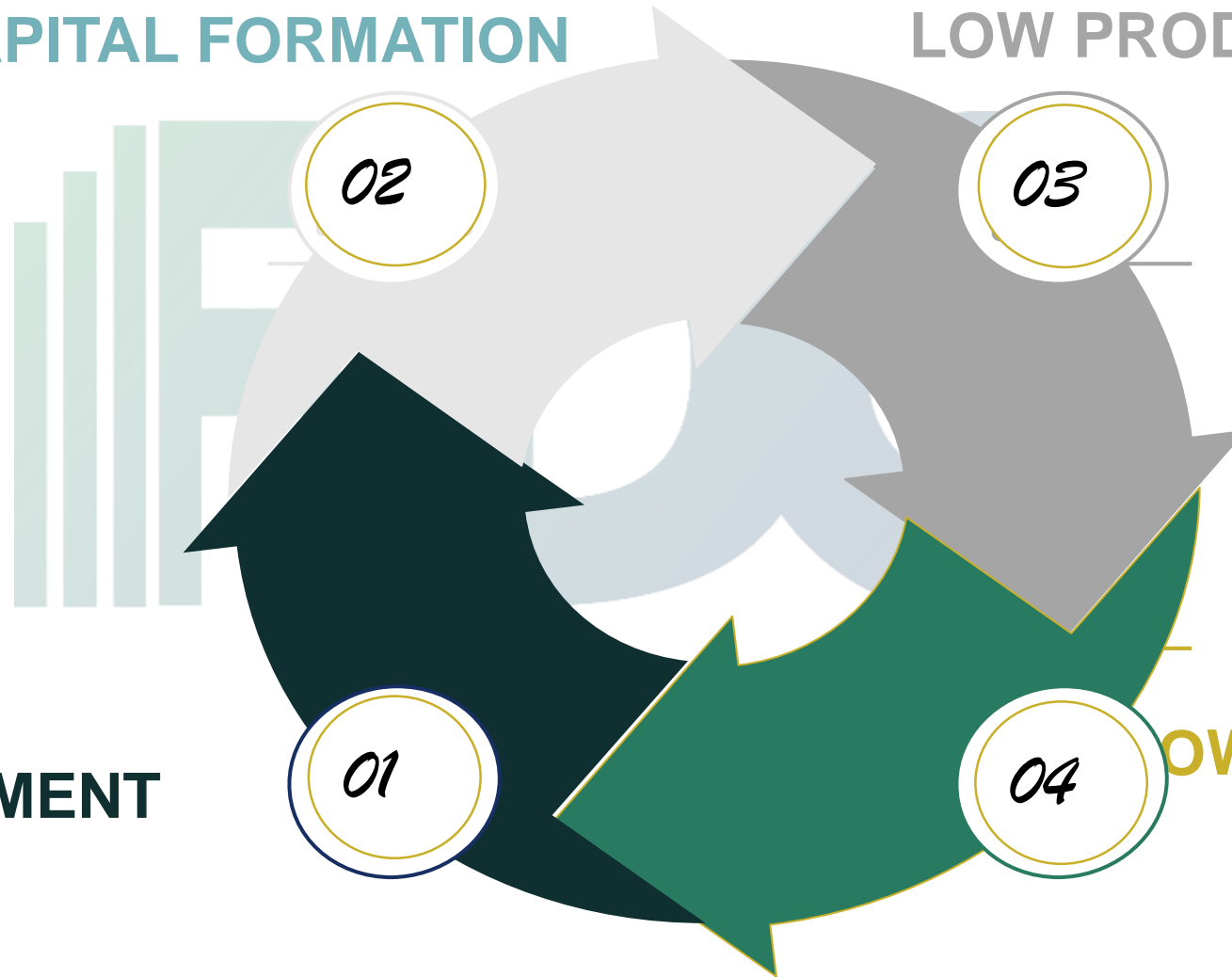
LOW INVESTMENT AND LOW PRODUCTIVITY ARE TWO SIDES OF THE SAME COIN

LOW CAPITAL FORMATION

LOW PRODUCTIVITY

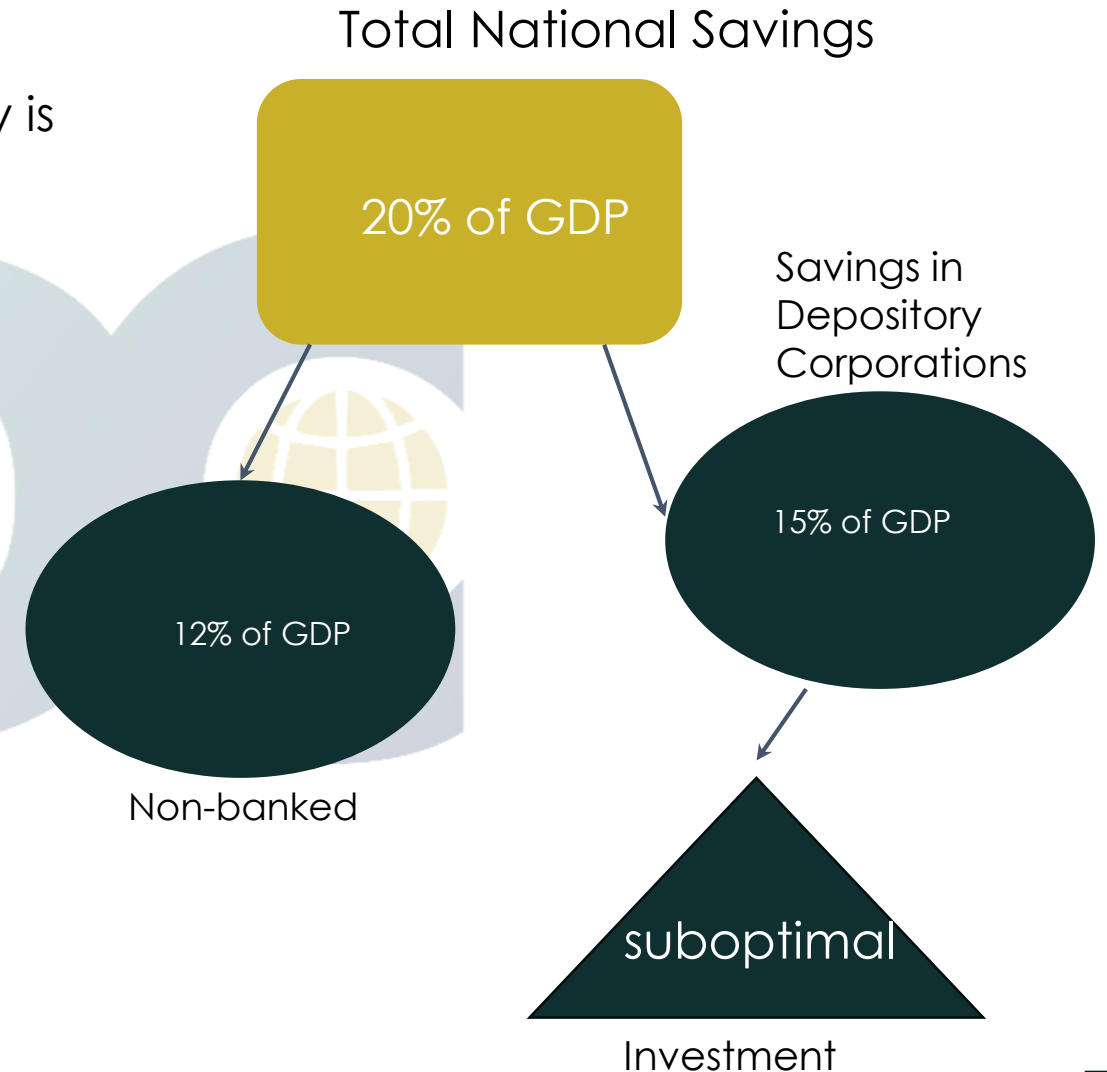
LOW INVESTMENT

LOW INCOME



AT EQUILIBRIUM, SAVINGS = INVESTMENT

- A fundamental macroeconomic accounting identity is that planned savings equals planned investment
- Savings is a function of income and interest rates
- Total national savings is 20% of total GDP

