

Nigeria GDP

Q4 2018 shows improving momentum

Q4 2018 GDP was reported today at +2.38% y/y versus the Bloomberg consensus estimate of +2.10% y/y. Non-oil growth was a respectable +2.70% y/y and has accelerated over the past four quarters. See page 2.

FY 2018 GDP was +1.93% y/y, compared with +1.76% y/y for 9M 2018 and +0.82% y/y for 2017. The World Bank's revised estimate for 2018 was +1.90% y/y.

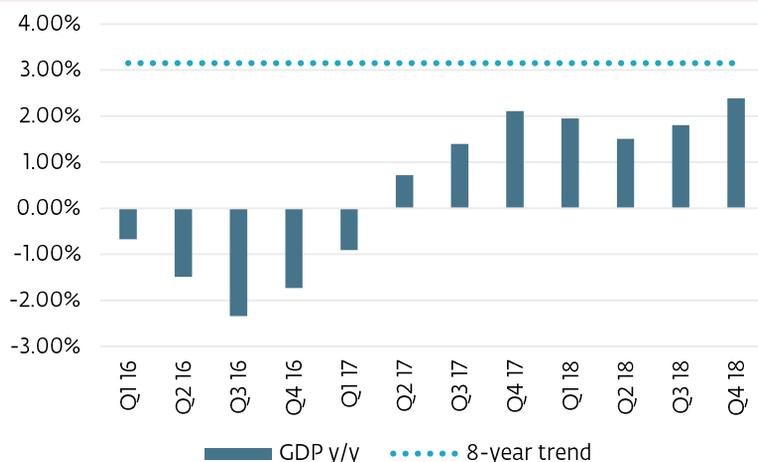
While below trend, growth is on a gentle upward slope. We forecast +2.25% y/y growth for 2019.

Positive implications for equities. Lack of loan growth was the bugbear for listed banks in 2018: more growth, particularly in the Telecoms and Manufacturing sectors, may point to renewed loan demand in 2019, though the large Trade sector (up by just 1.02% y/y) remains essentially weak. Segmental data for construction, +2.05% y/y, bodes well for the cement industry.

Mildly positive for market interest rates. As we argue in Coronation Research, *Year Ahead 2019, A tale of two halves*, 15 January, market interest rates support foreign portfolio investment, but may be cut in Q4 or even Q3 2019 if inflation moderates. We are already seeing some read-through in 10-year bond yields.

Mildly positive for inflation. The Agriculture segment (26% of GDP) showed improved growth (+2.46% y/y) and to the extent that this reflects improved production, we expect inflationary pressure to moderate towards mid-year, if momentum is sustained.

Nigeria, y/y GDP growth



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

In this report

- ◆ [Non-oil & gas GDP](#)
- ◆ [GDP breakdown](#)
- ◆ [Swing Sectors](#)
- ◆ [Conclusions](#)

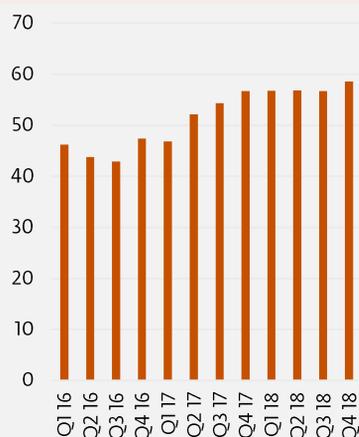
Macroeconomic Metrics

MPR	14.00%
Inflation	11.44%
FX Reserves	\$42.91bn
Brent Crude	\$62.77
PMI	58.6
One- year T-bill	17.59%

Guy Czartoryski
gczartoryski@coronationmb.com

Team
research@coronationmb.com

Purchasing Managers' Index



Source: CBN

By reading this report the reader assents to the terms of the disclaimer and disclosures which appear at the end of this report and which form an integral part of it.



