

# Nigeria GDP

## Does the stimulus really work?

Last week full-year 2019 GDP growth was reported at 2.27% year-on-year (y/y), an acceleration over 1.91% y/y growth for 2018. Q4 2019 grew at 2.55% y/y. On the face of it, these numbers look good.

However, Non-oil growth was 2.06% y/y in 2019, only slightly faster than 2.00% y/y in 2018 y/y. The Non-oil growth rate picked up after Q2, but Q4's 2.26% y/y rate was lower than Q1's 2.47% y/y.

Going forward, we see no reason to think that growth will accelerate much above 2.30% y/y. We in a long period of low growth.

**Neutral implications for equities.** The fastest-growing major sector in the economy is the Telecoms sector which grew at 10.26% y/y in Q4, while the construction and cement sectors also grew. These are big stock market sectors. However, stock-specific factors and fears over the coronavirus are likely to continue to weigh on the equity market.

**Negative for inflation.** Productivity does not appear to be growing quickly (the large Agriculture sector grew by 2.36% y/y in 2019) and land border closures are putting upward pressure on inflation.

**Neutral for interest rates.** Nigeria is in the middle of a radical overhaul of interest rates (T-bill rates are down from 14.86% in mid-October to 5.63% recently) and a policy of forcing banks to make customer loans (the mandatory loan-to-deposit ratio of 65.00%). The authorities might interpret rising headline GDP growth as vindication of their actions. If so, expect a continuation of current interest rate policies.

In our view, current policies amount to an inefficient way of stimulating growth. Manufacturing is only growing slowly. Credit policy has little influence on Telecoms (growing before monetary policies changed), nor on Oil & Gas which grew 4.59% y/y in 2019.

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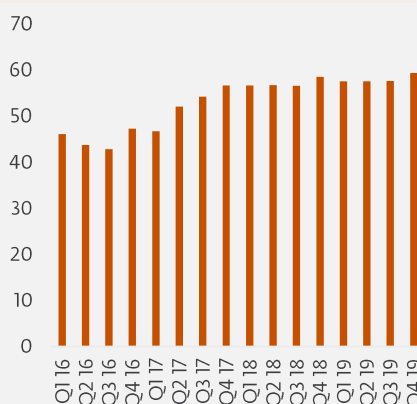
### Macroeconomic Metrics

MPR	13.5%
Inflation	12.13%
FX Reserves	\$36.4bn
Brent Crude	\$52.91
PMI	58.3
One-year T-bill	5.63%
One-year OMO	12.63%

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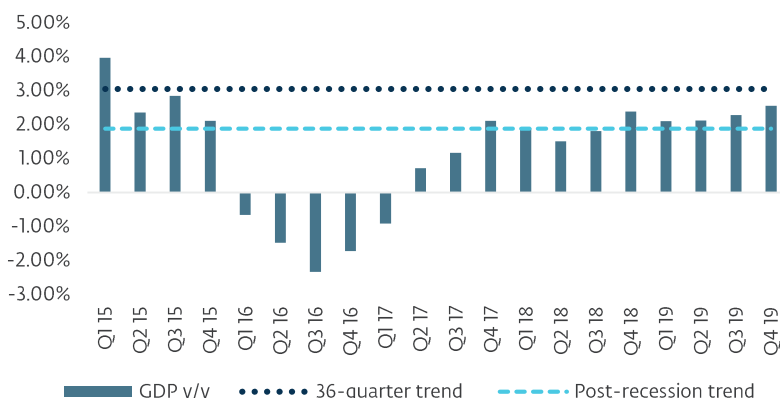
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### Purchasing Managers' Index



