Renaissance Capital

Nigeria: 1Q20 GDP

Oil's last hurrah?

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Nigeria

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Nigeria grew by 1.9% YoY in 1Q20, stronger than the market expected and slightly lower than 2.1% YoY growth a year earlier. A closer look at the numbers reveals growth was in large part due to the oil sector. The non-oil sector slowed. We expect the oil sector to slow from 2Q20 on the back of OPEC+ crude cuts and a high base effect. We also expect COVID-19 to have tipped the already weak non-oil sector into recession. We maintain our growth forecast of -2.9% for 2020. There is downside risk to this forecast.

Oil: This is as good as it gets for 2020

The COVID-19 pandemic did not affect Nigeria's 1Q20 growth because lockdown was only imposed in April, and the March oil price drop will have an indirect and lagged effect (via tighter liquidity) on growth. The moderate slowdown in Nigeria's real GDP growth to 1.9% YoY, from 2.1% YoY a year earlier, was due to the non-oil sector. Conversely, the oil & gas sector's growth improved to 5.1% YoY, vs a 1.5% YoY decline a year earlier. This was its fourth consecutive quarter of growth. The oil & gas sector's expansion in 1Q20 was due to a 4.5% YoY increase in oil production to 2.07mn b/d (Figure 4). In line with the OPEC+ agreement, Nigeria adjusted its oil production plans on 10 April, to 1.4mn b/d from May to June, to 1.5mn b/d in 2H20, and to 1.6mn b/d from January 2021 to April 2022. This implies Nigeria's liquids' production will decline to 1.9mn b/d, from 2.0mn b/d in 2019. A decline in production will have marked implications for a sector that contributed 0.4 ppt to growth in 1Q20.

Non-oil sector: Telcos and finance were undermined…

The non-oil sector's YoY growth slowed to 1.5% in 1Q20, from 2.5% a year earlier. Of the main sectors, agriculture had the fastest YoY growth of 2.2% (down from 3.2%), followed by services at 1.6% (down from 2.4%). Manufacturing was the weakest link with growth of 0.4% (vs 0.8%). The performance of the non-oil sub-sectors was mixed. The strongest performers were telcos – which at 10% of GDP is bigger than the oil sector – and financial institutions. Telcos grew by 10% YoY in 1Q20, a moderate slowdown from 12% YoY a year earlier. Financial institutions YoY growth surged to 24%, following a 9% decline a year earlier. Credit growth also saw some improvement in this period, but not as strong as the finance sector's; it picked up to 10.5% YoY in February, from 7.4% YoY a year earlier (see Figure 5).

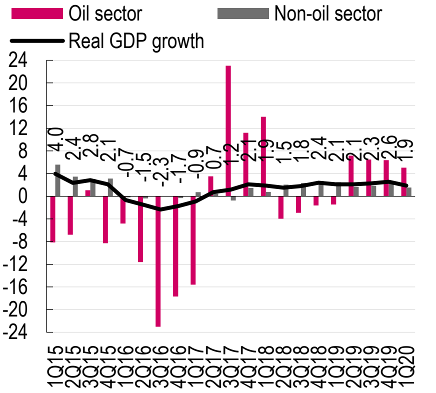
…by trade, real estate, and public administration

Declines in the wholesale and retail trade (trade), real estate and public administration sectors countered telcos' and financial institutions' expansion. Trade – which we also see as a proxy for the consumer – declined by 2.8% YoY in 1Q20, vs growth of 0.8% YoY a year earlier. Trade – the second biggest non-oil sector – has had a stop-start recovery since 2017. Most recently, it has been in decline – implying the consumer has been in recession – for four consecutive sectors. This corresponds with the fall in consumer confidence since 1Q19 (Figure 3). Real estate – the fourth biggest non-oil sector – contracted by 4.8% YoY for the fourth consecutive quarter.

The outlook – dire

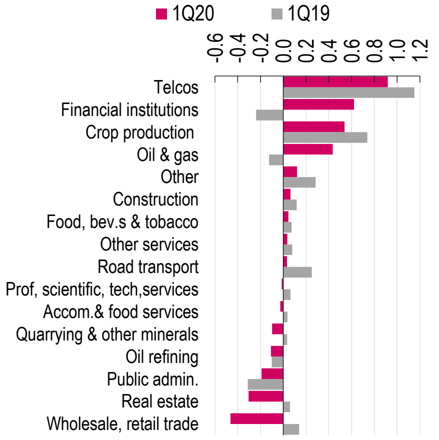
Nigeria's lockdown only took effect in April, which implies its economic impact will only reflect from 2Q20. As the consumer was already in recession and oil output peaked in 1Q20, this implies Nigeria's fragile economy could easily tip into recession.