Non-oil & gas GDP

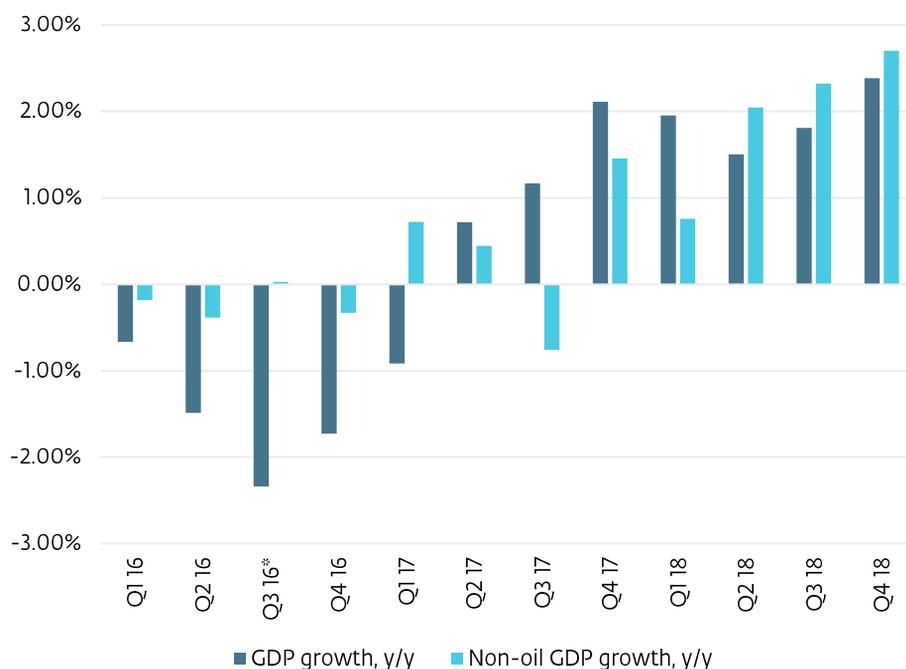
[Back to Top](#) ↑

Robust performance in Non-oil GDP

Non-oil GDP accelerated throughout 2018, growing steadily from +0.76% y/y in Q1 18 to +2.70% y/y in Q4 18. We see a pattern emerging as the economy emerged from recession. Whereas GDP was reliant on its oil component to stimulate growth for much of the past, and therefore highly susceptible to volatility in the prices and production, non-oil GDP has become more resilient to such shocks. The Q3 2017 0.76% y/y decline in non-oil GDP now reads as an isolated event post-recession.

This resilience is even more impressive given that Agriculture is not growing as quickly as it did in 2016 and 2017, while Trade and Manufacturing have performed inconsistently. We expect Agriculture to post a very gradual recovery to its trend growth rate of 3%.

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



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

More recently Telecoms has been the main driver of growth in non-oil GDP. The sector grew 11.33% y/y for FY 2018. It is easily the best performing sector of the top six contributors to GDP well above Agriculture which grew by 2.12% y/y for FY 2018.

On the other hand, Oil & Gas GDP has underperformed in 2018, following one quarter of positive growth (Q1 2018, 14.77% y/y) with three consecutive quarters of year-on-year decline. The volatility of Oil and Gas itself is not surprising – in the last eight years it has recorded growth rates between +24.21% y/y and -23.04% y/y.

GDP breakdown

Breakdown among the major segments

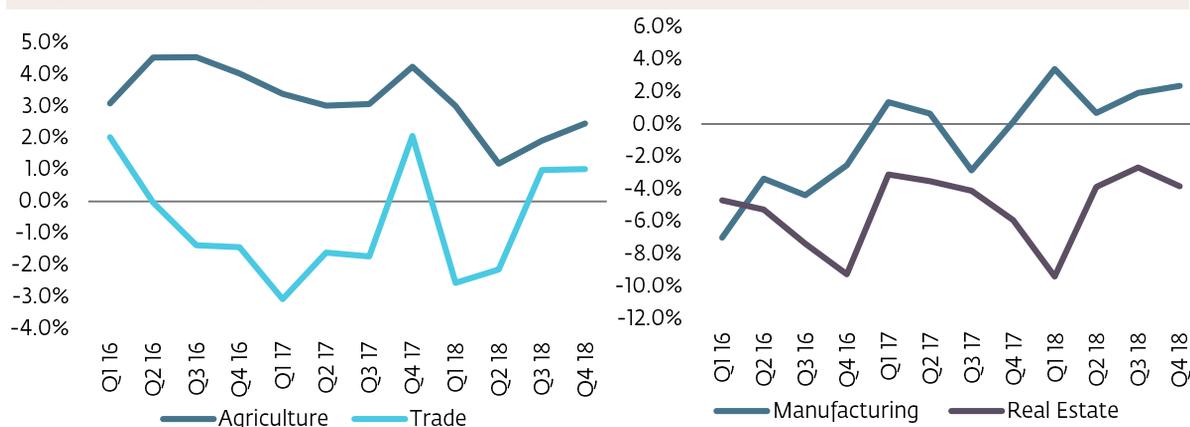
[Back to Top](#) ↑

The top six sectors accounted for 74.10% of the Nigerian economy in Q4 2018, down 406bps from their collective contribution in Q3 2018. In order of size they were Agriculture, Trade, Telecoms, Manufacturing, Oil and Gas, and Real Estate.