Source: CBN

### Nigeria, y/y GDP growth



Source: National Bureau of Statistics (NBS), Coronation Research

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## Non-oil & gas GDP

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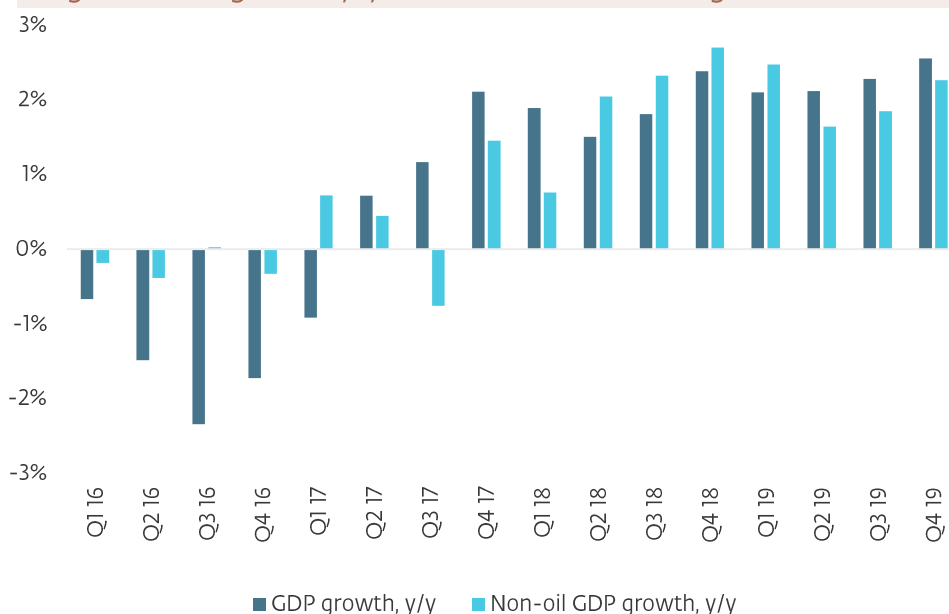
### Growth in the Non-oil economy continues to improve, slightly

The Non-oil economy contributed 91.22% of Nigeria's GDP in 2019 (92.68% in Q4 2019). Non-oil GDP growth in Q4 improved to 2.26% y/y after growth of 1.85% y/y in Q3. However, Non-oil growth was slower in Q4 2019 than it had been in Q1 2019 when it grew by 2.47% y/y.

Non-oil growth was largely driven by Telecoms (10.60% of GDP in Q4) and Agriculture (26.09% of GDP) while both Trade (15.99% of GDP) and Real Estate (6.21% GDP) contracted year-on-year in Q4. Manufacturing (8.74% of GDP) grew very slightly. The Telecoms sector has recorded double digit growth over the last seven quarters, reflecting a secular shift in the application of technology as consumers and companies (notably banks) increase their use of unsupported supplementary service data (USSD).

There are several drivers of sector change. The closure of land borders last August delivered support for Agriculture as prices of basic goods, such as rice, rose. Prices of frozen chicken also rose, providing incentives for a section of local food manufacturing. However, by the same token, activity in Trade was hit.

### Nigeria's GDP growth y/y, with and without oil & gas



Source: National Bureau of Statistics (NBS), Coronation Research NB: Q3 16 non-oil GDP was positive at 0.03% y/y.

One motor for the Manufacturing sector was the drive by the Central Bank of Nigeria (CBN) to expand bank credit. Not only has bank credit expanded but market interest rates fell sharply during Q4, bringing down lending rates with them. The CBN reports that new credit in Q4'19 was in the region of N1.0tn (US\$2.8bn), a positive result from insisting that commercial banks make commercial loans to the equivalent of 65.0% of their customer deposits (the loan-to-deposit ratio).

Expansion in industrial capacity appears limited to a few sectors which include Telecoms, technology start-ups and low-cost consumer goods producers. Business spending is above the levels of 2016 but, we note that much investment is being spent as payment for enterprise, technological and business process enhancement, and much of this is outsourced to foreign contractors.

Construction expanded for the seventh consecutive quarter (up 1.31% y/y) and Cement (up 3.11% y/y) has now grown for the eighth consecutive quarter.

