

Taxation

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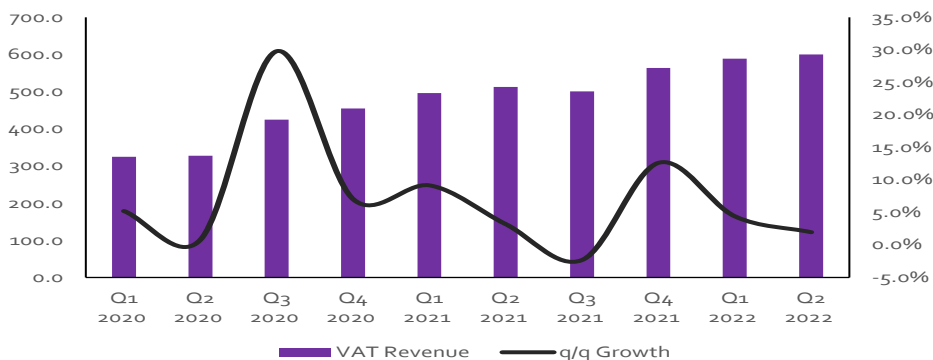
Improvement in VAT collections in Q2 2022

The National Bureau of Statistics (NBS) published data on the revenue generated from Value Added Tax (VAT) collections in Q2 2022. The total VAT collected in Q2 2022 was N600.2bn, an improvement of 17.2% y/y and 2.0% q/q compared to N512.3.3bn in Q2 2021 and N588.6bn in Q1 2022. Apart from the continued recovery in consumer spending, the increased VAT revenue in Q2 2022 can be attributed to the effect of inflation on prices of goods and services. Since VAT is deducted by applying VAT rate on the value of transactions, an increase in prices of goods and services will necessarily imply growth in VAT collections.

Further analysis of the data provided insight into the level of contribution to VAT revenue in Q2 2022. As noted earlier, VAT collections grew by 17.2% y/y, largely driven by VAT on locally produced goods (i.e., non-import VAT) alongside Nigerian Custom Service (NCS)-Import VAT which increased by 91.6% y/y and 10.9% y/y, respectively. The y/y growth in VAT on locally produced goods reflects the continued recovery in consumption, post the peak of the pandemic in 2020 and the persistent inflationary pressures. The 2.0% q/q growth of in VAT revenue was also driven by VAT on locally produced goods (i.e., non-import VAT) which increased by 4.4% q/q, further supported by a 2.6% q/q growth in Nigerian Custom Service (NCS)-Import VAT. Notably, while the q/q growth in VAT on locally produced goods is not broad-based, the sectors that contributed most to the q/q increase were Accommodation & Food Service Activities (+42.4% q/q), Information & Communication (+15.9% q/q), Manufacturing (+5.2% q/q) and Public Administration & Defence, Compulsory Social Security (+28.2% q/q) sectors.

Given expectations of continued inflationary pressures, we expect VAT revenue to continue to grow. As of April 2022, net revenue from VAT collections accruable to all three tiers of the government had achieved 95.2% of its prorated target. Hence, similar to the narrative in 2021, we believe the non-oil revenue in 2022 arising from both VAT and CIT collections will likely outperform 2022 budget estimates, which is good for the country, especially at a time when high subsidy payments and low oil production has been keeping revenue low.

VAT Collections (N'bn) Q1 2020 – Q2 2022



Source: NBS, CSL Research

MARKET UPDATE

| | 1 year | 31-Dec-21 | 1 day |
|-----------------|-----------|-----------|-----------|
| NSE - Index* | 39,252.19 | 42,716.44 | 50,045.83 |
| Naira / US\$ | 411.67 | 435.00 | 431.50 |
| Brent, US\$/bbl | 73.03 | 77.78 | 93.02 |
| MPR % | 11.50 | 11.50 | 14.00 |

Source: Nigerian Stock Exchange, Central Bank of Nigeria, Bloomberg. *Nigerian Stock Exchange All-Share Index.

