THE NIGERIAN CAPITAL MARKET:
An Investment Case

Presented by
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for
NSE Asia Tour
Singapore - Hong Kong - Beijing
Agenda

1. The Nigerian Economy – A true growth story
2. 2015 Nigerian Economic Outlook
3. The Nigerian Stock Exchange – Our journey so far
4. Operational, Regulatory and Compliance Mechanism
5. Foreign Investment – Nigeria case study
6. Questions & Answers

12/14/2014
The Nigerian Economy – A true growth story
• Africa’s foreign direct investment (FDI) has significantly improved over the past decade. It is forecasted to grow to $150bn by 2015 with Nigeria leading FDI growth across the continent.

• Currently, the trade volume between Nigeria and 15 Asian countries is in excess of $40bn (N6.62trn). India is currently Nigeria’s largest trading partner with a trade volume of about $17.87bn (N2.95trn), followed by China at $12.98bn (N2.143trn).

• The Ministry of Industry, Trade and Investment predicts the volume of trade between Nigeria and Asia will double to over $80bn (N13.2trn) within the next two years (2015 - 2017).

• The nation is also set to benefit from the proposed $206bn (about N32.96tr) Infrastructure Development Fund by the Chinese Government for Africa.

• The capital market, in line with the transformation agenda of the current management of the NSE, has within the last three years, implemented far-reaching transformational policies aimed at diversifying our economic base and achieving sustained, inclusive economic growth.

• This NSE Asia Tour was necessitated by the emergence of Asia as Nigeria’s major trading and investment partner.

• As the stock exchange servicing Africa’s largest economy, the anticipated outcome of the Asia Tour is:

  – the cultivation of relationships with Asian capital market and financial market operators, and
  
  – the introduction of Nigeria as an investment choice for Frontier and Global Emerging market portfolios.

  – To increase Asia/ Nigeria FPI flows as a sizable proportion of its FDI flows
Nigeria today…The largest economy in Africa and the 26th largest in the world, with a GDP of $510 billion.

Only 14% of GDP is from the Oil sector, with retail and wholesale trade being the biggest drivers of GDP growth.

Potential to achieve 7.1% annual GDP growth could make Nigeria a top-20 economy in 2030, with GDP of more than $1.6 trillion.

Source: McKinsey Global Institute (MGI)
### Population (2013)
173.6 mn

### GDP (2013)
$510,00 bn

### % Real GDP Growth (2013)
7.41%

### Inflation (Oct ’14)
8.1%

### External Reserves (18 Nov ’14)
$33.0 bn

### Industries
Agriculture, Real Estate, Manufacturing, Trade, ICT, Quarrying & Mining

### Resources
Oil & Gas, Coal, Forestry, Corp Production

## Main Stock Market (Q3 ’14) - NSE

<table>
<thead>
<tr>
<th>Equities Mkt Cap</th>
<th>N13.61 tr</th>
<th>$83.07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Mkt Cap</td>
<td>N18.95 tr</td>
<td>$115.68</td>
</tr>
</tbody>
</table>

### Best Performing Sectors (Q2-Q3 ’14)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Q2Q % growth</th>
<th>% of real GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>38.5</td>
<td>26.6</td>
</tr>
<tr>
<td>Real Estate</td>
<td>6.5</td>
<td>7.6</td>
</tr>
<tr>
<td>Quarrying &amp; Mining</td>
<td>5.4</td>
<td>10.6</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>5.2</td>
<td>9.8</td>
</tr>
<tr>
<td>Trade</td>
<td>3.7</td>
<td>16.0</td>
</tr>
</tbody>
</table>
Nigeria’s Stable Growth Environment

Nigeria’s Real GDP Growth¹ (%) – 1960 to 2010

After decades of volatility, Nigeria’s economic growth has been more stable since the early 2000s.

