CORONATION

Coronation Economic Note

11 March '22

Power, required for industrial take-off

The absence of constant power supply has contributed to the slowdown of Nigeria's much needed industrial take-off. For businesses, self-generation places pressure on operating expenses. Household wallets are also significantly affected by the same expense. According to the Nigerian Electricity Regulatory Commission (NERC) data, the average available generation capacity in Q3 '21 was 5,301.32 MW. This implies an increase of 9.5% compared with 4,843.57 MW recorded in Q2 '21. However, actual generation was limited to an average of 3,936.64 MW, which is a decline of 3.4% q/q from an average of 4,076.89 MW recorded in Q2 '21. According to The Transmission Company of Nigeria (TCN), the persistent low generation can be attributed to a combination of issues ranging from gas constraints as well as fault and technical problems within generating plants.

Nigeria currently has 29 generation companies (GENCOs), of which 86% run gas-fired plants while the remaining run hydro-powered plants. The heavy reliance on gas-fired power results in power shortages due to issues with gas supply. We note that there were no total system collapses recorded in Q3 '21. In the previous quarter one system collapse was recorded.

Regarding transmission, an average of 3,867.30 MWh (98.2% of average generation) was sent out in Q3 '21 by the GENCOs. The data also show that energy supplied to the grid during the period was 8,439.23 MWh, a decline of -3.5% from 8,741.86 MWh in Q2 '21. Energy supplied to DISCOs also declined by -2.6% to 7,881.10 MWh from 8,093.80 MWh in Q2 '21.

In Q3 '21, GENCOs issued a total invoice of N199.0bn to the Nigerian Bulk Electricity Trading Plc (NBET). However, NBET paid N100.2bn or 50.3% of the total invoice amount, resulting in a shortfall of N98.9bn.

As for distribution companies, the eleven DISCOs received a total invoice of N252.2bn from NBET and the Market Operator, but only N141.7bn was settled, creating a market shortfall of N110.5bn.

The resultant effect was that the eleven DISCOs had a remittance performance of 56.2%, which is a decline from the remittance performance of 58.0% recorded in Q2 '21. We see that between January to September, Ikeja, Eko, and Abuja DISCOs had the highest remittance performance of 70.9%, 70.3%, and 69.9%, respectively. In contrast, Yola had the lowest remittance performance of 13.2%.

We note that in Q3 '21, the total billing to electricity consumers by the eleven DISCOs stood at N272.9bn, while the total collection was N193.5bn. This implies a collection efficiency of 70.9%. However, this is an improvement of 2.9% from the collection efficiency of 68.9% recorded in Q2 '21. From January to September 2021, Ikeja, Eko, and Abuja DISCOs had the highest collection efficiency of 84%, 83.3%, and 82.9%, respectively, while Kaduna DISCO had the lowest collection efficiency of 33.9%.

According to the NERC data, as at end-September '21, only c.4.8 million customers had meters, accounting for 37.3% of the estimated 12.8 million registered energy customers. Furthermore, the report shows that the metering gap increased by 595,588 or 8% y/y to 8 million at end-September '21.

Indicators	NG
Inflation rate (January '21, %)	15.60
GDP (FY '21, %)	3.40
Gross Official Reserves (09 March '22, USD bn)	39.8
UK Brent (10 March '22, USD)	109.3

FGN bond yields (10 March '22, %)			
14.20%	13.98%	12.15%	12.40%
Mar-24	Feb-28	Jul-34	Mar-36
7.30	10.12	11.40	11.92

T-bill yields (10 March '22, %)			
31-Mar-22	26-May-22	25-Aug-22	24-Nov-22
2.96	3.20	3.14	3.63

Source: Bloomberg, CBN, NBS, FMDQ, Coronation MB Research

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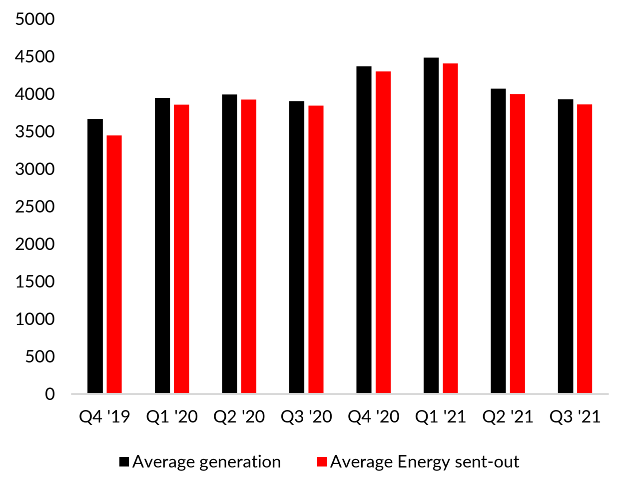
According to local newswires, DISCOs plan to close the metering gap within 18 months with the distribution and installation of at least 4 million meters under the second phase of the Meter Asset Provider Scheme (MAPS). Through MAPS, customers can pay for a meter which will be amortised and refunded over 36 months via energy credits.

Turning to renewable energy, the Nigeria Sovereign Investment Authority (NSIA) in collaboration with the Rural Electrification Agency established a N10bn revolving fund for approved developers to manufacture and distribute solar home systems. This investment by NSIA is targeted at developing 200,000 off-grid connections to distribute over 500,000 solar home systems as the fund revolves and is expanded through to 2023.

The United Kingdom also plans to invest £10m (USD13m) into Nigeria for low-carbon energy projects. This is on the back of the UK's commitments at COP26 to help developing countries take advantage of clean technology, leverage institutional investment, and grow their economies sustainably.

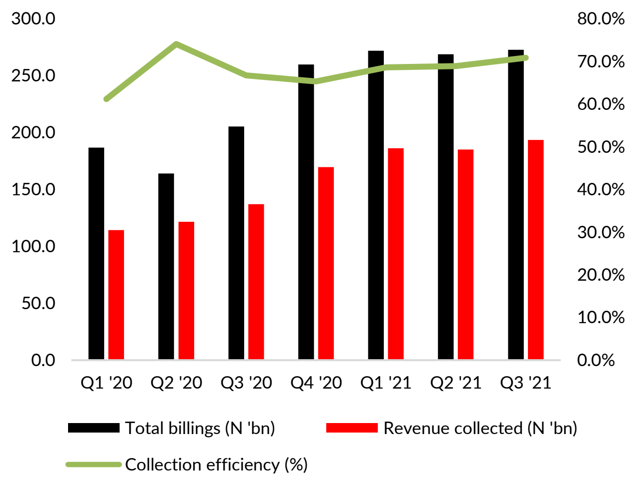
The IMF estimates that the Nigeria loses c.USD29bn annually due to poor power generation and transmission. To halt power shortages, the modernisation of power infrastructure should be prioritised. Enhanced regulatory oversight is also needed to improve transparency and contract enforceability. Increased investments in renewable energy would also boost power generation. Therefore, enhancing productivity, economic growth, and development.

Average power generated and sent out (MWh)



Sources: NERC, Coronation Merchant Bank Research

Revenue performance of DISCOs (N 'bn)



Sources: NERC, Coronation Merchant Bank Research

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