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Today's news headlines:

NNPC defends 68m-litre daily consumption, backs forensic audit: The Nigerian National Petroleum Company Limited on Sunday insisted that daily supply of Premium Motor Spirit, popularly called petrol, across the country was 68 million and offered to submit itself for forensic audit of PMS supply and subsidy management. On Friday The PUNCH reported that the Comptroller-General of Nigeria Customs Service, Col. Hameed Ali (retd.), said NNPC could not justify the volume of petrol being consumed in Nigeria daily to warrant the over N6.34tn subsidy payment on the commodity annually. Ali had argued that the NNPC could not scientifically prove the 98 million litres/day consumption it was claiming, alleging that the nation's oil company was supplying an excess of 38 million litres of PMS daily.

Source: punchng.com

<https://punchng.com/nnpc-defends-68m-litre-daily-consumption-backs-forensic-audit/>

BEDC: Vigeo Warns NERC against Illegal Takeover: The Nigerian Electricity Regulatory Commission (NERC) has been warned to refrain from alleged illegal means of altering the composition of the board of directors of the Benin Electrical Distribution Company Plc (BEDC). A letter written by the legal advisers of Vigeo Power Limited, Kunle Adegoke stated that such illegal composition would amount to a direct affront to the court as there was a pending suit on the matter. In a letter written to NERC and addressed to Sanusi Garba, and Mr. Dafe Akpeneye titled, "Re: Notice to the general public on the legitimate and statutorily recognised board of directors/ management of BEDC Electricity Plc," Adegoke stated that the letter was written in connection to an unsigned publication purportedly issued by the Nigerian Electricity Regulatory Commission and dated September 1, 2022.

Source: [thisdaylive.com](https://www.thisdaylive.com)

<https://www.thisdaylive.com/index.php/2022/09/05/bedc-vigeo-warns-nerc-against-illegal-takeover/>

FG pays foreign firm \$496m for contract violation: The Attorney-General of the Federation and Minister of Justice, Abubakar Malami has disclosed that the Federal Government has settled a long-standing \$5.26bn contractual dispute with a foreign investor group in the steel sector for \$496m. A statement on Sunday by the Special Assistant, Media and Public Relations, Office of the AGF, Dr Umar Gwandu, said the mediation proceedings were under the Alternative Dispute Resolution framework of the International Chamber of Commerce led by Phillip Howell-Richardson. According to the government, the settlement agreement came into effect on 19 August 2022. Source: punchng.com

<https://punchng.com/fg-pays-foreign-firm-496m-for-contract-violation/>

Again, Manufacturers Decry Multiple Taxation By Govt Agencies: The Manufacturers Association of Nigerian (MAN) has decried the multiple taxes and levies by government agencies on its members as one of the major challenges facing operators in the sector. The outgoing Chairman of MAN, in charge of Rivers/Bayelsa branch, Senator Adawari Michael Pepple stated this in his remarks, at the organisation's 38th Annual general meeting/5th Made-in-Nigeria Products Exhibition held in Port Harcourt recently. He stressed that the challenges bedeviling the manufacturing sector were numerous. Pepple said government in partnership with the manufacturers should create an adequately protected and friendly environment required for sustained economic growth of the country. Source: [thisdaylive.com](https://www.thisdaylive.com)

<https://www.thisdaylive.com/index.php/2022/09/05/again-manufacturers-decry-multiple-taxation-by-govt-agencies/>

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| | Buy | Hold | Sell | Not Rated | Total |
|----------------------------|-----|------|------|-----------|-------|
| Coverage universe | 17 | 10 | 5 | 3 | 35 |
| % distribution | 49% | 29% | 14% | 9% | |
| Investment banking clients | 0 | 1 | 1 | 0 | 2 |
| % distribution | 0% | 50% | 50% | 0% | |

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| | |
|--------------------------|---|
| Buy: | The analyst expects the stock to outperform the Benchmark over the next 12 months or the stated investment horizon. |
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| Not Rated: | The rating and price target have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when CSL Capital UK or the Group 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. |
| Benchmark: | The benchmark is the trailing three-year average yield of the 12-month T-Bill plus one standard deviation rounded to the nearest percent. |
| Price targets: | Price targets, if discussed, reflect in part 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. |
| Asset allocation: | Asset allocation is the responsibility of the strategy team. The recommended weight (Buy, Hold and Sell) for equities, cash and fixed income instruments is based on a number of metrics and does not relate to a particular size change in one variable. |

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