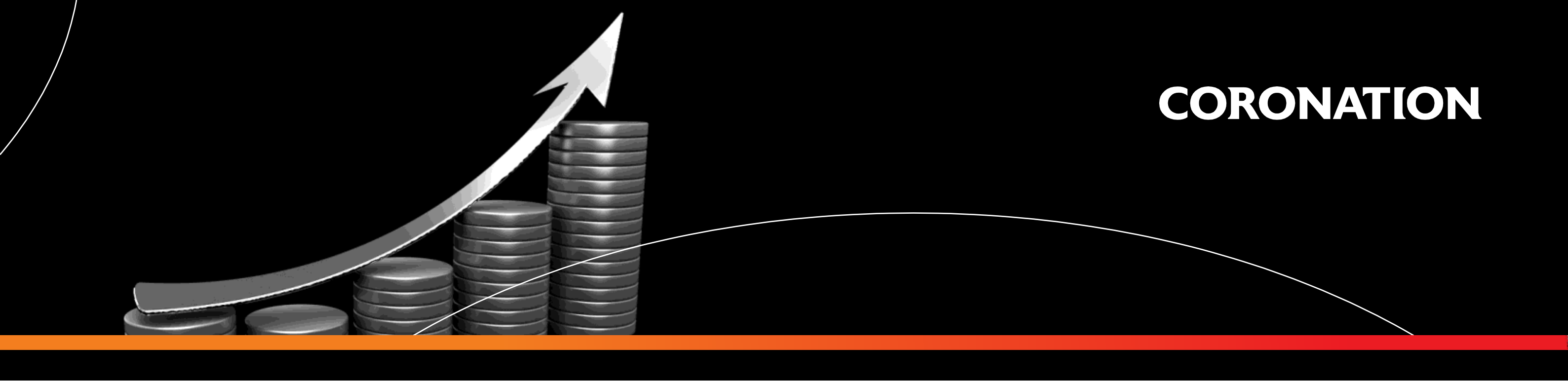


Coronation Economic Note

25 February '22

Deeper dive into the national accounts

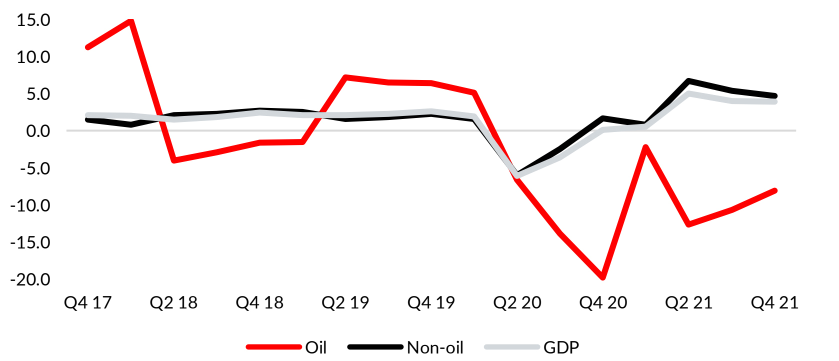
The latest national accounts released by the National Bureau of Statistics (NBS) show that GDP grew by 3.9% y/y in Q4 '21 compared with 4.0% y/y recorded in Q3 '21. For FY '21, GDP grew by 3.4% y/y compared with a contraction of -1.92% y/y in 2020. This growth can be partly attributed to improved harvest, steady progress in stemming the spread of the coronavirus, minimal disruptions to economic activities, CBN interventions, and positive base effects. The oil economy contracted by -8.1% y/y in Q4 compared with a contraction of -10.7% y/y recorded in the previous quarter. For FY '21, the sector contracted by -8.3% y/y compared with -8.9% y/y in 2020. Meanwhile, the non-oil economy grew by 4.7% y/y in Q4 compared with 5.4% y/y recorded in Q3. For FY '21, the non-oil economy grew by 4.4% y/y compared with a contraction of -1.3% y/ in 2020.

Over the past eight quarters, the oil economy has contracted by an average of -8.6% y/y. Bonny light increased by 48.7% from USD51.3/b at end-December '20 to close at USD79.3/b at end-December '21. Oil prices continue to be influenced by the relatively healthy demand, geopolitical tensions between Russia and Ukraine and supply constraints as OPEC+ struggles to meet production targets. As at 22 February '22, brent oil price closed at USD97.8/b while bonny light closed at USD100/b.

Based on data from the NBS, average crude oil production in Q4 '21 was 1.50mbpd (condensates included), compared with 1.57mbpd in the previous quarter and 1.56mbpd in Q4 '20. The performance of this sector reflects the impact of low investment, poor infrastructure, and operational challenges such as community issues, power failure, leakages, faulty valves, vandalism, prolonged repairs as well as COVID-19 outbreaks in various terminals across the country in 2021. Overall, the sector contributed 5.2% to the total GDP in 2021.