Figure 1: Nigeria – real GDP and sectoral growth, %



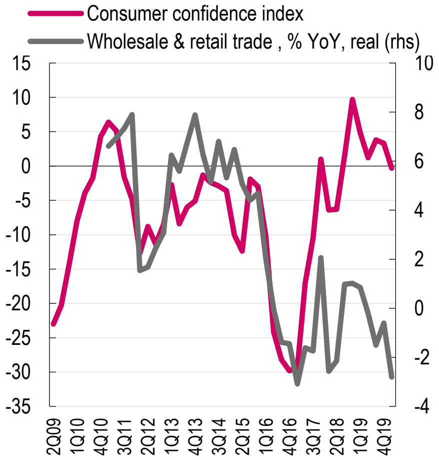
Source: National Bureau of Statistics

Figure 2: Nigeria – sectoral contribution to GDP growth, ppts



Source: National Bureau of Statistics, Renaissance Capital

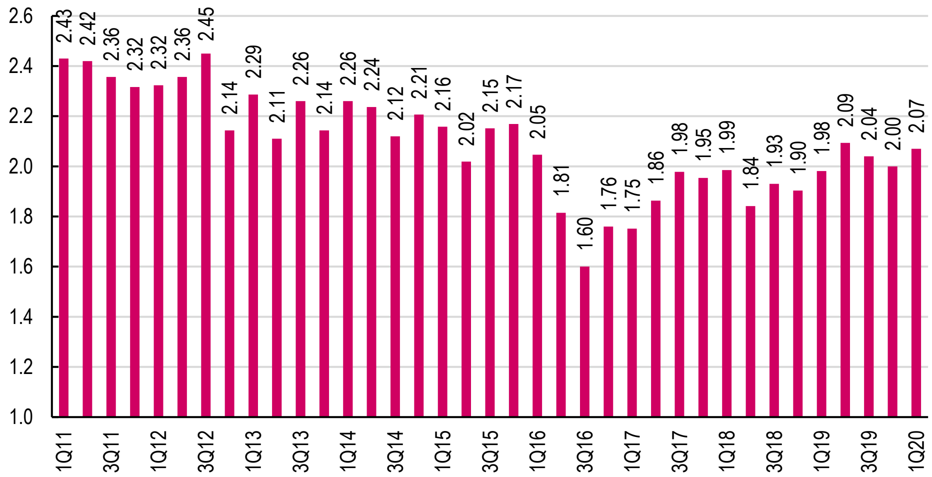
Figure 3: Nigeria – consumer confidence index vs wholesale & retail trade, % YoY