In Q4 2018 Agriculture (25.83% of GDP) grew by 2.46% y/y. Trade (16.29% of GDP) grew by 1.02% y/y. Telecoms (9.73% of GDP) grew by 16.67% y/y. Manufacturing (8.75% of GDP) grew by 2.35% y/y. Oil & Gas (6.97% of GDP) contracted by 1.62% y/y. And Real Estate (6.52% of GDP) fell by 3.85% y/y.

Therefore, of the six largest sectors, four grew and two contracted. Agriculture sustained its upward track towards trend growth of 3%, indicating, a slowdown in core inflation is likely in the medium term. Manufacturing performance and PMI data are now showing signs of convergence after a period of disconnect. Telecoms consolidated its status as a core stimulant for non-oil GDP growth having reported double-digit growth over the last three quarters. Oil & Gas recorded a third consecutive quarter of year-on-year decline period post-Q1 17, mirroring the global trend in oil prices. Trading was up for two consecutive quarters. Real Estate remained in a sticky decline, with no clear pattern emerging in its development.

Nigeria GDP, y/y growth in key sectors



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

The growth in Agriculture remains at just below its 3% long term trend. At 26% of GDP, it provides a defense against the steep volatility that characterizes the Oil & Gas component.

Trade remains weak but positive

While a small percentage of consumers assess short-term unsecured credit for current consumption, most consumers fund consumption from out of pocket appropriations. The effect is some headroom for import-elastic consumption but also more importantly, demand for cheaper substitutes where possible. Trade growth suffers in this regard.

Positive growth in Manufacturing is being sustained by stability in the foreign exchange market, a feat achieved by the CBN's willingness to supply US dollars to the foreign exchange markets, while offering inflation-adjusted yields in excess of 500bps to foreign investors. The combined growth in both Trade and Manufacturing, two sectors highly responsive to consumers wallet sizes and expectations, point to a pass-through of election-induced spending in the short term and broader recovery in the economy.

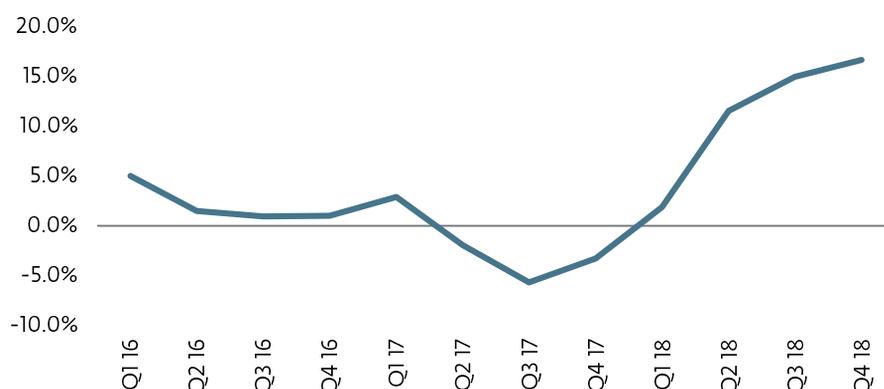
Swing sectors

Telecoms - conditions at their best in years

[Back to Top](#) ↑

The Telecoms sector (9.73% of GDP), grew by 16.67% y/y in Q4 2018. Building on its Q3 18 performance, the sector extended gains to post an 11.33% year-on-year growth among peers with contribution to GDP above 6.00%.