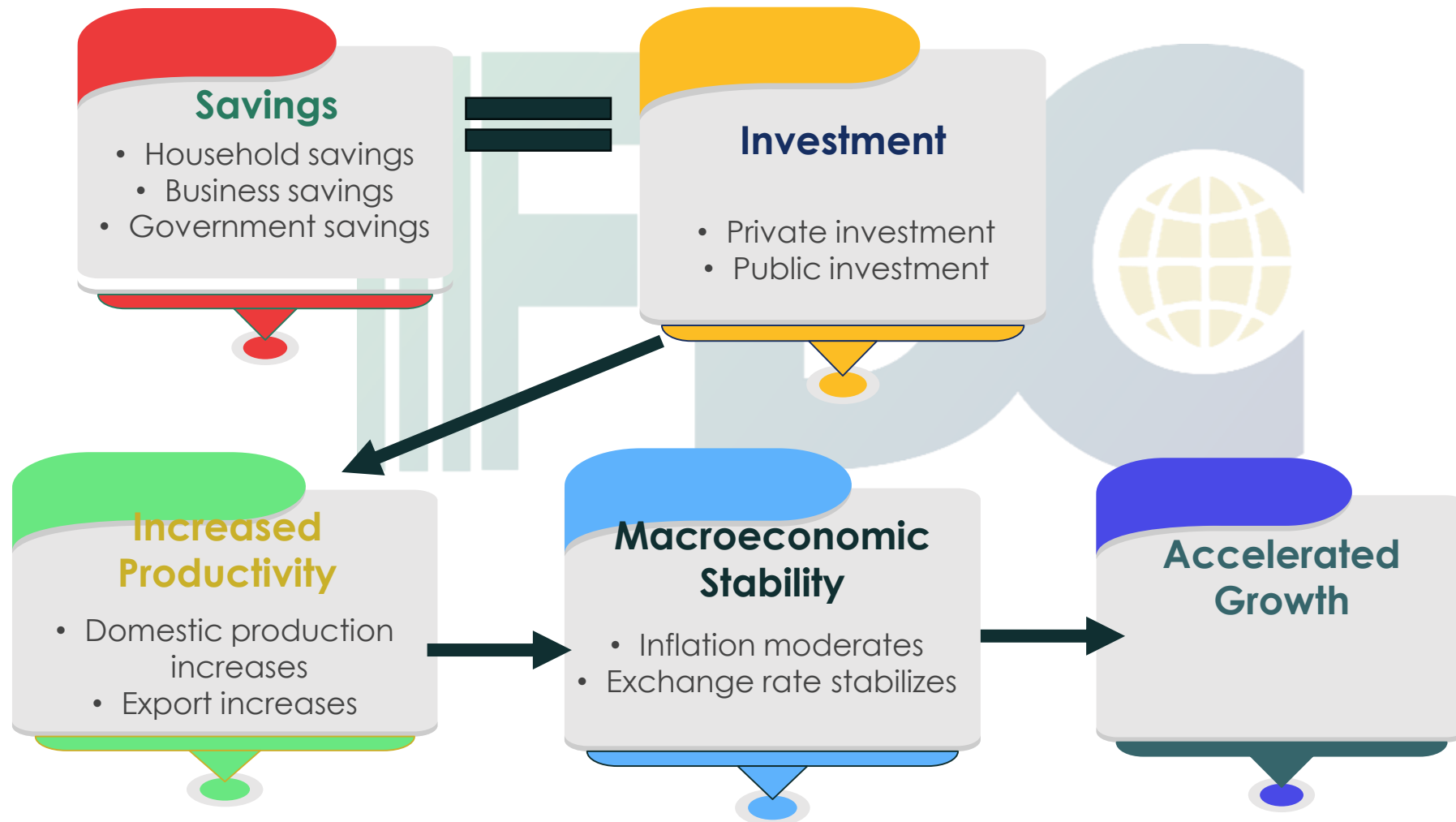


Low Savings = Low Investment

Savings \neq investment = disequilibrium

NO SAVINGS, NO INVESTMENT, NO GROWTH

- Countries with low savings are known for low investment and constrained growth

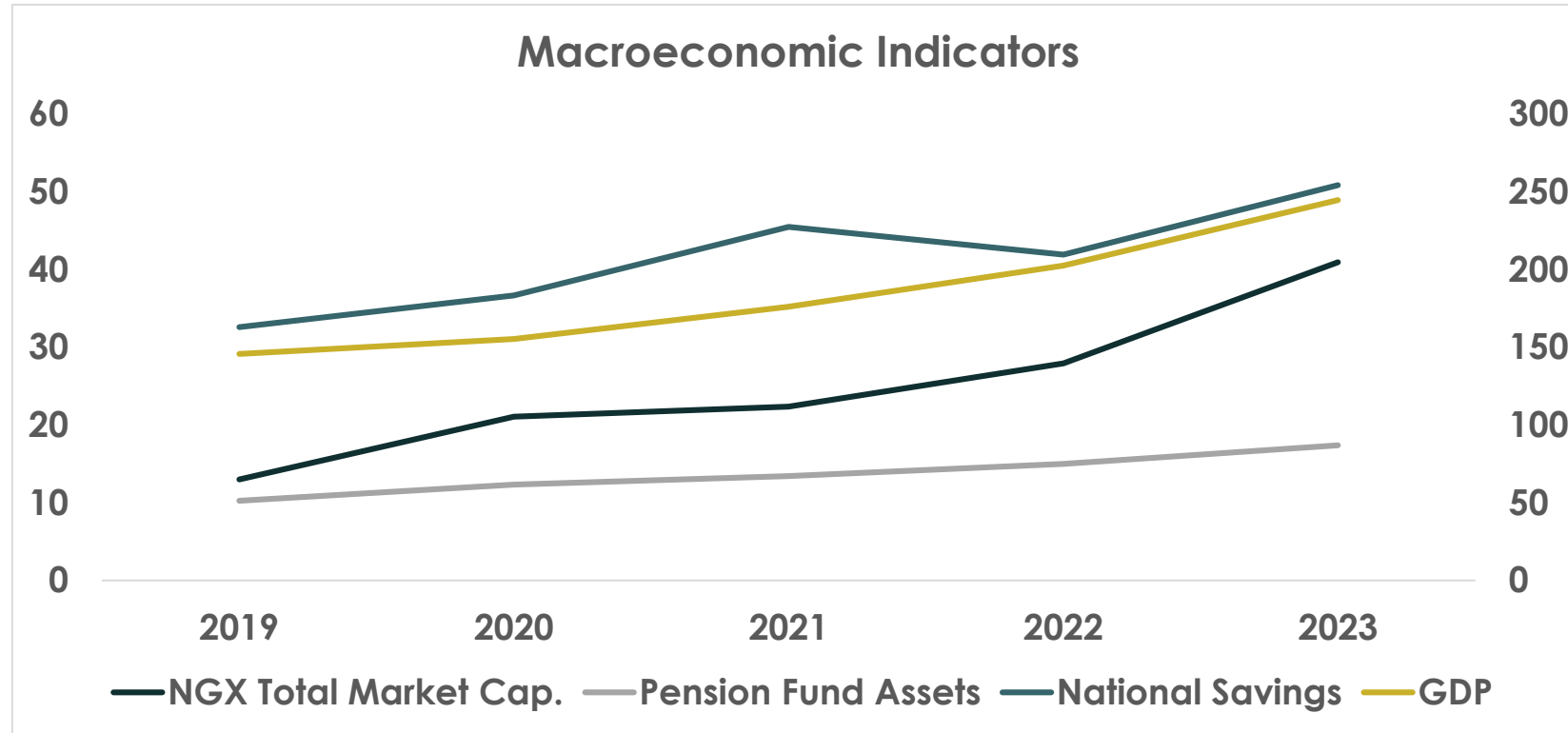




CORRELATION – NATIONAL SAVINGS VS MARKET CAP

| | Gross national savings (%) | Market Capitalization (%) |
|--------------|----------------------------|---------------------------|
| Hong Kong | 23.094 | 1262 |
| Saudi Arabia | 33.35 | 345 |
| Singapore | 40.097 | 189 |
| China | 44.046 | 83 |
| Qatar | 60.427 | 70.4 |
| South Africa | 13.53 | 311 |
| USA | 16.34 | 194 |
| Kenya | 12.91 | 14.9 |
| Zambia | 36.775 | 15.34 |
| Nigeria | 20.78 | 18 |

- National savings contribute to the pool of funds available for investment
- Developed economies typically have larger and more mature stock markets