Source: Central Bank of Nigeria, National Bureau of Statistics

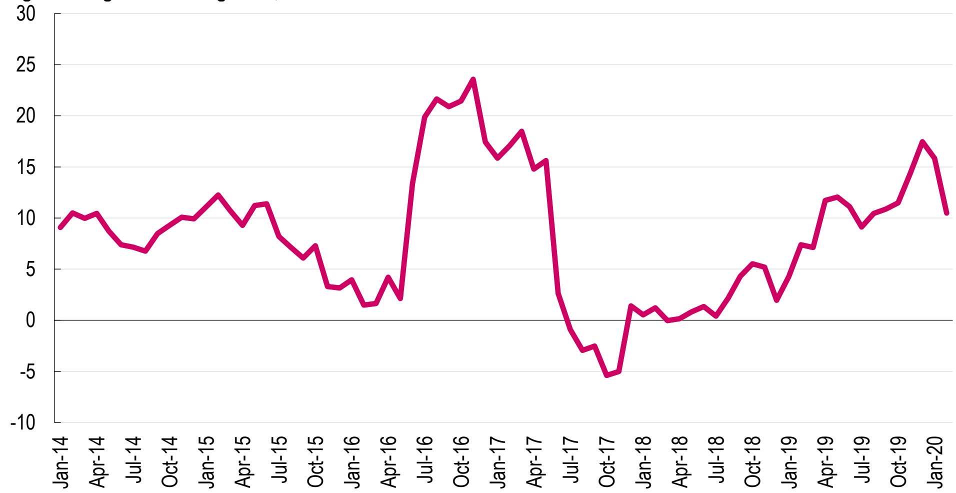
- We expect the most affected sectors to be oil & gas (due to the OPEC+ crude cuts); the transportation and hospitality sectors due to the restrictions on travel and gatherings; and the wholesale and retail traders, particularly in April when the lockdown was in place. The fall in FX revenue, on the back of the lower oil price, will result in tight liquidity (as indicated by the central bank's plans to ration FX) which snuffs out GDP growth. The one upside for Nigeria is its sizeable agriculture sector which accounts for over 20% of GDP. As most of the activity is done by small holder farmers that are less integrated with the formal economy, we think the sector is less vulnerable to restrictive COVID-19 measures. We expect telcos to be the most resilient sector, especially in this age of physical distancing.
- **Market implications.** Before the COVID-19 pandemic, Nigeria's financial institutions were already grappling with a difficult regulatory environment. However, even in this crisis our SSA banks analyst, Soji Solanke, thinks there are some compelling stock picks in the banks space. He thinks Guaranty Trust Bank (**BUY**; TP: NGN28.60; CP: NGN23.75) is a quality name that has sold off more than warranted, for the following reasons: 1) it is the highest RoE bank in Nigeria; 2) it has the highest breakeven cost of risk buffer; 3) it has the largest net long FX position which places the bank well to benefit from a naira devaluation; and 4) it is diversifying into the fast growing payments space. Soji thinks Zenith Bank (**BUY;** TP: NGN24.20: CP NGN16.95) would do well in a quick recovery scenario because of the following: 1) its highly liquid balance sheet; 2) consistent dividends; and 3) high stock liquidity. He thinks Stanbic IBTC (**BUY;** TP: NGN36.20; CP: NGN32.55) can withstand a protracted slowdown because of its diversified business model (it has the largest asset management business in Nigeria), which makes its earnings somewhat more defensive vs peers.
- In a challenging consumer environment, our SSA consumer analyst, Dayo Ayeni, thinks Nestle Nigeria (**BUY**; TP: NGN1,464.7; CP: NGN995) is compelling, because of the following: 1) its strong balance sheet; 2) its resilience; 3) quality management; and 4) its three strong brands, Maggi, Milo and Golden Morn.

Figure 4: Nigeria – oil production, mn b/d



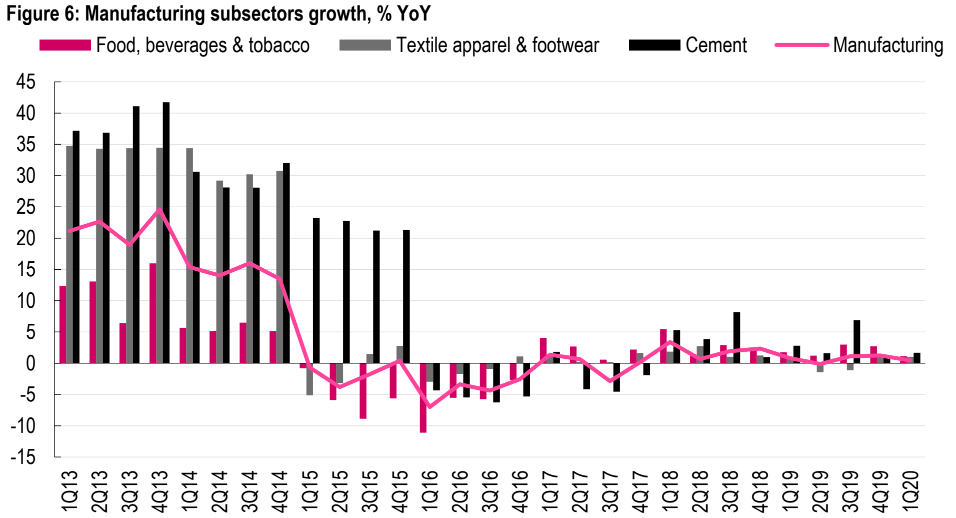
Source: Nigeria National Petroleum Corporation, National Bureau of Statistics