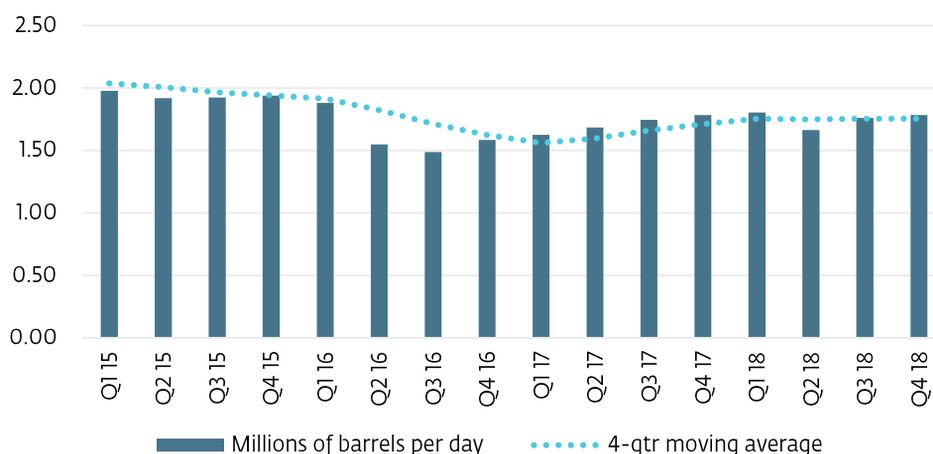
Telecoms segment of GDP, y/y growth



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

Strong growth in Telecoms reflects new investments, growing franchises and growth in internet and mobile banking. A deeper penetration of data-reliant devices in the Nigerian market, and an increasing migration of media services to internet-driven platforms otherwise traditionally offered off-net explain the strong performance. We expect Telecoms to leverage participation as Payment Service Banks and sustain growth going forward.

Nigeria, oil production



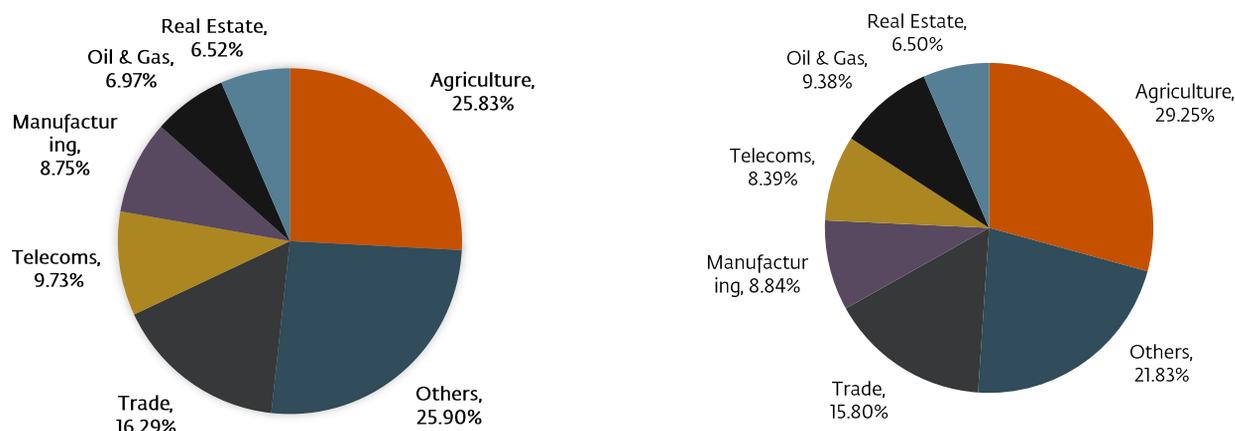
Source: Bloomberg, Coronation Research

Oil & Gas GDP continues to exhibit volatility. Nigerian oil production was flat year-on-year and up 1.33% q/q in Q4 2018. However, actual cargo loadings from exports terminals declined by 7.29% q/q and 5.53% y/y in Q4. This, together with an average quarterly price below US\$70.00/bbl, partly explains the slide in Oil & Gas GDP for the quarter. A degree of volatility in production is likely to be addressed by the new Egina Oil field but Nigeria remains exposed to price volatility.

Conclusions

[Back to Top](#) ↑

Sector contributions to GDP in Q4 2018 (left) and in Q3 2018 (right)



Source: NBS, Coronation Research

Pattern of growth and outlook for 2019

Q4 2018 GDP growth outperformed the Bloomberg consensus estimate of 2.10% y/y. While some of this growth may have been induced by election-related demand, we believe that more fundamental factors, in particular Naira foreign exchange stability, are at work.