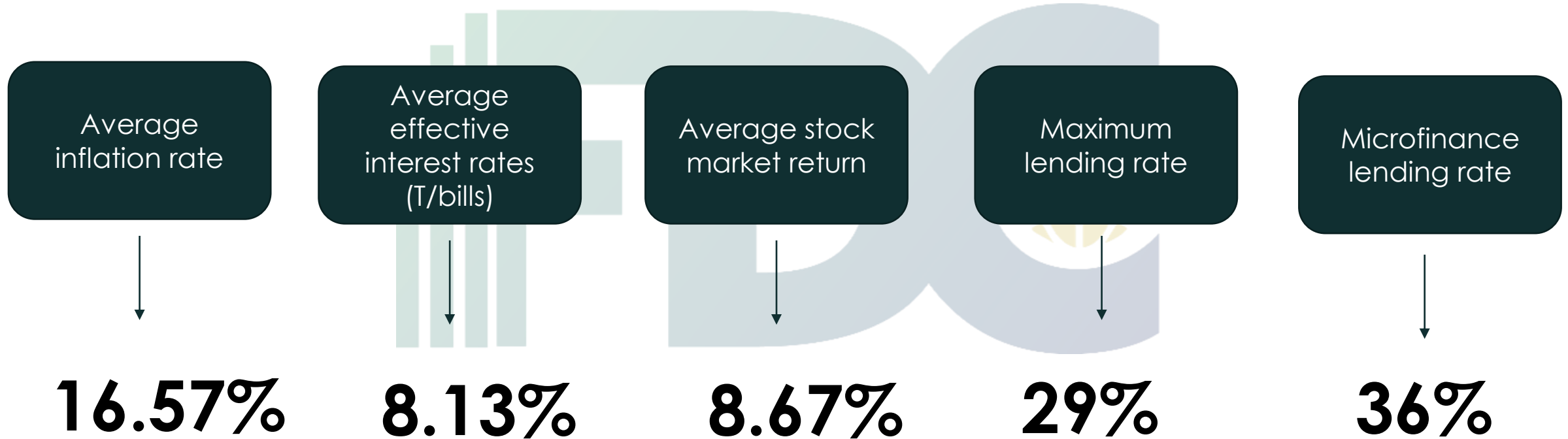
INTEGRATION OF THE NGX TO THE NIGERIAN ECONOMY



- Positive correlation between Nigeria's GDP, national savings and NGX market capitalization over the last 5 years
- Higher economic growth  = Higher stock market capitalization 

INVESTMENT CLIMATE IN NIGERIA

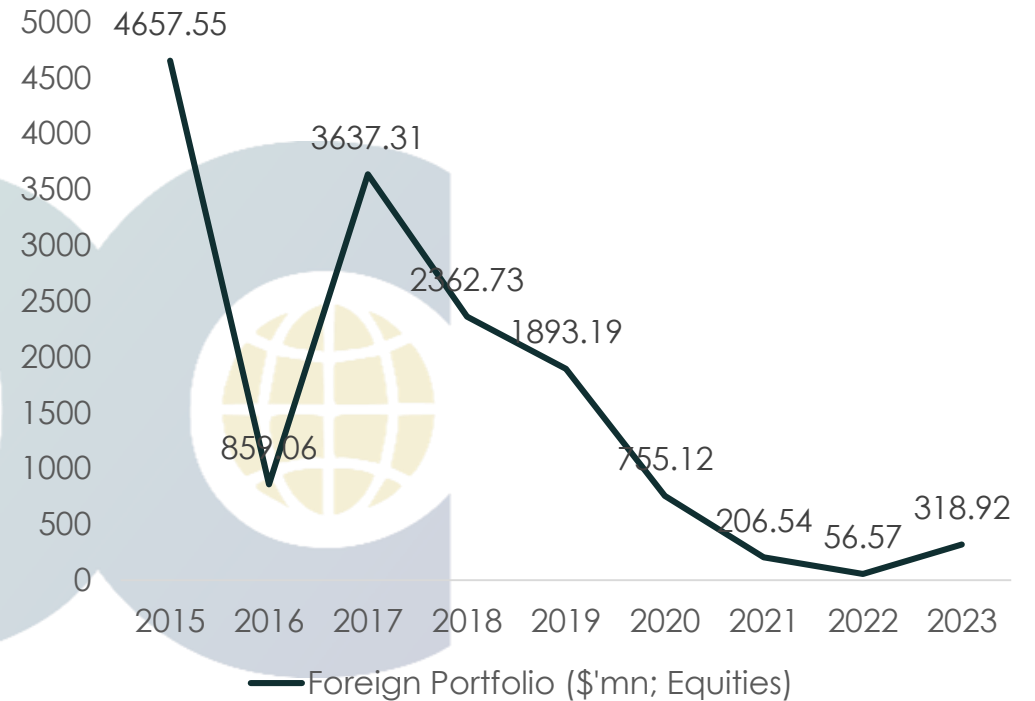
- Over the years, the gap between the rate of inflation and interest rates has been wide
- In the last 5 years



INVESTOR CONFIDENCE IS LOW

- Investment is dependent on the level of confidence in the economy
- Investor confidence in Nigeria is low
- Primarily due to
 - Low sovereign credibility
 - Poor foreign exchange market structure

Foreign Portfolio (\$'mn; Equities)



Share of portfolio investments in equities

| | Foreign (%) | Domestic (%) |
|------|-------------|--------------|
| 2022 | 16.67 | 83.33 |
| 2023 | 11.22 | 88.78 |



HOW WILL INVESTMENT INCREASE?