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>5</td>
</tr>
<tr>
<td>65</td>
<td>-10</td>
</tr>
<tr>
<td>70</td>
<td>15</td>
</tr>
<tr>
<td>75</td>
<td>5</td>
</tr>
<tr>
<td>80</td>
<td>10</td>
</tr>
<tr>
<td>85</td>
<td>5</td>
</tr>
<tr>
<td>90</td>
<td>0</td>
</tr>
<tr>
<td>95</td>
<td>-5</td>
</tr>
<tr>
<td>2000</td>
<td>20</td>
</tr>
<tr>
<td>2005</td>
<td>10</td>
</tr>
<tr>
<td>2010</td>
<td>5</td>
</tr>
</tbody>
</table>

1. Data are from prior to the rebasing exercise. Rebased data, available from 2010 onward, includes additional economic sectors, making comparisons unreliable.
Nigeria’s Global Positioning – Post Rebasing

**Population 2013 (MM)**
- Indonesia: 237.6
- Pakistan: 182.5
- Nigeria: 174.5
- Bangladesh: 150.0
- Mexico: 118.3
- Philippines: 99.4
- Vietnam: 90.4
- Egypt: 84.6
- Iran: 77.2
- Turkey: 73.7
- South Korea: 50.0

**Current GDP 2013 (USD BN)**
- South Korea: $1,327.0
- Mexico: $1,198.0
- Indonesia: $867.5
- Turkey: $821.1
- Iran: $548.6
- Nigeria: $510.0
- Egypt: $275.7
- Philippines: $272.2
- Pakistan: $236.5
- Vietnam: $170.0
- Bangladesh: $153.6

**GDP per Capita (USD) 2013**
- South Korea: $23,837
- Mexico: $11,224
- Turkey: $10,744
- Iran: $7,207
- Indonesia: $3,498
- Egypt: $3,213
- Nigeria: $2,800
- Philippines: $2,792
- Vietnam: $1,896
- Pakistan: $1,295
- Bangladesh: $1,044

**Inflation (%) 2013**
- South Korea: 1.1
- Mexico: 3.3
- Turkey: 3.5
- Iran: 5.8
- Indonesia: 7.2
- Nigeria: 7.3
- Bangladesh: 7.4
- Vietnam: 5.9
- Philippines: 3.5
- Egypt: 3.3
- Indonesia: 9.2

**BRICS**
- China: 1,354.0
- India: 1,210.2
- Brazil: 201.0
- Russia: 143.5
- South Africa: 51.8

**Inflation (%) 2013**
- India: 9.9
- Brazil: 5.8
- South Africa: 5.3
- China: 2.5
Effects of rebasing

- Following the GDP rebasing exercise, the estimated size of the Nigerian economy is now at N80.22 trillion ($510 billion) for 2013 compared to N42.39 trillion (~$264 billion) reported pre-rebasings in the preceding year.

- This represents an 89% increase in the reported actual size of the economy as a result of the inclusion of sectors such as telecommunications, aviation, e-commerce and the film industry.

- The services sector has grown to represent approximately 50.2% of the economy, with agriculture’s share of GDP dropping from ~ 40% to ~ 20%.

- Additionally, six sub-sectors (crop production, trade, crude petroleum and natural gas, telecoms and information services, real estate and food, beverages and tobacco) are now responsible for 70% of the nation’s GDP.

- The rebasing dramatically lowers Nigeria’s already healthy debt-to-GDP ratio. Pre-rebasing, this was equivalent to about 22.2% of GDP, but with the new GDP figures, the ratio has fallen to 13.2% as at June 2014.

- Similarly, market cap as a percentage of GDP, post-rebasing, shifted slightly to 15% from 22% in 2012.

- The release of the new GDP figures shows that the economy is more resilient and will drive investments in sectors that have now been highlighted as key drivers of the Nigerian economy.

- Compared to South Africa’s market capitalization at 160% of GDP, there is a large upside potential and a lot of room for the growth of Nigeria’s capital market.
Market cap as % of GDP (PPP) from ~40% to ~20% post rebasing. South Africa at 160% of market cap-to-GDP.

Immensely gap in capital market as a reflection of the real economy.
2015 Nigerian Economic Outlook
2015 Nigerian Economic Outlook

Economic Growth
- Projected GDP growth of above 7%, which is not far-off from historical growth patterns of the Nigerian economy over recent years.
- Oil production expected at 2.25 mbpd in 2015.
- Positive Government initiatives to continue - increasing power generation, financial inclusion, agricultural transformation, and strengthening fiscal discipline.

Fiscal Policy
- Continued improvement in the banking system may lead to increased lending to the real sector (SMEs).
- Government committed to maintaining fiscal stability.
- External reserves expected to remain an issue as commodity prices fall, while the CBN continues to support the naira.