Monetary policy is less likely to change in response to the latest development in GDP, at least in H1 2019. Real growth of 1.93% for FY 2018 was achieved on the back of adjustments in fundamental variables, in our opinion. For instance, demand for loans was weak but we do not read this as an effect of market interest rates 300pbs above the Monetary Policy Rate (MPR). Prime lending rates data show a standard deviation of only 1.05pps since 2006, suggesting that interest rates are seldom low. We expect a positive shift in manufacturers' and investor' confidence, to have spurred growth, irrespective of interest rates.

Fiscal policy, in so far as it relates to government spending, is limited in contributing to real sector growth by its sheer smallness relative to the economy as a whole. Increasing debt servicing costs further squeeze government revenues and implementation of capital expenditure.

However, the trend in Agriculture is positive. Even more so is the performance of the Telecoms sector which headlined overall growth in Q4. A stable exchange rate remains the platform for Trade and Manufacturing to rebound though slack demand are likely to keep growth capped.

Downside risks to GDP growth remain from the risk of declining crude production levels and oil price volatility, as well as the performance of Real Estate. Nevertheless, we expect our base case GDP forecast of 2.25% y/y for 2019 to hold.

Disclosures & Disclaimers

The analyst(s) and/or Head of Research has (have) produced this report independently of the company or companies, and independently of the issuer of security or securities, covered in this report, and (has) have done so using publicly-available information. Information used in the preparation of this report is believed to be accurate at the time of going to press, though not verified independently. No liability is accepted for errors nor omissions of fact, nor is any warranty given for the reasonableness, accuracy or completeness of the information presented. Market information may have been gathered from different sources, including official and government sources, and processed in arriving at the opinion(s) expressed in this report.

This report is intended as background information for clients of Coronation Merchant Bank Ltd, and clients of its subsidiaries and affiliates, and is not to be read as a solicitation, approval or advice to buy or sell securities.

Neither Coronation Merchant Bank Ltd, its directors, employees and contractors, nor its subsidiaries and affiliates, nor the directors, employees and contractors of its subsidiaries and affiliates, accept(s) responsibility for losses or opportunity costs, whether direct or consequential, that may be incurred as a result of trading, or not trading, in securities covered in this report, or other securities, as a result of any decision taken after reading this report. Clients of Coronation Merchant Bank Ltd, and of its subsidiaries and affiliates, who read this report, should not rely on it for the purposes of making investment decisions and should make their own evaluation of: the potential performance of securities; the risks involved in buying or selling securities; the volatility and liquidity of securities; and of other factors such as interest rates, exchange rates, exchange rate liquidity, trading costs, settlement and custody. Clients of Coronation Merchant Bank Ltd, and of its subsidiaries and affiliates, who read this report, should assess their own investment objectives and financial capacities when taking investment decisions and should consult a relevant financial adviser in these respects.

This report is intended for the clients of Coronation Merchant Bank Ltd, and of its subsidiaries and affiliates. Copying and reproduction of this report, and onward forwarding, is only allowed with the specific permission of Coronation Merchant Bank Ltd, its subsidiaries and affiliates. Receipt of this report does not qualify you as a client of Coronation Merchant Bank Ltd, its subsidiaries and affiliates. If you are in unauthorised receipt of this report you are requested to notify Coronation Merchant Bank Ltd, or one of its subsidiaries or affiliates, and to return or delete the report.

This report is intended for corporate and institutional clients of Coronation Merchant Bank Ltd, and of its subsidiaries and affiliates, where those clients are regulated and professional investment customers and market counterparties. This report is not intended for individual investors.

This report is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulations.

Coronation Research is a department within Coronation Asset Management Ltd which supplies research services to Coronation Merchant Bank Ltd, and is ring-fenced with regard to the activities of Coronation Asset Management Ltd. The Head of Research, contractors and employees of Coronation Research do not receive any non-public information regarding the investments or investment objectives of Coronation Asset Management Ltd and do not take part in its internal meetings.

Coronation Merchant Bank Ltd and its subsidiaries are incorporated under the laws of the Federal Government of Nigeria and are licensed by the Central Bank of Nigeria and by the Securities and Exchange Commission of Nigeria.

Your attention is brought to the fact the analyst(s), and/or Head of Research, mentioned at the beginning of this report is (are) employed by Coronation Merchant Bank Ltd in the Federal Republic of Nigeria, and while subject to the laws of the Federal Republic of Nigeria is (are) not subject, as author(s) of this report, to the laws of other countries, notably the United States of America ('US'), the member states of the European Union ('EU'), or the United Kingdom ('UK', during and after its membership of the EU) as these laws may affect the production, publication and distribution of this report.