Figure 5: Nigeria – credit growth, % YoY



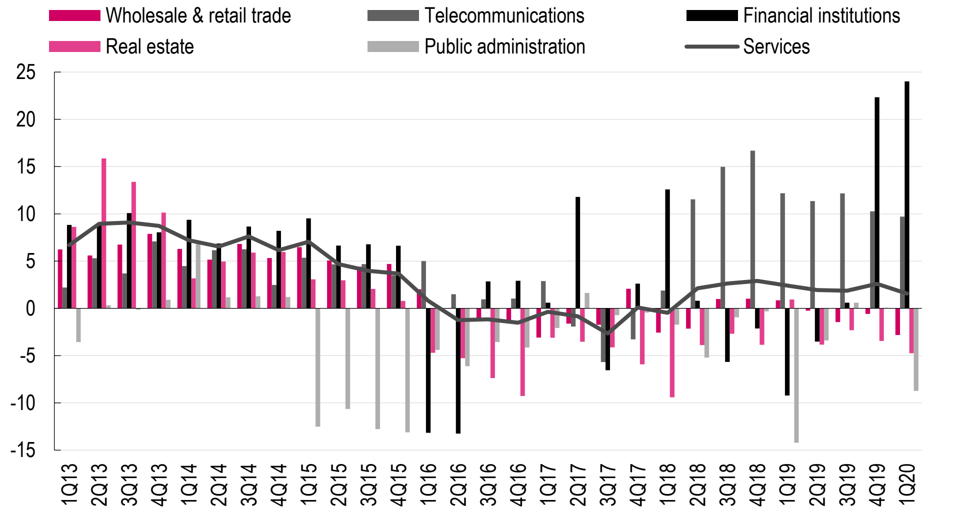
Source: Central Bank of Nigeria

Figure 6: Manufacturing subsectors growth, % YoY



Source: National Bureau of Statistics

Figure 7: Nigeria – services subsectors growth, % YoY



Source: National Bureau of Statistics

Figure 8: Nigeria – key economic forecasts

Ratings (Moody's/S&P/F): B2/B/B+

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E
Activity													
Real GDP (% YoY)			4.9	4.3	5.4	6.3	2.7	-1.6	0.8	1.9	2.3	-2.9	1.0
Private consumption (% YoY)			2.6	0.3	29.3								
Government consumption (% YoY)			4.6	-2.0	1.4								
Investment (% YoY)			-29.8	1.9	10.5								8.0
Oil production, incl. condensates (mn b/d year-end)	2.1	2.4	2.4	2.3	2.2	2.2	2.1	1.8	1.9	1.9	2.0	1.9	2.0
Nominal GDP (NGNbn)	39,562	55,469	63,713	72,600	81,010	90,137	95,178	102,575	114,899	129,087	145,127	146,172	157,866
Nominal GDP (EURbn)	189	277	293	359	382	415	431	362	309	308	359.2	320.2	286
Nominal GDP ($bn)	264	367	408	462	508	546	481	399	345	357	402	360	330
Population (mn)	152	156	160	165	169	174	179	184	191	196	201	206	211
GDP per capita ($)	1,739	2,354	2,547	2,803	3,001	3,136	2,693	2,171	1,807	1,824	2,002	1,747	1,561
Gross national saving (% of GDP)	26.8	21.2	19.2	19.3	18.8	16.0	12.3	16.0	18.2	15.1	13.9	14.1	14.0
Stock of bank credit to corporate/ household sector (NGNbn)	10,152	9,704	14,184	15,152	16,191	18,115	18,719	21,982	22,290	22,959	25,254	27,149	30,542
Stock of bank credit to corporate/ household sector (% of GDP)	25.7	17.5	22.3	20.9	20.0	20.1	19.7	21.4	19.4	17.8	17.4	18.6	19.3
Loan to deposit ratio (%)	70.0	56.0	47.0	45.0	47.0	54.0	58.0	65.0	62.0	51.0	51.0	52.0	53.0
Prices													
CPI (average % YoY)	12.6	13.7	10.8	12.2	8.5	8.4	8.2	15.6	16.6	12.2	11.4	13.9	14.9
CPI (year-end % YoY)	13.9	11.8	10.9	12.0	8.0	8.1	9.6	18.6	15.4	11.4	12.0	15.2	14.5
Fiscal balance (% of GDP)													
Federal government balance	-1.9	-2.5	-1.7	-1.5	-1.4	-0.9	-2.5	-2.8	-4.1	-4.0	-3.7	-4.1	-3.4
Total public debt	9.6	9.6	17.6	17.7	18.6	17.5	20.3	23.4	25.3	27.3	29.8	31.4	32.6
External balance	*21.5*	*21.4*	*23.8*	*20.4*	*18.7*	*15.1*	*9.5*	*8.7*	*13.3*	*17.7*	*16.2*	*9.5*	*11.1*
Exports ($bn)	56.8	78.5	97.2	94.3	95.1	82.6	45.9	34.7	45.8	63.1	65.0	34.1	36.5
Imports ($bn)	31.1	46.8	62.2	53.4	51.4	61.6	52.3	35.2	32.7	40.8	62.1	35.0	36.8
Trade balance ($bn)	25.7	31.8	35.0	40.9	43.8	21.0	-6.4	-0.5	13.1	22.3	2.9	-0.9	-0.2
Trade balance (% of GDP)	9.7	8.6	13.5	8.9	8.6	3.8	-1.3	-0.1	3.8	6.3	0.7	-0.2	-0.1
