INVESTMENT ONE

Q1 2018 Capital Importation - The Peak?

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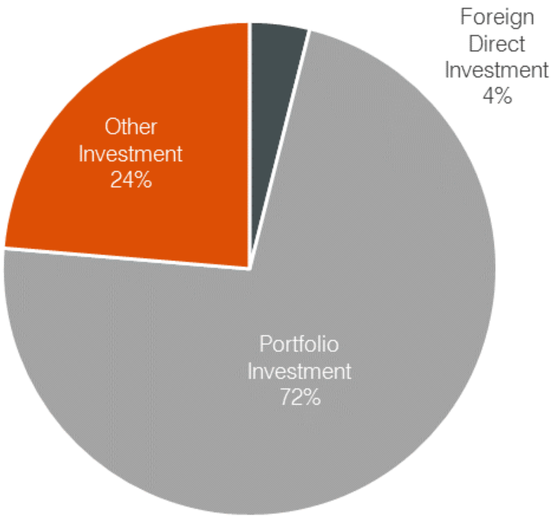
NIGERIA | MACRO | CAPITAL IMPORTATION

The Peak ?

Latest report from the Nigeria Bureau statistics showed an impressive US$6.30billion capital importation for Q1 2018, a 594% year on year (y/y) and 17% on a quarter on quarter (q/q) basis. We point out that the total capital imported in Q1 2018 was about 51% of total capital imported in 2017.

In our view, the steady increase in foreign capital inflow would likely have been a positive for accretion to reserves, which has spiked to US$47billion in May 2018, improved Central Bank of Nigeria's FX policy and foreign currency liquidity in the economy. However, we highlight that volatility in the largest component of Nigeria's total capital importation, foreign portfolio investment, could see capital importation slow as yields in the domestic market moderate compared. This may not be unconnected to the hawkish stance of the US Fed and the monetary policy normalization in the Eurozone. Foreign investor outflows may also be compounded by potential increase in political risk ahead of the H2 2018.

Q1 2018 Capital Importation Split



Source: NBS, Investment One Research

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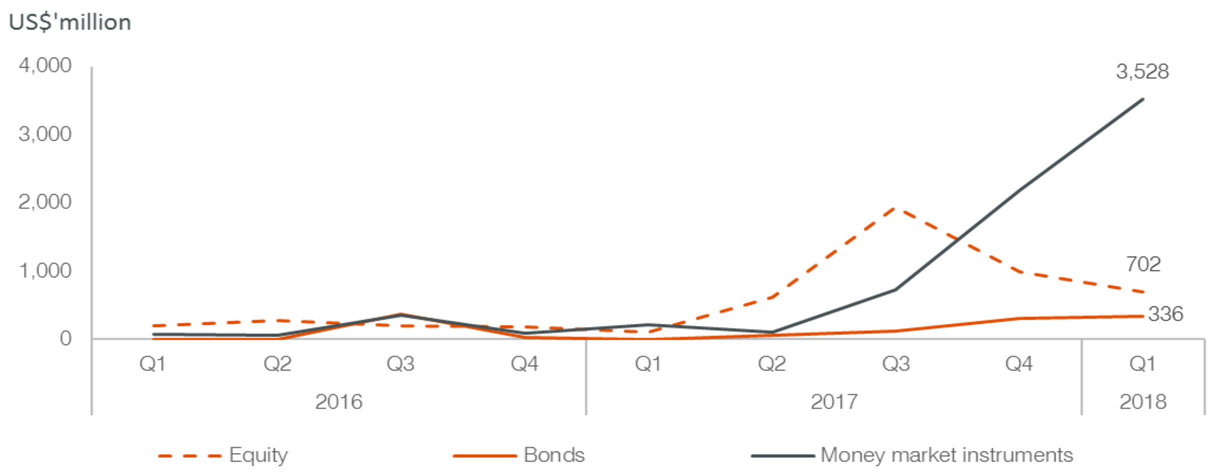
Foreign Portfolio Investment continues to dominates

Foreign Portfolio Investment (FPI) was the main driver of the increase in capital importation, surging to US$4.57billion in Q1 2018, from a low of just US$314million in Q1 2017. It consequently accounted for 72% of total capital imported in Q1 2018. The growth of Portfolio Investment was driven by the increase in investment in Money Market Instruments which recorded a figure of US$3.52billion, accounting for 77% of total portfolio Investments.

Money market instruments category has grown quite significantly in the past three quarters. We believe the establishment of the Investors and Exporters Foreign Exchange window in April 2017 has substantially addressed the issues surrounding the ability to repatriate funds as well as foreign currency illiquidity; factors mostly considered by potential foreign investors. Furthermore, the attractive yields in the Treasury bill market, although lower at 15% levels in Q1 2018 against highs of 22% on one year maturities in 2017, may also have been an attraction to foreign investors.

Capital Importation



Source: NBS, Investment One Research

Equities Slip, Bonds Grow

While portfolio Investments in the form of Bonds grew for the fourth straight quarter reaching US$335.88million, while portfolio investments to equity fell for the third consecutive quarter to US$701.61million.

The slip in foreign portfolio investor inflows in equity was reflective of the slowdown in the Nigerian Stock Exchange's (NSE) market performance despite reaching an all-time high equity capitalization of N16.15trillion. According to data from Nigeria Stock Exchange, foreign inflows decreased by 47% from N173.43billion in December 2017 to N91.75 billion in January 2018 while foreign outflows increased by 126% to N74.64 billion.