However, according to the latest OPEC report, the country pumped 1.39mbpd (excluding condensates) in January '22. This is an increase of 190,000 bpd from December (1.19mbpd). We note that the Forcados terminal experienced a sharp recovery in output, reaching pre-COVID levels. Nevertheless, the country's production level was well below the OPEC+ quota of 1.68mbpd (excluding condensates). The recovery has resulted in some optimism.

Real GDP, non-oil and oil growth (% change y/y)



Source: NBS, Coronation Merchant Bank Research

Indicators	NG
Inflation rate (January '22, %)	15.60
GDP (FY '21, %)	3.40
Gross Official Reserves (23 February '22, USD bn)	39.8
UK Brent (25 February '22, USD)	97.1

T-bill yields (25 February '22, %)

31-Mar-22	26-May-22	25-Aug-22	24-Nov-22
2.96	3.21	3.56	4.12

FGN bond yields (25 February '22, %)

14.20% Mar-24	13.98% Feb-28	12.15% Jul-34	12.40% Mar-36
8.20	10.68	11.88	12.25

Source: Bloomberg, CBN, FMDQ, Coronation MB Research

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Deeper dive into the national accounts

Within the non-oil economy, agriculture grew by 3.6% y/y in Q4 '21, compared with 1.2% y/y recorded in Q3. For FY, the sector grew by 2.1% y/y compared with 2.2% y/y recorded in 2020. Agriculture accounted for 25.9% of total GDP in 2021. The sector's performance can be partly hinged upon improved harvest and CBN led interventions within the sector. Some of these interventions include the Anchor Borrowers programme (ABP), the Agri-business Small and Medium Enterprise Investment Scheme (AgSMEIS) and Commercial Agriculture Credit Scheme (CACS). The CBN has disbursed over N3trn to farmers through these schemes to ensure food sufficiency. The issue of a large informal economy is one reason for the misalignment between the growth figures recorded in this sector and intervention efforts. Furthermore, the sector is still adversely affected by challenges such as insecurity as well as storage and logistics difficulties.

Crop production was the primary beneficiary of the interventions and the driver of growth within the agriculture sector. The segment accounted for 90.8% of agriculture GDP and grew by 2.3% y/y in 2021. The livestock and fisheries segments grew by 0.6% y/y and 1.2% y/y respectively for FY '21. For the latter, Nigeria's total annual fish demand is estimated at 3.4MMT, and c.40% of this demand is met domestically. An estimated N125bn (USD300.1m) is spent annually on fish importation. The Federal Executive Council (FEC) has approved the rehabilitation of the federal fisheries coastal terminal at Ebughu Mbo in Akwa Ibom state. It is expected to operate and maintain a public-private partnership model. According to the Infrastructure Concession Regulatory Commission (ICRC), the project is expected to reform the fisheries industries and create more jobs across its value-chain.

As for livestock, Nigeria's animal feed sector remains underdeveloped, mainly due to high production costs. To put this in perspective, c.70% of the operational costs for poultry and aquaculture businesses are channelled towards securing feedstock. A bill to establish a national livestock and management bureau passed the second reading in the Senate last year. The bill aims to ensure livestock identification, traceability, registration, cattle rustling control, livestock disease control, improve food safety and ultimately promote economic diversification by creating international market access and trade.

For the manufacturing sector, growth slowed to 2.3% y/y in Q4 compared with 4.3% y/y recorded in Q3. For FY '21, the sector grew by 3.5% y/y compared with a contraction of -2.8% y/y recorded in 2020. The food, beverages, and tobacco segment, which accounts for 48.9% of total manufacturing GDP, grew by 4.8% y/y in Q4 '21 and 5.7% y/y in FY '21. Cumulatively, Nigerian brewers saw increased revenue in 2021, as consumption patterns gradually improved. Specifically, Nigerian Breweries benefited from price increases implemented across its product portfolio as well as from year-end festivities. Premium brands such as *Tiger, Heineken, and Desperados*, led volume growth. In addition, *Malts* supported growth of the non-alcoholic portfolio. Guinness Nigeria benefited from an improved sales mix and price increases across product categories. Overall, Guinness Nigeria, International Breweries, and Nigerian Breweries reported average sales growth of 37% y/y in 2021.

Growth was also significant in the chemical and pharmaceutical products segment (Q4 '21: 8.9% y/y, FY '21:8.1% y/y) due to the health sector's sustained demand for pharmaceutical products. In addition, the cement segment grew by 6.6% y/y for FY '21 while the textile, apparel, and footwear segment contracted by - 1.3% y/y for FY '21. Overall, consumption patterns are relatively better, almost mirroring pre-pandemic levels. Furthermore, fx liquidity, which directly impacts imported manufacturing input, has been relatively stable and this bodes well for the sector.

Telecommunications posted growth of 5.3% y/y in Q4 '21, and 7.3% y/y for FY '21 compared with 15.9% y/y recorded in 2020. The sector benefits from the mandatory push to the digital landscape triggered by the ongoing pandemic. Some businesses within the sector have recorded revenue boosts from data, fintech, and digital services. However, data from the industry regulator show that the number of mobile and internet (via mobile) subscribers declined by -4.4% y/y and -8.1% respectively in 2021, primarily due to the regulatory ban on new SIM registrations in the first nine months of 2021.