Disclosures & Disclaimers

Your attention is brought to the fact that the analyst(s), and/or Head of Research, mentioned at the beginning of this report, is (are) not registered or qualified as research analysts with the Financial Industry Regulatory Authority in the US, nor registered with the Financial Conduct Authority of the United Kingdom. No liability for compliance with those laws, with respect to this report, is accepted by Coronation Merchant Bank Ltd, its directors, staff and contractors, or those of its subsidiaries and affiliates.

Where this report is distributed to clients and potential clients of Coronation Merchant Bank Ltd, and of its clients and affiliates, in the European Union ('EU'), including the United Kingdom ('UK'), during and after its membership of the EU, this report is either: a) distributed by virtue of a contract between Coronation Merchant Bank Ltd, its subsidiaries and affiliates, and the client for research services, or: b) distributed as a free sample, for a given period of time, pursuant to a future contract for the sale of research services.

The opinions expressed in this report concerning the company(ies) and securities covered, accurately represent the personal views of the analyst(s) and Head of Research whose names are given at the beginning of the report. No part of the compensation of the analyst(s) and Head of Research mentioned at the beginning of this report is, or will be, related to the views or recommendations(s) given in this report.

Conflicts of Interest

The compensation of the analyst(s), and/or Head of Research, mentioned at the beginning of this report is not linked to the recommendations, forecasts, estimates or opinions expressed in this report, nor to commissions or spreads or other gains generated in trading securities, whether covered in this report or not.

This report is produced by the Research Department of Coronation Merchant Bank Ltd and may be used, after its publication, by other departments of Coronation Merchant Bank Ltd for advisory or trading purposes, or otherwise for the assessment of companies and securities. However, it is the policy of Coronation Merchant Bank Ltd that no department influences the opinions, estimates, forecasts or recommendations of the Research Department, nor is privy to the contents or recommendations of the Research Department's reports and recommendations ahead of their publication. It is also the policy of Coronation Merchant Bank Ltd that members of the Research Department are not privy to knowledge of advisory mandates, or other fiduciary relationships, engaged in by other departments. Coronation Merchant Bank Ltd, its directors, contractors and staff, and its subsidiaries and affiliates and their directors, contractors and staff, and connected parties, may have positions in the securities covered by this report, and may have advisory and/or other fiduciary relationships with companies covered in this report. As such, this report should not be considered free from bias.

Disclosures for companies cited in report

The table below outlines currently known conflicts of interest that may unknowingly bias or affect the objectivity of the analyst(s) with respect to an issuer that is the subject matter of this report. Disclosure(s) apply to Coronation Merchant Bank or any of its direct or indirect subsidiaries or affiliates with respect to any issuer or the issuer's securities.

- a. The analyst(s) responsible for the preparation and content of this report (as shown on the front page of this report) holds personal positions, directly or indirectly, in securities of the company(s) to which this report relates.
- b. The analyst(s) responsible for this report as indicated on the front page is a board member, officer or director of the Company(s)
- c. Coronation Merchant Bank or its affiliates have recently been the beneficial owners of 1% or more of the securities mentioned in this report.
- d. Coronation Merchant Bank or its affiliates have managed or co-managed a public offering of the securities mentioned in the report in the past 12 months.
- e. Coronation Merchant Bank or its affiliates have received compensation for investment banking services from the issuer of these securities in the past 12 months.

Disclosures & Disclaimers

- f. Coronation Merchant Bank or its affiliates expects to receive compensation for investment banking services from the issuer of these securities within the next three months.
- g. The company (s) covered in this report is a client of Coronation Merchant Bank or its affiliates.
- h. Coronation Merchant Bank has other financial or other material interest in the Company

Security Name	Available Disclosure
Access Bank	G
Diamond Bank	
FBN Holdings	G, D
FCMB	
Fidelity Bank	
Guaranty Trust Bank	
Skye Bank	
Stanbic IBTC	D
UBA	D
Zenith Bank	D

Coronation Research's equity research rating system

Coronation Research's Investment ratings are a function of the research analyst's expectation of a stock's performance relative to relevant indices or peers. The benchmark used in deciding our stock rating is the trailing three-year average yield of the 12-month T-Bill plus one standard deviation rounded to the nearest percent.