# GDP breakdown

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## Breakdown among the major segments

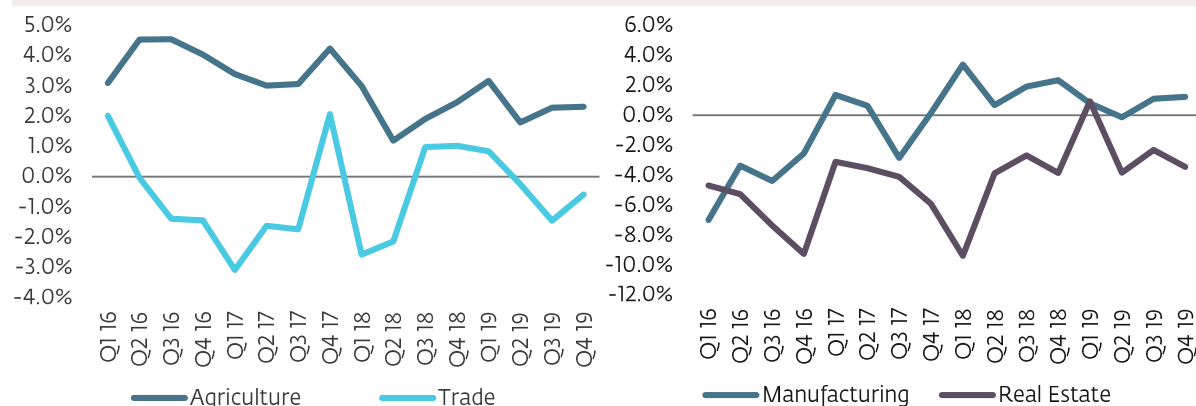
The top six sectors accounted for 74.70% of the Nigerian economy in Q4 2019. In order of size they were Agriculture, Trade, Telecoms, Manufacturing, Oil & Gas, and Real Estate.

In Q4 2019 Agriculture (26.09% of GDP in Q4) grew by 2.31% y/y. Trade (15.99% of GDP) contracted by 0.58% y/y. Telecoms (10.60% of GDP) grew by 10.26% y/y. Manufacturing (8.74% of GDP) grew by 1.24% y/y. Oil & Gas (7.32% of GDP) grew by 6.36% y/y. And Real Estate (6.21% of GDP) fell by 3.45% y/y.

Therefore, of the six largest sectors, four grew and two contracted. Agriculture grew 33bps faster than the previous quarter, but 69bps slower than its three-year average of 3.0%. Agriculture is extremely important in a country whose population growth rate is estimated at 2.5% per annum, and it is also significant that the sector did not go into recession with the rest of the country in 2016. The slow-down in the growth rate is therefore a concern. Clearly, border closures support Agriculture, but we may only see the full benefit of these when Nigerian farmers harvest in Q2 and Q3 of this year as only a small proportion of rice production is irrigated.

Trade fell by 0.58% y/y in Q4 2019, almost certainly the result of land border closures combined with blockages at Nigerian ports. Even without these factors it is a volatile sector, slipping in and out of recession. During 2019 the foreign exchange rate at which some importers, and manufacturers, are allowed to import goods, gradually rose, declining in the direction of the interbank foreign exchange rate of N362.5/US\$1. This likely made a certain amount of marginal importation unviable.

### Nigeria Q4 2019 GDP, y/y growth in key sectors



Source: National Bureau of Statistics (NBS), Coronation Research

The high level of bank credit is due to the sharp falls in T-bill and credit rates during Q4 2019 and the enforcement of the 65% loan-to-deposit ratio (LDR). We observed an increased flow of credit to a pool of high-quality obligors in H2 2019 before a widening of the credit basket to other enterprises.

The longer the policy is sustained, in our view, more businesses are likely to secure financing at declining interest costs. In our opinion, inventory build-up is therefore likely and some measure of expansion in manufacturing capacity utilisation is likely to ensue. This improves the outlook for manufacturing in FY 2020. However, it is important to remember that private sector credit stood at around 13.00% in mid-2019, a factor that informs our view that monetary conditions do not translate efficiently into growth.