The trade sector grew by 5.3% y/y in Q4 '21. For full year, it grew by 8.6% y/y compared with a contraction of – 8.5% y/y recorded in 2020. Trade accounted for 15.7% to total GDP in 2021. The release of pent-up demand, particularly for consumers within the middle-income bracket, supported trade activities. The successful implementation of the AfCFTA should boost intra-African trade, but this is primarily hinged upon successfully tackling supply-side constraints such as poor infrastructure and closing trade financing gaps, among others.

The transportation and storage sector grew at a double-digit rate for three consecutive quarters. In Q4, the sector grew by 29.7% y/y. As for FY' 21 it grew by 16.3% y/y compared with a contraction of -22.3% y/y recorded in 2020. The major drivers of the sector were rail (FY 38.9% y/y) and air (FY 36.7% y/y) transport segments. This was largely due to favourable base effects as well as improvements in passenger traffic. Road transport, the largest segment, grew by 28.5% y/y in 2021. Overall, the transportation and storage sector represented just 1.3% of total GDP in 2021, which compares with 9.6% for its counterpart in Kenya in 2020. Credit is surely due in large part to the capital spending programs of the FGN in the 2021 budget. For example, the reconstruction of the outstanding sections of Benin-Ofosu- Ore-Ajebandele-Shagamu expressway, the rehabilitation of 9th Mile-Enugu-Port Harcourt dual carriageway and rehabilitation of Yola-Hong-Mubi Road.

Based on the broad contributions to total GDP, agriculture, industry, and services accounted for 25.9%, 20.6%, and 53.6%, respectively of total GDP in 2021. The positive y/y growth recorded across sectors, which accounted for at least 1% of total GDP fell within the services category. The services category remains a core growth driver.

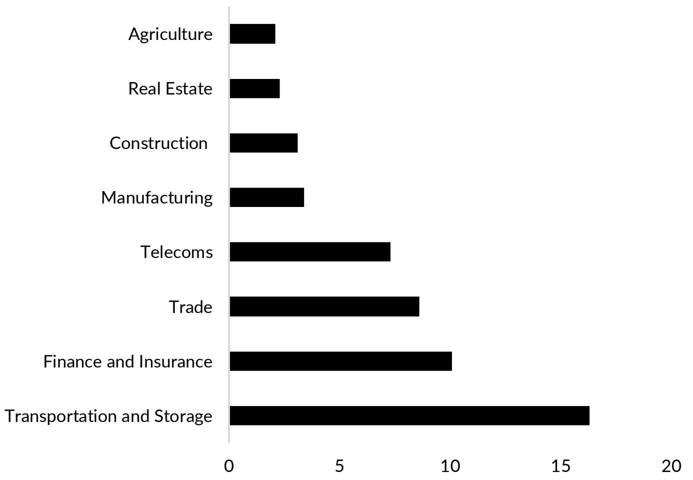
Deeper dive into the national accounts

The COVID-19 virus has further exposed the country's macroeconomic weaknesses, including heavy dependence on oil, the substantial untaxed informal economy and the slow permeation of reforms and policies into the real economy.

Historically, the first quarter of the year records relatively weaker output levels when compared with Q2, Q3 and Q4. Looking ahead, our in-house estimates assume GDP at current market prices as high as pre-pandemic levels (2019) for each quarter this year. We considered increased vaccination rate, stable oil prices above USD65/b and sustained growth in the major sectors, among others. For sectorial growth, we note that the steady financial injections/interventions into select sectors such as agriculture by the CBN have assisted with keeping economic activity afloat within these sectors.

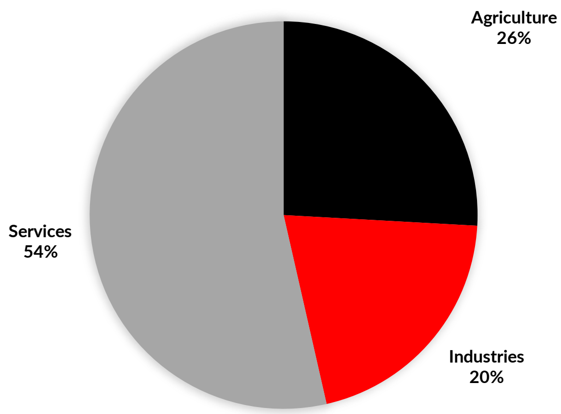
The NBS is expected to embark on its GDP-rebasing exercise in 2023. Before the rebasing exercise can be completed, preliminary surveys are required. We understand that these surveys are already being conducted. They include: the national business sample census (conducted in 2021), and the national agricultural sample census which is likely to be conducted by April '22, among others.

Non-oil sectors, FY '21 (% change; y/y)



Sources: NBS, Coronation Merchant Bank Research

Broad contribution to total GDP, FY '21



Sources: NBS, Coronation Merchant Bank Research

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