Election Season
- The International Monetary Fund, IMF, has said that increased focus on campaigns towards 2015 elections is one of the factors likely to divert the world’s attention from issues that would promote the growth of Nigeria’s economy.

Impact of Global Forces
- Retail investors to compose a higher percentage of trading activity on the NSE as smart money pulls out.
- Increased competition from LSE and JSE for Nigerian companies to list.
- African exchanges index performance sustainability is in question due to declining commodity prices, including gold and oil.
Nigeria’s Investment Opportunity

Nigeria will need to focus on specific areas of empowerment to reach its full economic potential.

Insurance to cover income loss based on 2% premium-to-coverage ratio

Daily consumption of 2,100 calories for an adult urban male (2,400 for rural male)

Access to primary and secondary education (or vocational training)

Access to clean cooking fuel, electricity for lighting, petroleum for transportation (in amounts to meet minimum consumption levels)

Access to primary care, limited secondary care, and medication, including HIV/AIDS treatment

Access to sustainable housing of solid construction

Improved sanitation facilities that are not shared with other families

60 (rural) or 120 (urban) liters per capita per day of piped water supply

Source: McKinsey Global Institute (MGI)

12/14/2014

The Nigerian Stock Exchange
The Case for Large-Scale Investment in Nigeria

Nigeria has performance gaps relative to peer developing economies across major sectors. The country trails other countries on many performance metrics.

In agriculture, for instance, yields are far below levels in benchmark countries, and Nigeria has one-third of India’s power generating capacity per million people and less than one-tenth of China’s.

### Key Metric

<table>
<thead>
<tr>
<th>Key Metric</th>
<th>Benchmarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maize yield, tonnes per hectare</td>
<td>Nigeria: 1.5</td>
</tr>
<tr>
<td></td>
<td>India: 2.5</td>
</tr>
<tr>
<td></td>
<td>Brazil: 4.2</td>
</tr>
<tr>
<td></td>
<td>South Africa: 4.4</td>
</tr>
<tr>
<td></td>
<td>China: 5.7</td>
</tr>
<tr>
<td>Megawatt generation capacity per million people</td>
<td>Nigeria: 58</td>
</tr>
<tr>
<td></td>
<td>India: 175</td>
</tr>
<tr>
<td></td>
<td>Brazil: 592</td>
</tr>
<tr>
<td></td>
<td>South Africa: 880</td>
</tr>
<tr>
<td></td>
<td>China: 670</td>
</tr>
<tr>
<td>Kilometres of road per 100 square km</td>
<td>Nigeria: 21</td>
</tr>
<tr>
<td></td>
<td>India: 101</td>
</tr>
<tr>
<td></td>
<td>Brazil: 21</td>
</tr>
<tr>
<td></td>
<td>South Africa: 30</td>
</tr>
<tr>
<td></td>
<td>China: 40</td>
</tr>
<tr>
<td>Kilometres of rail per 100 square km</td>
<td>Nigeria: 0.4</td>
</tr>
<tr>
<td></td>
<td>India: 1.9</td>
</tr>
<tr>
<td></td>
<td>Brazil: 0.4</td>
</tr>
<tr>
<td></td>
<td>South Africa: 1.8</td>
</tr>
<tr>
<td></td>
<td>China: 0.2</td>
</tr>
<tr>
<td>Houses per 100 people</td>
<td>Nigeria: 7</td>
</tr>
<tr>
<td></td>
<td>India: 19</td>
</tr>
<tr>
<td></td>
<td>Brazil: 30</td>
</tr>
<tr>
<td></td>
<td>South Africa: 17</td>
</tr>
<tr>
<td></td>
<td>China: 30</td>
</tr>
</tbody>
</table>

Source: McKinsey Global Institute (MGI)
Other rapidly growing countries have successfully converted economic gains into lower poverty rates. Nigeria has a significant opportunity to increase inclusive growth as well.