Real Estate, as distinct from construction and cement manufacturing, continued to contract. This sector has recorded only one quarter of growth since 2015.

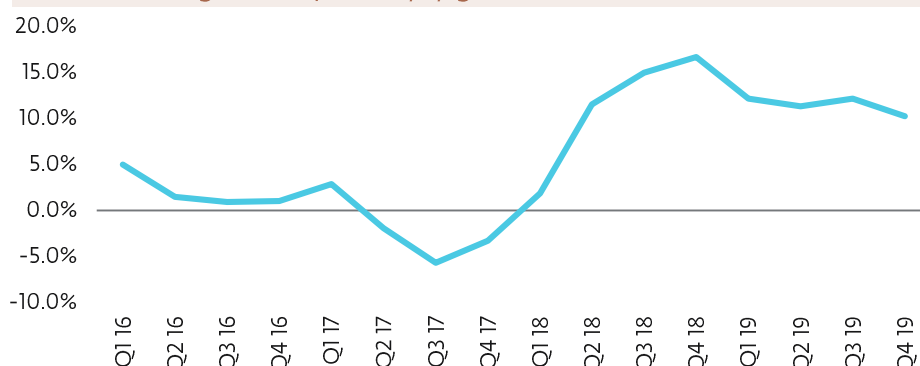
# Swing sectors

## Telecoms, the provider of growth

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The Telecoms sector (10.60% of GDP), grew by 10.26% y/y in Q4 2019. This makes seven consecutive quarters of double-digit growth since Q1 2018.

### Telecoms segment of GDP, y/y growth



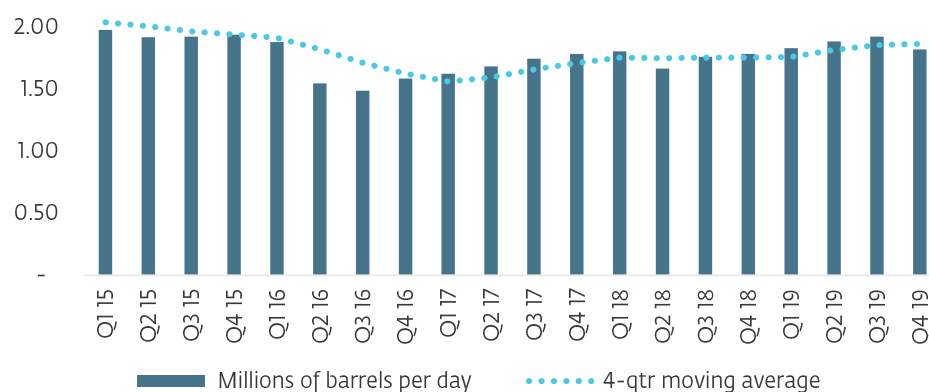
Source: National Bureau of Statistics (NBS), Coronation Research

Structurally, demand is projected to remain strong for telecom services as no viable alternatives exist for end-user migration and rising average revenues per user (ARPU) continue to be achieved.

11.9m new subscribers were added to the telecommunications network in FY 2019, representing 6.92% y/y growth. Voice remains the dominant service line across the four major operators, but momentum is evident in data services. Internet subscribers grew by 12.5% y/y, characterized by re-engineered tariffs on data bundles and higher penetration of smart devices.

Potential downsides for continued growth in telecoms density are evident in increased regulatory and indirect tax obligations passed on to end-users and non-uniform patterns of coverage.