In February 2018, due to sell pressure from profit taking on the back of volatilities in the global equity market, NSE stated that there was a 51% m/m decrease in foreign inflow to N44.89billion in February 2018. However, foreign outflows also decreased by 49% to N38.33billion.

The stock market witnessed a low momentum in the month of March. Global market trend had a strong impact on Nigerian equities as investors reacted to the higher interest rate in the United States and rising trade tensions between China and US. Although there was an increase in foreign inflow to N69.71billion, we saw foreign outflows also increase to N62.50billion.

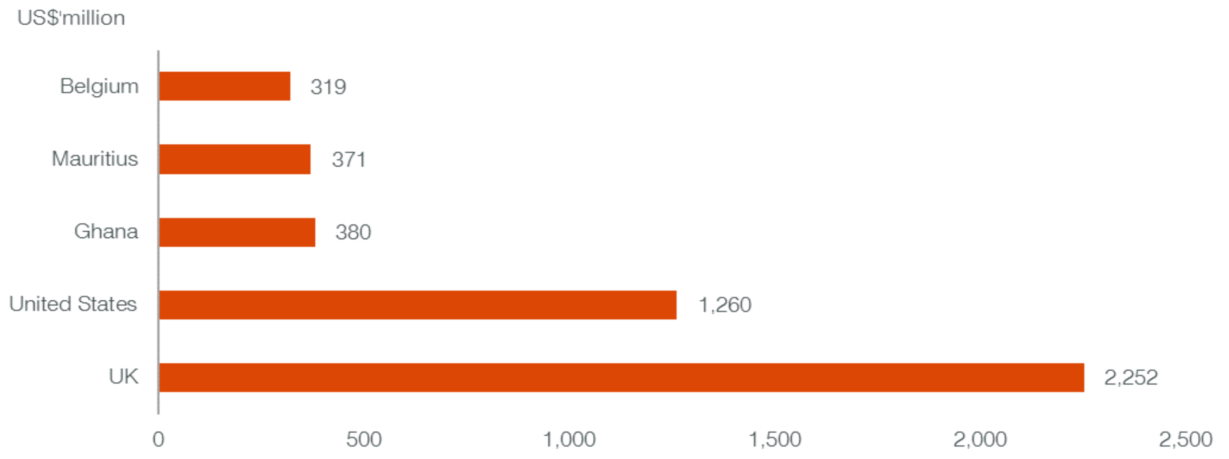
Analysis of NSE-ASI Transactions for the Period Ended 31 March 2018							
Period	Total (N'Billions)	Foreign (N'Billions)	Foreign (%)	Foreign Inflow (N' Billions)	Foreign Outflow (N' Billions)	Domestic Retail (N' Billions)	Domestic Institutional (N' Billions)
Jan 18	394.44	166.39	42.18%	91.75	74.64	106.49	121.56
Feb 18	212.05	83.22	39.25%	44.89	38.33	52.75	76.08
Mar 18	272.48	132.21	48.52%	69.71	62.50	49.00	91.27
Q1 2018	878.97	381.82	43.44%	206.35	175.47	208.24	288.91
Q1 2017	454.48	211.06	46.44%	62.35	148.71	59.11	184.32

Source: NSE, Investment One Research

The Financial Capital of Europe leads foreign inflows

The United Kingdom maintained its position as the number one country of origin for foreign capital inflows into Nigeria with 36% of total capital importation in Q1 2018, followed closely by America (16% of total capital imported in Q1 2018). The 52% of total capital imported from these countries is unsurprising given their status as financial centres of the world. It was also a similar case with Lagos state, the financial and business centre of Nigeria receiving 41% of total capital imported in Q1 2018, down from 47% in Q4 2017. Looking at states, although capital importation to Akwa Ibom declined by 65% to US$43.62million, Ogun State witnessed a strong growth rate of 182% in capital importation for Q1 2018 to reach US$25million.

Foreign Exchange Reserves Movement



Source: CBN, Investment One Research

Outlook

Although we may continue to experience a low turnout of FDI due to the present infrastructural deficit in the country and the poor implementation of the 2016 and 2017 budgets, we point to the Economic Recovery and Growth plan and its likely positive effects on FDI by 2020. The ERGP aims to tackle the obstacles hindering the competitiveness of Nigerian businesses, notably poor or non-existent infrastructural facilities and the difficult business environment. This, as well as the passing of the remaining three parts of the Petroleum Industry Bill, targeted at improving the transparency of the Oil & Gas sector, may lead to a significant increase in FDI participation.

However, while we expect FDI inflows to remain uninspiring in the near term, we could also see FPI participation decline given the likely increase in political risk ahead of the coming elections and the significant reduction in yields in the money market, with one-year treasury bill falling as low as 13% so far in Q2 2018. The potential slide in capital importation could be negative for turnover at the Investors' & Exporters' FX window. Nonetheless, we expect the recent accretion to reserves (US$47billion as at May 2018) to support the Naira.

We opine that Ogun state being the most industrial state in Nigeria may continue to see improved growth in capital Importation based on the infrastructural developments which has been occurring in the state over the past years. Ogun recorded a quarterly growth for the second time to US$25milion in Q1 2018, from US$1.4million in Q3 2017 and a Y/Y increase of 468% compared to Q1 2017.

Lagos State being the most commercialized state and financial hub could also continue to receive a large portion of capital importation due to the developing business environment and potential infrastructural development.

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