Source: McKinsey Global Institute (MGI)
The Nigerian Stock Exchange – Our journey so far
The Capital Market: Key Participants

**Broker-Dealers:** Bring issuers to the market; execute buy/sell orders

**Registrars:** Maintain registers of company shareholders

**Custodians and Trustees:** Maintain assets on behalf of investors

**Investors/Participants:** Originate orders

**Others:** Issuing houses, OTC platforms, fund managers etc.

**Ministry of Finance:** Provides fiscal policy and stability in capital market and overall economy

**SEC (Apex Regulator):** Maintains primary oversight of the capital market

**NSE (SRO):** Platform for trading securities; Regulation of members and participants

**Issuers:** Issue various securities for investment

**Clearing/Settlement (CSCS):** Provider of clearing and settlement services

CBN provides monetary policy, which also has significant impact on the capital markets and the economy
The NSE was founded with the objective to operate a fair and orderly marketplace based on just and equitable principles in dealings in listed securities.

- The Nigerian Stock Exchange is a mutual company and is a self-regulatory organization (SRO).
- It was established under the Lagos Stock Exchange Act, 1960.
- In 1977, the name was changed to the Nigerian Stock Exchange.
- In December 1990, the Exchange was re-incorporated as a company limited by guarantee.
- The Exchange is headquartered in Lagos, and today, operates 13 branches across Nigeria.

**1960**
The Nigerian Stock Exchange (NSE) was founded as the Lagos Stock Exchange.

**1961**
Trading began with 19 listed securities - 3 equities, 6 Gov’t bonds and 10 corporate bonds.

**1970s**
The Lagos Stock Exchange becomes the NSE and several branches (with trading floors) are opened across Nigeria.

**1980s**
Focus on increasing corporate governance in the market, on the back of international exposure via Reuters.

**1990s**
The IPF is operational; policy is enacted to encourage foreign participation; and the Exchange automates trading.

**2000s**
Modernization, strong GDP growth, an influx of local/foreign participation ignite the market; weak regulatory practices rupture the market.
A More Resilient Market

- The Nigerian capital market has undergone a transformation of great proportions.
- The recent down turn in the NSE ASI in H2 ‘14 cannot be compared with the global financial crisis.

2005 Regulatory Innovation
- Digital investor services
- Easy access to loan facilities

2007 Modernization
- Modern electronic trading facilities
- Significant inflows into the capital market

2008/09 Crash
- Macroeconomic instability
- Low financial literacy and market discipline
- Inadequate regulatory framework
- Poor governance
- Lack of liquidity
- SEC intervention

2011 Reforms and Beyond
- Greater regulatory oversight
- Product diversification
- Investor education
- Technology
- Improved market structure
- Business development services
- Revised listing rules; amended issuer and broker/dealer rules and penalties
- Information and data

The Nigerian capital market has undergone a transformation of great proportions.

The recent down turn in the NSE ASI in H2 ‘14 cannot be compared with the global financial crisis.

12/14/2014 The Nigerian Stock Exchange
Leveraging International Best Practices

Int’l Best Practices

High Performing Exchange

Effective Regulation

Sustainability

Financial Services Regulation Coordinating Committee (FSRCC) Nigeria

The Nigerian Stock Exchange
## Listed Asset Classes

### Equities
- **Market Cap:** N11.4t ($69.3b)
- **Total Symbols:** 200
- **Avg Mthly Turnover:** N96b ($581.8m)
- **12 industry sectors**
- **Market makers**
- **Common shares, preference shares, rights, investment trusts and closed-end funds**

### ETPs
- **Market Cap:** N5.4b ($32.7m)
- **Symbols:** 2 ETFs
- **Avg Mthly Turnover:** N22m ($133k)
- **Liquidity providers**

### Market Indices
#### Benchmark Indices
- **NSE 30**
- **All Share Index (ASI)**
- **NSE 50**
- **ASeM**

#### Sector Indices
- **NSE Banking**
- **NSE Consumer Goods**
- **NSE Industrial**
- **NSE Insurance**
- **NSE Oil & Gas**

#### Thematic Index
- **NSE Lotus Islamic**

As of November 13, 2014.