Current account balance ($bn)	14.0	14.6	12.7	18.9	20.1	1.3	-15.4	2.7	10.4	5.3	-17.0	-15.6	-13.0
Current account balance (% of GDP)	5.3	4.0	3.1	4.1	4.0	0.2	-3.2	0.7	3.0	1.5	-4.2	-4.4	-3.9
Net FDI ($bn)	7.1	5.2	8.1	8.1	4.4	3.1	1.6	3.1	2.2	0.6	1.8	0.5	2.0
Net FDI (% of GDP)	2.7	1.4	2.0	1.7	0.9	0.6	0.3	0.8	0.6	0.2	0.4	0.1	0.6
Current account balance plus FDI (% of GDP)	8.0	5.4	5.1	5.8	4.8	0.8	-2.9	1.5	3.7	1.7	-3.8	-4.3	-3.3
Exports (% YoY, value)	-34	38	24	-3	1	-13	-44	-24	32	38	3	-47	7
Imports (% YoY, value)	-22	50	33	-14	-4	20	-15	-33	-7	25	52	-44	5
Foreign exchange reserves (ex. gold, $bn)	44.8	32.3	32.4	44.2	43.6	34.5	29.1	25.8	38.7	45.0	38.0	31.0	32.0
Import cover (months of merchandise imports)	17.3	8.3	6.3	9.9	10.2	6.7	6.7	8.8	14.2	13.3	7.3	10.6	10.4
Debt indicators													
Gross external debt ($bn)	4.5	5.0	6.1	7.2	11.1	11.5	47.2	45.8	50.6	63.4	69.8	76.6	83.8
Gross external debt (% of GDP)	1.7	1.4	1.5	1.6	2.2	2.1	9.8	11.5	14.7	17.7	17.4	21.3	25.4
Gross external debt (% of exports)	8.0	6.3	6.3	7.7	11.7	13.9	102.9	132.0	110.4	100.5	107.4	224.5	229.5
Total debt service ($bn)	0.4	0.3	0.4	0.3	0.5	0.5	2.3	1.6	1.7	2.4	2.5	2.6	2.7
Total debt service (% of GDP)	0.2	0.1	0.1	0.1	0.1	0.1	0.5	0.4	0.5	0.7	0.6	0.7	0.8
Total debt service (% of exports)	0.8	0.4	0.4	0.3	0.5	0.5	5.0	4.6	3.7	3.8	3.6	7.6	7.4
Interest & exchange rates													
Monetary policy rate (MPR), % year-end	6.0	6.3	12.0	12.0	12.0	13.0	13.0	14.0	14.0	14.0	13.5	14.5	15.5
Broad money supply (% YoY)	17.1	7.1	15.8	12.0	14.7	16.0	18.2	16.0	1.7	15.0	16.0	8.0	13.0
Credit to the private sector (% YoY)	26.0	-4.4	46.2	6.8	6.9	11.9	3.3	17.4	1.4	3.0	10.0	7.5	12.5
3-month interest rate (T-bill year-end %)	4.3	7.5	14.1	11.7	10.9	10.8	5.7	21.0	14.0	11.3	12.0	6.0	9.0
3-month interest rate spread over $-Libor (ppts)	3.7	6.7	13.0	11.2	10.4	10.2	5.1	20.6	13.5	10.4	11.2	5.2	8.1
5Y yield (% year-end)	9.4	12.0	11.2	12.0	13.3	15.3	11.0	11.4	14.0	15.2	13.0	9.5	11.0
Exchange rate (NGN/EUR) year-end	214	203	206	206	221	222	219	332	425	413	399	516	589
Exchange rate (NGN/EUR) annual average	209	200	217	202	212	217	221	283	372	419	404	457	553
Exchange rate, NGN/$) year-end	150	152	159	156	160	183	199	315	360	363	363	449	508
Exchange rate (NGN/$) annual average	150	151	156	157	159	165	198	257	333	361	361	406	479

Source: IMF, World Bank, national statistics agency, central bank, Renaissance Capital estimates

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