### Nigeria, oil production, millions of barrels per day (mbpd)



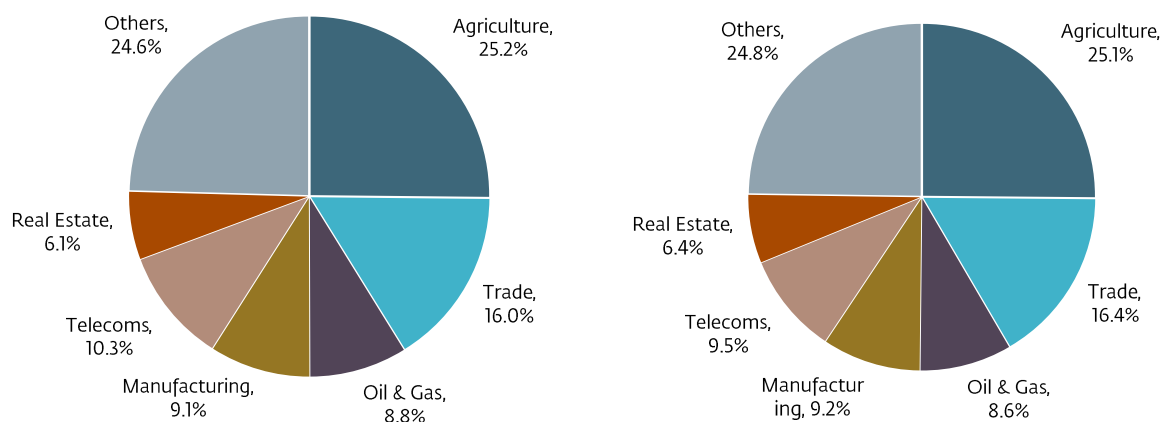
Source: Bloomberg, Coronation Research

Oil GDP advanced for the third consecutive quarter in Q4 2019, growing by 6.36% y/y. Much of the growth in the Oil sector was volume-driven rather than through price gains. Crude output was on average 90,000bpd higher than in 2018, corroborating a 73.6% decline in non-performing loan (NPL) ratios attributable to the oil and gas sector in the year to 9M 2019.

# Conclusions

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## Sector contributions to GDP in FY 2019 (left) and in FY 2018 (right)



Source: NBS, Coronation Research

### Pattern of growth for 2019 and outlook for 2020

In early 2019 we forecast GDP growth of 2.25% y/y, so we can derive some satisfaction from a print of 2.27%, which is 27bps ahead of the most recent IMF estimate. On the other hand, there was not much in the data to reassure us that growth rates will pick up going forward. The Agricultural sector likely benefits from land border closures and may show the results of this stimulus later in 2020 when the crops (including rice) are harvested. The Telecoms sector looks set to continue to grow, though perhaps not quite as fast as before. The Oil & Gas sector is likely to come under pressure from oil prices that are lower than last year. A growth forecast of 2.30% y/y for the whole economy for 2020 does not look unreasonable, and indeed is quite close the current IMF forecast of 2.5% y/y.

The big changes in monetary policy over the past eight months (for a description see Coronation Research, *Year Ahead 2020*, 16 January) have not, so far, made much impact on overall GDP growth rates, in our view. There are likely to be positive impacts on Manufacturing (8.74% of GDP), on Construction (3.44% of GDP) and Cement (0.76% of GDP), but in total these three sectors are smaller than Trade (15.99% of GDP) which is a weak sector.

The introduction of five-year non-deliverable forward (NDF) foreign exchange contracts is positive for foreign direct investment (FDI) but lack of clear fiscal direction in the Oil and Gas sector is likely to weigh on the decisions of oil majors, in our view.

Possible failure to resolve trade conflicts with markets in West Africa, and possible monetary tightening cycles in 2020 are risks factors to growth. We also caution that government expenditure (less than 10.00% of GDP) is a less effective route to stimulating the economy compared with initiatives that stimulate household consumption directly, which has been on average 63.40% of GDP over the last decade.

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Zenith	5-Apr-18	N/A	Hold	29.80	30.52
UBA	5-Apr-18	N/A	Buy	11.65	13.61
GT Bank	5-Apr-18	N/A	Buy	43.40	54.88
Access	5-Apr-18	N/A	Buy	11.25	15.73
Diamond	26-Apr-18	Hold	Buy	1.62	3.93
Fidelity	5-Apr-18	N/A	Buy	2.43	3.86
Stanbic	5-Apr-18	N/A	Hold	48.00	45.50
Sterling	5-Apr-18	N/A	Hold	1.74	1.56

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