Coronation Merchant Bank uses the following rating system:

- Buy:** The analyst considers the stock undervalued and expects the stock to outperform the Benchmark over the next 12 months or the stated investment horizon.
- Hold:** The analyst considers the stock to be fairly valued and expects the stock to perform in line with the Benchmark over the next 12 months or the stated investment horizon.
- Sell:** The analyst considers the stock overvalued and expects the stock to underperform the Benchmark over the next 12 months or the stated investment horizon.
- Under Review (UR):** Where the company covered has a significant material event with further information pending or to be announced, it may be necessary to temporarily place the investment rating Under Review. This does not revise the previously published rating, but indicates that the analyst is actively reviewing the investment rating or waiting for additional information to re-evaluate the expectation of the company's performance.
- Not Rated:** This applies when the stock is either not covered by Coronation Research or the rating and price target has been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Coronation Merchant Bank is acting in an advisory capacity in a merger or strategic transaction involving the company or due to factors which limits the analysts' ability to provide forecasts for the company in question.
- Price targets:** Price targets reflect the analyst's estimates for the company's earnings. The achievement of any price target may be impeded by general market and macroeconomic trends, and by other risks related to the company or the market, and may not occur if the company's earnings fall short of estimates.

Disclosures & Disclaimers

In cases where issuing of research is restricted due to legal, regulatory or contractual obligations, publishing investment ratings will be restricted. Previously published investment ratings should not be relied upon as they may no longer reflect the analysts' current expectations of total return. While restricted, the analyst may not always be able to keep you informed of events or provide background information relating to the issuer.

If the investment rating on a stock has not been reviewed for a period of one year, coverage of the stock will be discontinued by Coronation Research. Investment decisions should be based upon personal investment objectives and should be made only after evaluating the security's expected performance and risk. Coronation Research reserves the right to update or amend its investment ratings in any way and at any time it determines.

Ratings and Price target history

	Date	Previous Recommendation	Recommendation	Current Price	Target Price
FBNH	5-Apr-18	N/A	Buy	12.30	15.48
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

Coronation Research Investment Rating Distribution	
Buy	67%
Sell	0%
Hold	33%
Under Review	0%

By accepting this document, you agree to be bound by all the preceding provisions. The information contained in this document is confidential and is solely for use of those persons to whom it is addressed and may not be reproduced, further distributed to any other person or published, in whole or in part, for any purpose without the written consent of Coronation Merchant Bank.

© Coronation Merchant Bank 2018. All rights reserved

Coronation Merchant Bank,
10 Amodu Ojikutu Street,
PO Box 74853, Victoria Island
Lagos, Nigeria.

Disclosures & Disclaimers

In cases where issuing of research is restricted due to legal, regulatory or contractual obligations, publishing investment ratings will be restricted. Previously published investment ratings should not be relied upon as they may no longer reflect the analysts' current expectations of total return. While restricted, the analyst may not always be able to keep you informed of events or provide background information relating to the issuer.

If the investment rating on a stock has not been reviewed for a period of one year, coverage of the stock will be discontinued by Coronation Research. Investment decisions should be based upon personal investment objectives and should be made only after evaluating the security's expected performance and risk. Coronation Research reserves the right to update or amend its investment ratings in any way and at any time it determines.

Ratings and Price target history

	Date	Previous Recommendation	Recommendation	Current Price	Target Price
FBNH	5-Apr-18	N/A	Buy	12.30	15.48
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

Coronation Research Investment Rating Distribution	
Buy	67%
Sell	0%
Hold	33%
Under Review	0%

By accepting this document, you agree to be bound by all the preceding provisions. The information contained in this document is confidential and is solely for use of those persons to whom it is addressed and may not be reproduced, further distributed to any other person or published, in whole or in part, for any purpose without the written consent of Coronation Merchant Bank.

© Coronation Merchant Bank 2018. All rights reserved

Coronation Merchant Bank,
10 Amodu Ojikutu Street,
PO Box 74853, Victoria Island
Lagos, Nigeria.

(+1.02% y/y), Manufacturing (+2.35% y/y), Agriculture (+2.46% y/y) and Telecoms (+16.67% y/y) continue to grow in Q4, suggesting that a basis for loan growth in 2019 is developing and a further round of expansion is on the way.

By contrast, Real estate fell 3.85% y/y and Oil & Gas (6.97% of GDP) fell 1.62 y/y.