



THE NIGERIAN EAGLE IS STARTING TO SOAR AGAIN

FEBRUARY 2018

We noted a much more optimistic feeling on-the-ground in Nigeria during a recent visit, with the country now back on the investible map after a number of positive developments last year. With an improved functioning exchange rate system and the benefits of higher oil, the optimism remains intact for 2018.

KEY TAKEAWAYS

- Our recent visit confirmed Nigeria's fragile economic recovery is gaining strength, with the country likely to post positive GDP growth this year after two years of recession.
- A rising oil price has helped Nigeria with its recovery and this should continue to broaden in 2018 as consumer confidence increases.
- Although the official exchange rate is still held at 305 naira/US\$, the functional rate of 360 is working well. Should the oil price stay above US\$60, the pressure on the currency will reduce and Nigeria can continue to rebuild FX reserves.
- Politics continues to disappoint, as President Muhammadu Buhari has yet to deliver meaningful reform aside from improving security conditions in the oil-producing delta region and in the North against Boko Haram. Should the government ramp up spending ahead of elections in 2019, it could pressure the fiscal account.
- The key takeaway from the trip was that Nigeria remains an economy whose fortune is tied to the oil price and this will not change until we see meaningful reform, something that continues to be frustratingly elusive.



Oliver Bell
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A CLOSER LOOK

While Nigeria undertook a large-scale devaluation in 2016, the central bank intervention was short of the level needed to clear the market. We have since witnessed various exchange rates develop, both informal and formal. More recently, the ‘NAFEX’ rate has proved to be a reasonably well-functioning market, leading the black market rate to disappear.

Although we would still like to see unification and a free-floating official rate, we felt confident enough to rebuild our Nigerian positions since the middle of last year. Our Frontier Markets Equity strategy has recently moved to an overweight position in Nigeria.

Higher oil prices were key to kick-starting the recovery, but we are now starting to witness improved data coming from the consumer. Dangote Cement – a consumer stock in disguise, as it sells cement by the bag – reported the first increase in volumes for two years in the final quarter of 2017.

Our research trip, which took in both Lagos and Abuja, allowed us to experience these positive signals first hand, boosting our confidence of a balanced recovery throughout this year.

A key way to play the cyclical recovery is through Nigeria's banks, as the sector's solvency and liquidity pressures improve. Banks have already gone some way to reprice balance sheets towards the market exchange rate, rather than the official rate. This has greatly reduced some of the solvency risk present in the sector and was a crucial insight gained from our visit. In 2017, banks were trading at valuations implying most institutions were poised to bust. The recent first leg up has been on the market gaining confidence the sector can move from a ‘stress case’ to ‘base case’ scenario.

Our key holding in this space is Guaranty Trust Bank, which we believe is a high quality bank in the market and is ahead of the curve in terms of recognising NPLs and provisioning. We also added First Bank of Nigeria (FBN) in the fourth quarter of last year. In fact, our meeting with FBN was very fruitful. FBN was the poster child of bad lending prior to the oil crash in 2014 and we had been avoiding it as it plunged to distressed multiples during the currency adjustment. After it wrote off 25% of its book and changed management, we decided to upgrade our modelled expectations.

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