Build confidence

Increase interest rates

**Scorecard & Outlook –
Challenges Arising**





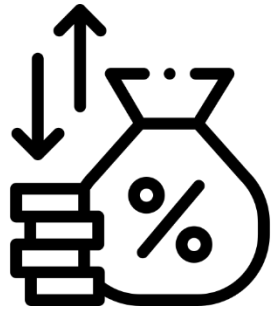
SNAPSHOT OF THE NIGERIAN ECONOMY



| | 2023e | 2024f | % Change |
|-------------------------------|---------|---------|----------|
| Real GDP Growth (%) | 2.61 | 3.3 | 0.69 |
| Potential GDP Growth (%) | -0.9 | 4.9 | 5.8 |
| GDP Per Capita (\$) | 1755.33 | 1734.36 | -1.19 |
| Total Factor Productivity (%) | 1.8 | 2.5 | 0.7 |



SNAPSHOT OF THE NIGERIAN ECONOMY



| | 2023e | 2024f | % Change |
|--------------------------------|-------|-------|----------|
| Inflation (end period; %) | 28.7 | 20.1 | -8.6 |
| Money Supply Growth (%; y-o-y) | 27.6 | 10.1 | 17.5 |
| MPR (%; p.a) | 18.75 | 20.00 | 1.25 |
| 364-Day Bill (Average %; p.a) | 10.40 | 15.50 | 5.1 |



SNAPSHOT OF THE NIGERIAN ECONOMY



| | 2023 | 2024 | % Change |
|---|------|------|----------|
| Fiscal Deficit (% of GDP) | 5.4 | 5.0 | -0.4 |
| External Debt (\$bn, end period) | 83.5 | 84.2 | 0.84 |
| Current Account Balance (\$bn) | 8.0 | 9.8 | 22.5 |
| Trade Balance (\$bn) | 12 | 16.9 | 40.83 |
| Official Exchange Rate (N/\$, end period) | 848 | 950 | 12.02 |



KEY TAKAWAYS

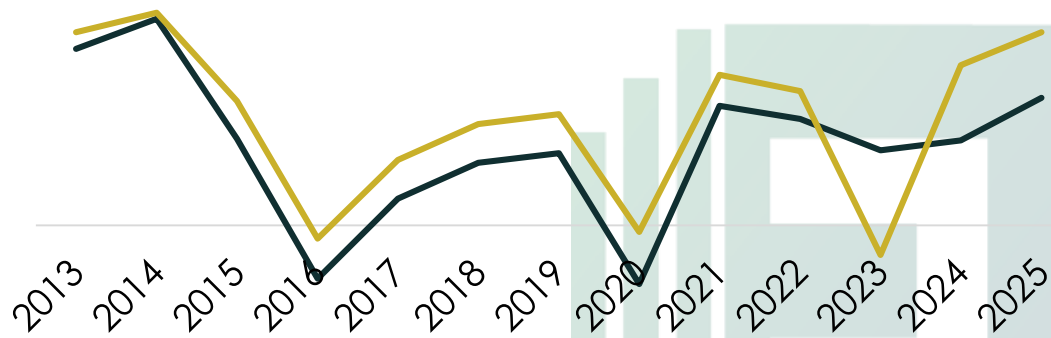
- The Nigerian economy is growing below its potential
- Primarily due to the underutilization of its resources
- Structural bottlenecks and market inefficiencies are limiting economic growth
- High money supply saturation, naira depreciation and increased energy costs fueling inflationary pressures
- Policy inconsistencies supporting low investor confidence in Nigeria
- Naira depreciating despite a positive current account balance
- Mainly due to large encumbrances on the foreign reserves and constrained inflows
- Reduced fiscal pressures as subsidy reduction lowers fiscal deficit



SUB-OPTIMAL GDP GROWTH

Real Vs Potential Growth (%)

— Real GDP Growth (%) — Potential GDP Growth (%)



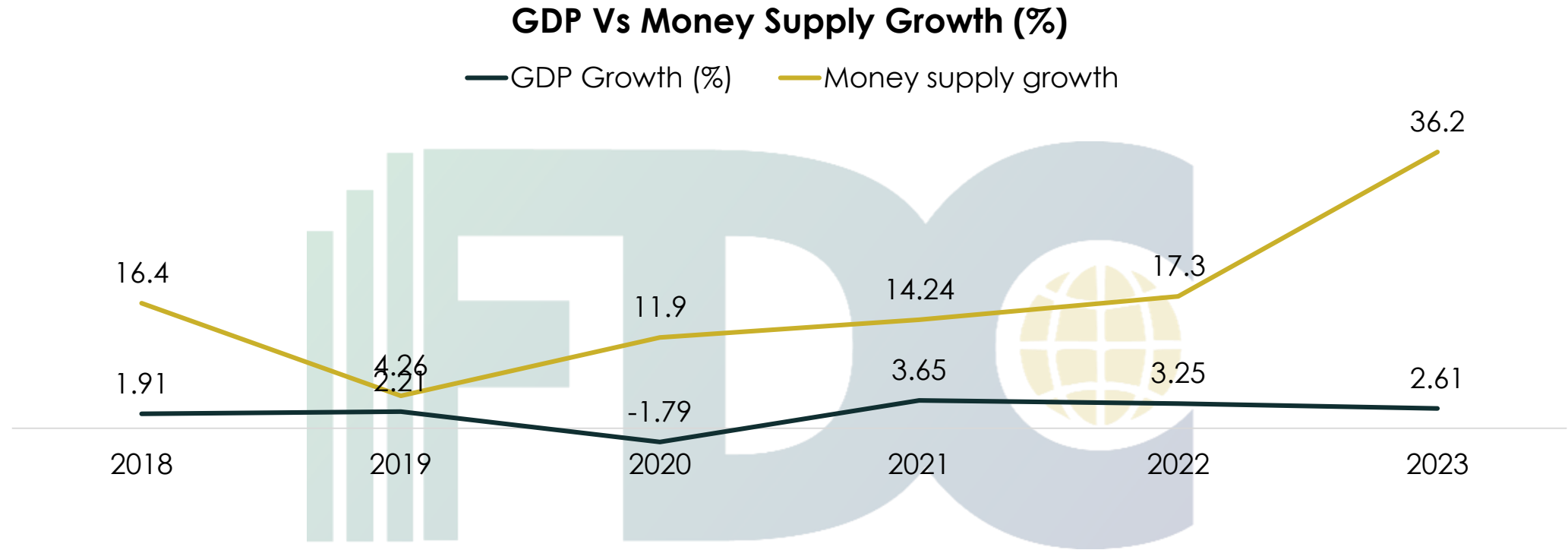
Labour & Factor Productivity Growth (%)



- Positive GDP Growth but suboptimal
- Primarily due to
 - Structural bottlenecks & market inefficiencies
 - Policy inconsistencies and lags
 - Underutilization of resources



MONEY SUPPLY VS GDP GROWTH

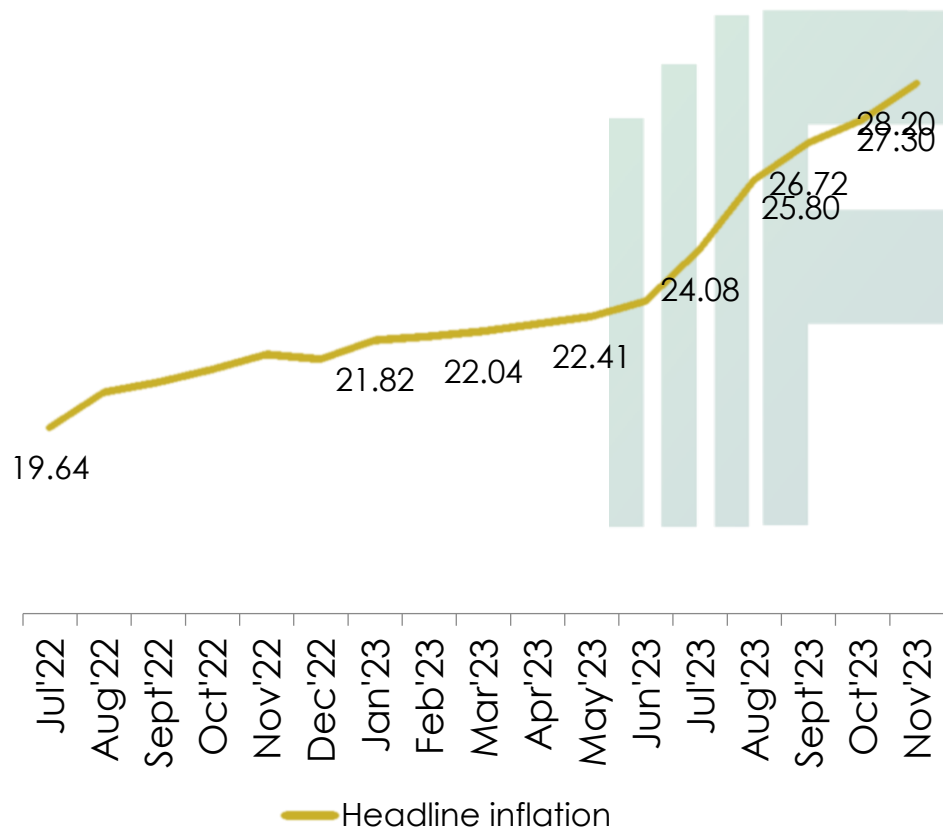


- Money supply growth is outstripping GDP growth
- Leading to demand-pull inflation
- Credit expansion to private & government sectors supporting money supply growth



NIGERIA'S INFLATION IS ENTRENCHED

Inflation Rate

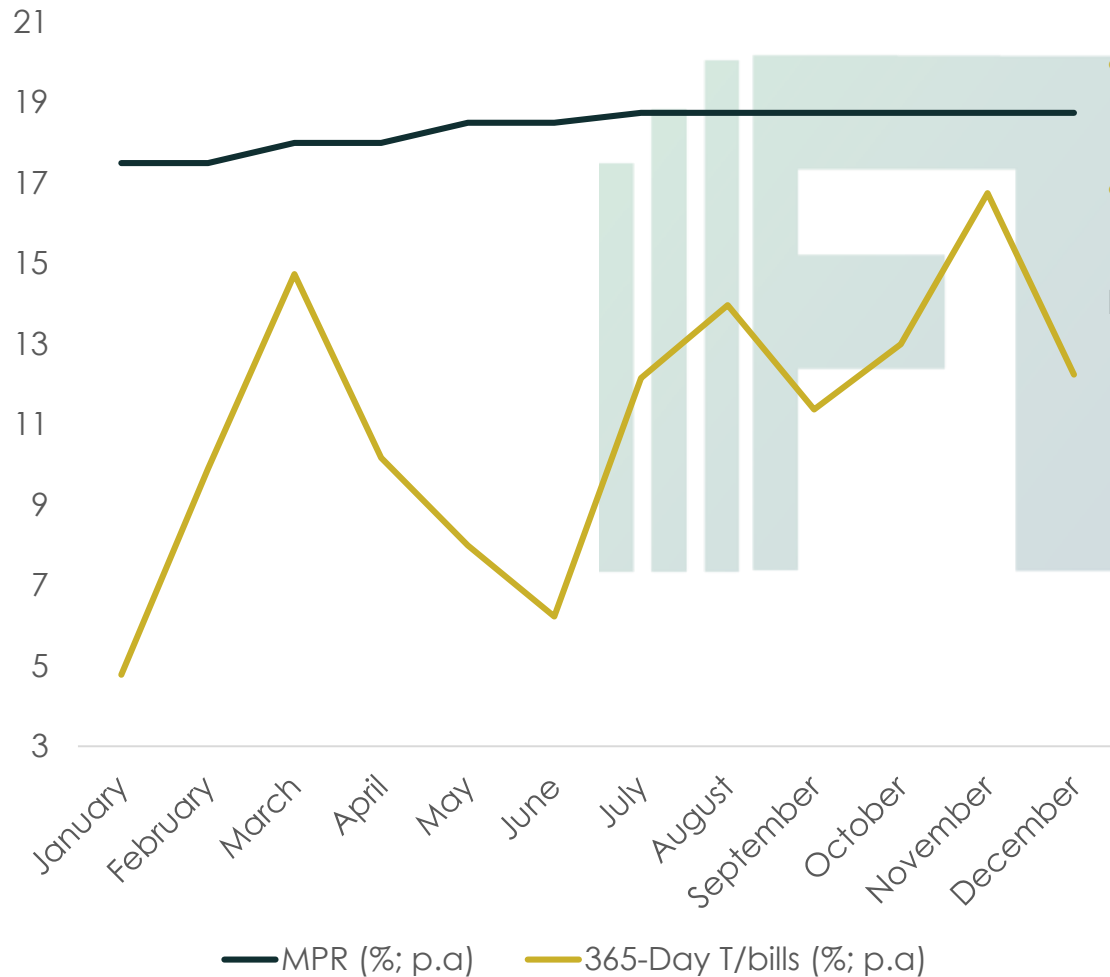


- Nigeria's inflation is largely structural
 - Price pressures have constantly increased amid policy rate hikes
 - Pace of inflation heightened after policy changes
 - Inflation expectations are more important than historical data
 - Inflation expectations are unanchored due to monetary policy lag (recognition lag)
- MPC meeting postponed twice in four months in 2023



CBN SHIFTING TO ORTHODOXY

MPR vs 365-day T/bills



- Effective interest rates were delinked from the policy rates
- Primarily due to increased money supply saturation
- CBN now employing orthodox monetary tools for liquidity management
- Issued OMO three times in Q4'23 & one in January
- Removed N2bn CAP on Standing Deposit Facility (SDF)
- Suspended all forms of intervention programs

STRUCTURE OF NIGERIAN FOREX MARKET

- The Nigerian forex market is characterized by:

Lack of transparency and clear policy direction

Lack of effective price discovery measure

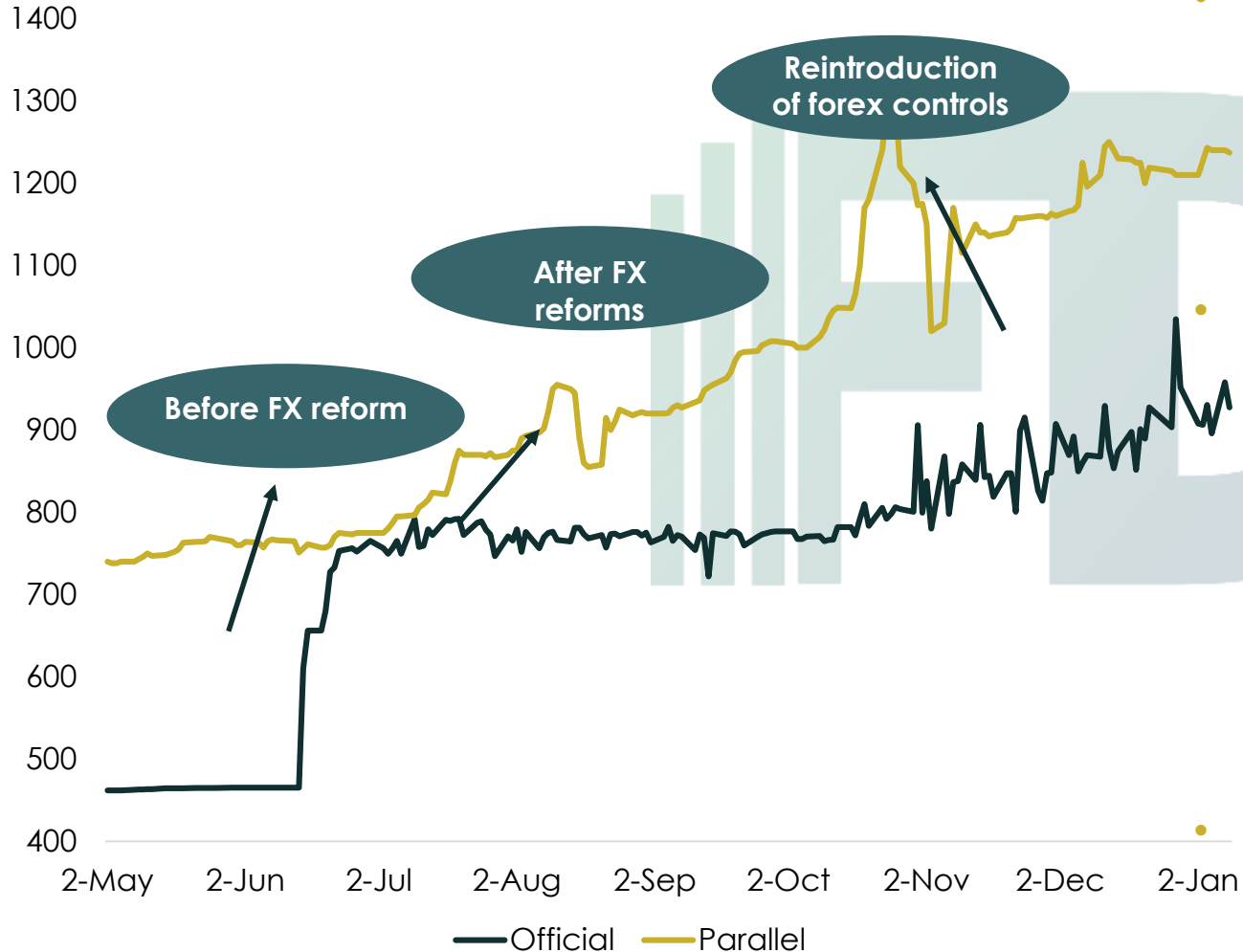
Capital controls and inefficiency

High speculation & arbitrage activities



NAIRA VOLATILITY

Exchange Rate (N/\$)



- Exchange rate converged after depreciation of the official exchange rate
- NAFEM-Parallel gap thinned out to as low as N4.75
- Naira has remained volatile in the parallel market primarily due to
 - Low interest rates
 - Naira speculation
 - Forex scarcity
- NAFEM-parallel gap now at N155.49

WHAT IS THE TRUE VALUE OF THE NAIRA?

Official Market

| Purchasing Power Parity | | | |
|---|------------|-----------------|-----------------|
| | =N= | Jan-24 US \$ | PPP ('=N=/US\$) |
| Bottle of Pepsi (50cl) | 300 | 0.76 | 394.74 |
| Beer (60cl) | 755 | 2.17 | 347.93 |
| Hamburger (Burger King) | 6,600 | 5.38 | 1226.77 |
| Indomie (1 unit) | 300 | 0.50 | 600.00 |
| Nestle Bottled Water (60cl 1 unit) | 150 | 0.32 | 468.75 |
| Big Loaf Bread | 1,500 | 1.78 | 842.70 |
| Corrola (2023 Model) | 33,000,000 | 25000.00 | 1320.00 |
| Irish Spring Soap (1 cake) | 900 | 1.16 | 775.86 |
| Chicken Breasts (1 kg) | 3,700 | 3.48 | 1063.22 |
| Trolley | 5,500 | 5.00 | 1100.00 |
| Peak evaporated milk (pack of 12) | 9,000 | 12.96 | 694.44 |
| Uncle Ben's rice (5.44kg 1 pack) | 15,550 | 24.66 | 630.58 |
| Eggs (30 large eggs) | 3,000 | 3.20 | 937.50 |
| Average PPP | | | 800.19 |
| Naira Price at NAFEM | | | 1089.51 |
| PPP (%) | | | |
| Decision: Naira is | | Undervalued | -26.56% |
| Spot Rate (Parallel) | | | 1,245 |
| Outcome: Compared to NAFEM rate of N1089.51/\$1, the Naira is undervalued by 26.56% | | | |

Naira is undervalued by **26.56** at the NAFEM rate of **N1089.51/\$**

Parallel Market

| Purchasing Power Parity | | | |
|---|------------|-----------------|-----------------|
| | =N= | Jan-24 US \$ | PPP ('=N=/US\$) |
| Bottle of Pepsi (50cl) | 300 | 0.76 | 394.74 |
| Beer (60cl) | 755 | 2.17 | 347.93 |
| Hamburger (Burger King) | 6,600 | 5.38 | 1226.77 |
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| Eggs (30 large eggs) | 3,000 | 3.20 | 937.50 |
| Average PPP | | | 800.19 |
| Naira Price at Parallel market | | | 1245.00 |
| PPP (%) | | | |
| Decision: Naira is | | Undervalued | -35.73% |
| Spot Rate (Parallel) | | | 1,245 |
| Outcome: Compared to Parallel rate of N1245/\$1, the Naira is Undervalued by 35.73% | | | |

Naira is undervalued by **35.73** at the parallel market rate of **N1,245/\$**

Parallel Market

Rate

N1,245/
\$

NAFEM Rate

N1089.5
1/\$

PPP

N800.19/
\$

Hamburger

N1226.8/\$

What Next?
Policy Options & Probability



BROAD MACROECONOMIC OBJECTIVES

Economic Destination by 2030

GDP of \$1trn

**Average annual
growth rate of 7%**

Inflation rate of 13%

**Exchange rate of
N550-N600/\$**

**Unemployment to
fall to 17% from
33%**



WHAT NEXT - POLICY SCENARIOS

Limp along

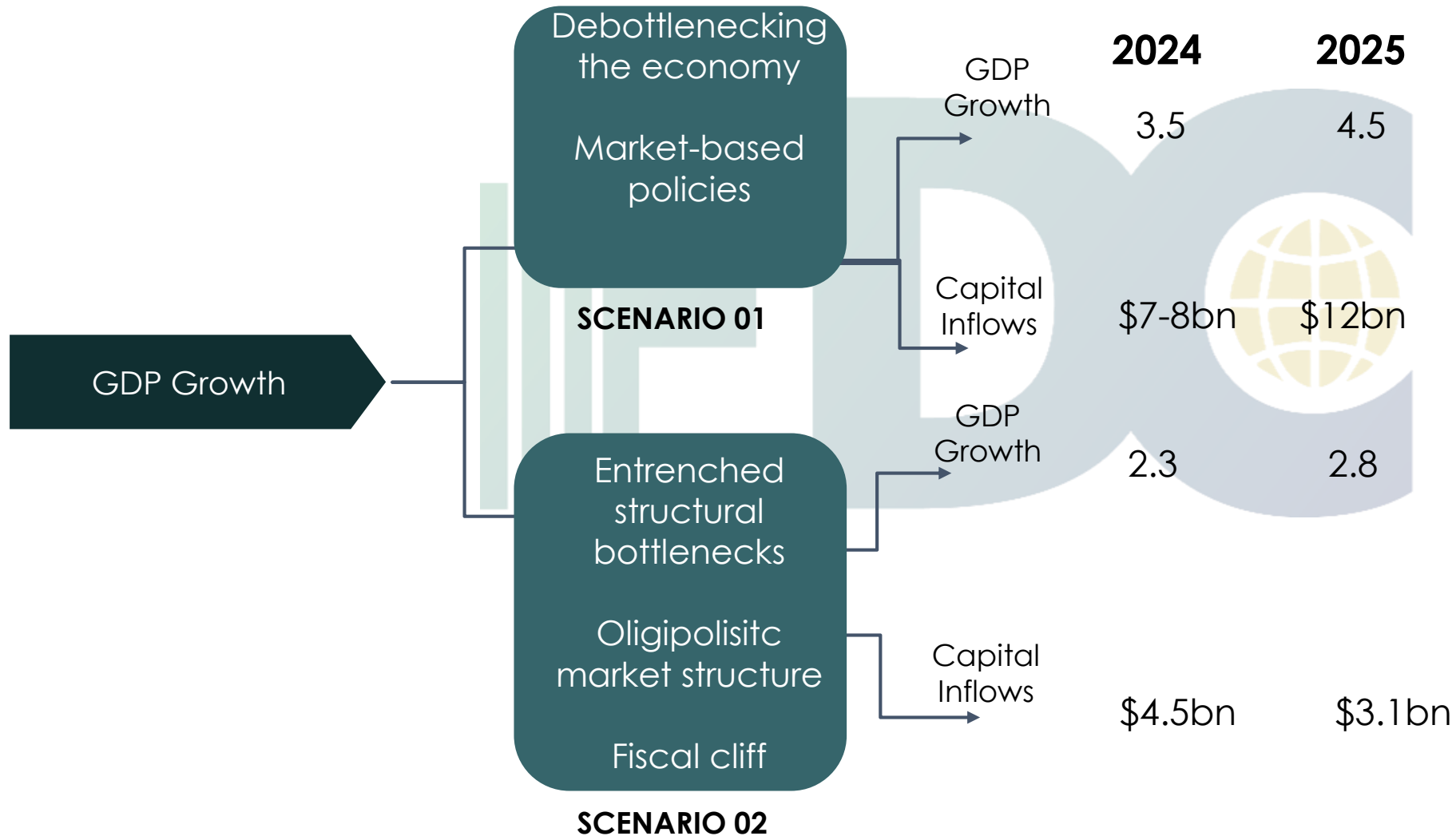
- Political soundbites and less action
- Oligarchy
- Low interest rates
- Fiscal cliff

Policy Reforms

- Institutional reform
 - Autonomy of the CBN
 - Transparency in NNPC
- Market reforms
 - Clear exchange rate management framework
 - Wholesale Dutch auction
- Fiscal consolidation
 - Gradual elimination of subsidies (PMS & Electricity)
 - Increase tax to GDP ratio
- IMF policy support program and rescheduling of external debt
- Minimum wage review



SCENARIO ANALYSIS - GDP GROWTH





SCENARIO ANALYSIS - INTEREST RATE

SCENARIO 01

Increase interest rates towards the level of inflation

Real returns on investment ↑

Interest rate differential ↑

Investor confidence ↑

SCENARIO 02

Lower interest rates

Real returns on investment ↓

Interest rate differential ↓

Investor confidence ↓

Outcome

Inflation (Average;%)

Exchange Rate (N/\$)

2024

2025

20

15

1050

900

Inflation (Average;%)

Exchange Rate (N/\$)

2024

2025

25

20

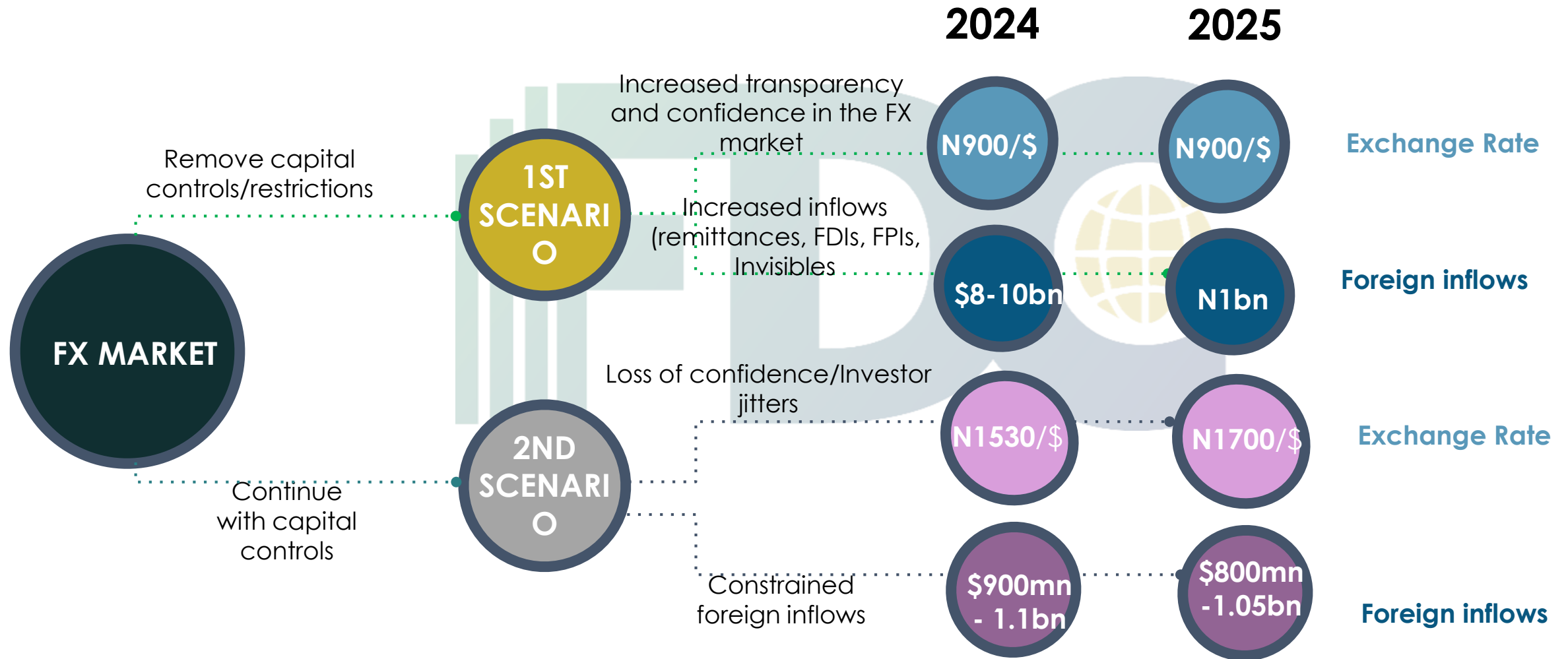
1350

1500

Interest Rates

FX MARKET – SANITIZING THE MARKETS

- Removal of capital control and increased transparency in the FX market will strengthen the naira



POLICY SCENARIOS - IMPACT ON CORPORATES

Scenario One

Market reforms

- Reduce money supply & increase interest rates
- Efficient FX market
- Market-driven policies

Scenario Two

Business as usual

- Increase money supply & lower interest rates
- Restrictions and capital control in the FX market
- Subsidy-based economy

| Impact | Short-term (2024) | Mid-Term 2025-2026 | Short-term (2024) | Mid-Term 2025-2027 |
|-------------------------|-------------------|--------------------|-------------------|--------------------|
| Borrowing cost | ↑ | ↓ | ↓ | ↑ |
| Total Cost of operation | ↑ | ↓ | ↑ | ↑ |
| Consumer demand | ↓ | ↑ | ↓ | ↓ |
| Investment | ↓ | ↑ | ↓ | ↓ |

2024 GAME CHANGERS

Dangote Refinery



- Sale of refined petroleum to commence in January 2024
- Will increase the supply of refined petroleum
- Increased energy security and sector productivity

Road & Airport Concessioneing



- Increased government road & airport concessioneing to bridge the infrastructure gap



2023 Electricity Act



- Increased investment in electricity due to the 2023 electricity act
- Improved access to electricity

SECTORS THAT WILL THRIVE

Why?



Manufacturing & Trade

- Sale of Dangote refined petroleum products to boost growth in the manufacturing and trade sector
- Could drive productivity in other sectors due to improved energy security



Construction

- Government spending on infrastructure development will drive growth in the sector
- Increased private interest in infrastructure development through road & airport concessioning

SECTORS THAT WILL THRIVE



Telecoms



Financial services

Why?

- Demand for telco services will remain strong
 - Primarily driven by a growing youth population and the indispensability of the sector
 - Growing technology
 - Increased investment in Telco infrastructure
-
- Increased competition in the sector to drive fintech innovation
 - Sector to benefit from high-interest rate environment
 - Consolidation within the Nigerian banking space is imminent due to the need to shore up capital

SECTORS THAT WILL THRIVE

Why?



Agriculture

- Storage facilities to reduce post-harvest losses and improve agricultural output
- Increase in the use of agricultural technology
- Backward integration and export promotion strategies
- Sector to benefit from growing financial technology

Concluding Remarks





CONCLUDING REMARKS

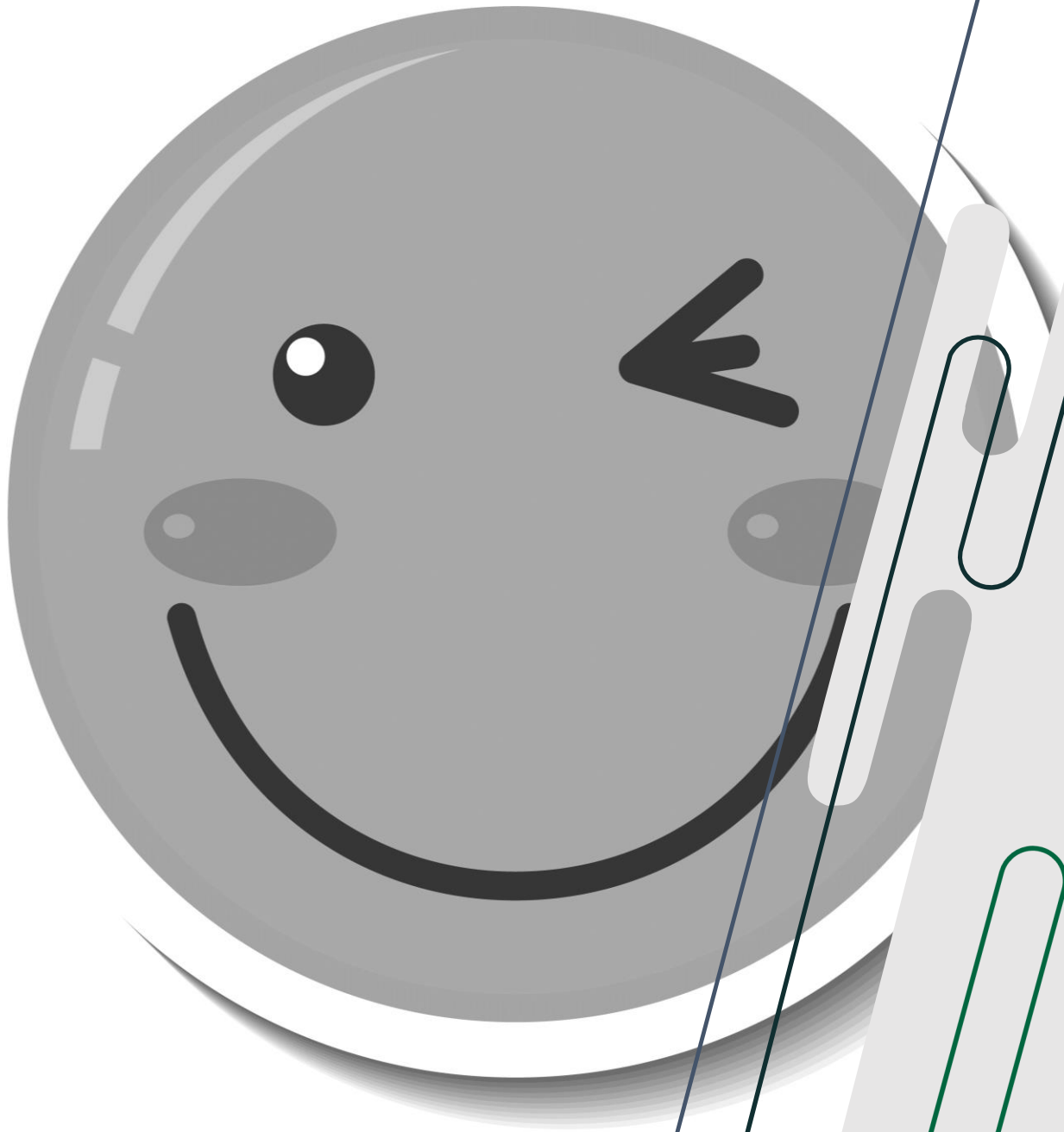
Options

- Do Nothing
- Do the wrong thing
- Do the right thing in small doses (sequencing)
- Do the right things all at once

Possible Outcomes

- Tough business environment in H1 2024
 - Bank recapitalisation rules to be changed
 - Stock Market correction in H1
 - Slight movement towards a friendly business environment in H2 2024
- Investment inflows increase in H1 2025
- Currency stability in H2 2024
- Slight currency appreciation in H1 2025
- Inflation easing in H1 2025





THANK YOU