### Fixed Income
- **Market Cap:** N5.4t ($32.2b)
- **Total Symbols:** 56
- **Avg Mthly Turnover:** N2.5m ($15k)
- **Fixed income market makers**
- **Corporate, state, municipal, federal government and supranational bonds**

### Funds
- **Mutual funds (memorandum listings):** 28

### Derivatives
- **Feasibility Study Completed**
- **Project to kick off in 2015**
- **CCP Project team working on Indicative CCP Project Plan**

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12/14/2014

The Nigerian Stock Exchange
**Main Board**

**LAUNCHED 1960**
Home to Nigeria’s most respected companies that (a) operate locally, regionally and internationally, (b) meet globally respected regulatory standards, and (c) look to maximize shareholder value.

Provide these companies a badge of respect, making it easier for them to:
- Access a larger pool of capital
- Exploit their respected profile
- Reduce borrowing costs
- Enhance their growth trajectory

**Premium Board**

**2015 LAUNCH**
Promote Nigeria’s most respected companies that (a) are leaders in their respective sectors, (b) adhere to the highest CG standards, and (c) meet $1bn market cap minimum listing requirement.

Provide these companies greater global visibility, making it easier for them to:
- Attract global capital flows
- Reduce borrowing costs
- Develop new products
- Increase market liquidity

**ASeM**

**LAUNCHED APRIL 2013**
Uplift smaller and growing companies that (a) have been operational for two years, (b) are compliant with the rules of the market, and (c) are dynamic, with high growth potential.

Provide these companies financial market access, making it easier for them to:
- Raise capital
- Elevate their profile
- Operate efficient businesses
- Grow their businesses

11 companies; N7.32bn market cap

188 companies; N11.41tn market cap

12-Mar-2014
The Nigerian Stock Exchange
### Primary Listing
- Primary listing on an applicable board of the Stock Exchange
- Friendly eligibility requirements
- Efficient capital market operators
- Local presence required
- Competitive fee structure

### Dual Listing
- A second listing on another Stock Exchange in a different jurisdiction
- Exposure to retail and institutional investors in a region other than the home country
- Regulatory accommodation
- Competitive fee structure
- Efficient capital market operators
- Technology platform accommodates efficiency across both regions

### Nigeria Depository Receipts
- Nigerian naira denominated depository receipts
- Enhanced visibility for non-Nigerian products and services in a marketplace outside the home country
- A flexible mechanism for raising capital, and a vehicle or currency for mergers and acquisitions
- Broader and more diversified investor exposure, which may improve liquidity
Operational, Regulatory and Compliance Mechanism
**Benefits of the New Market Structure**

- Enables market makers to enhance liquidity and reduce imbalances
- Enhances pricing (reduces spread)
- Dampens volatility around the open & close auctions and during continuous trading.

**New Reference Price is calculated using opening price**

Closing Price is calculated after Pre-Close Adjust session

Maximum upward price movement in one day is 10.25%

Maximum downward price movement in one day is 9.75%
Order Flow

Foreign Portfolio Investors

Order confirmation

Off-Shore Custodians

Hold funds and assets in position

Local Brokers

Execute trades

Confirm mandate execution

Confirm holding position

Local Custodians

Hold funds and assets in position

CSCS (Clearing, Settlement & Depository)

The NSE (Trading Platform)

The Nigerian Stock Exchange
The introduction of FIX has facilitated improved levels of transparency and reduced order placement-to-execution times, facilitating best execution.
Our ‘zero tolerance’ approach to market infractions includes:

- **Inspections**
  - SEC annual inspection: to ensure the NSE is in compliance with SEC rules
  - NSE inspection of Broker-Dealers: to ensure members are in compliance with NSE rules

- **Transparency**
  - Broker TraX: updates on broker-dealer compliance with the rules of the market
  - X-Compliance: provides compliance related updates on all listed companies
  - Web site: near-real time data and information on events and happenings in the market

- **Disclosure**
  - X-Issuer: provides a mechanism for the secure electronic delivery of issuer information to the market

- **Investigations**
  - Market surveillance: ensures the effectiveness and fairness in all market dealings

- **Enforcement**
  - Enhanced rulebook: comprises amendments to the NSE Rules and Regulations
  - Penalties: fines, public censure, suspension, forced resignation, revocation of registration, revocation of license (expulsion) for market infractions

- **Investor Protection**
  - Complaints management: operation of an investor focused complaints handling and problem resolution system
  - X-Whistle: a vehicle for secure and effective submission of tips and referrals regarding violations
  - Investor Protection Fund: provides compensation to investors with genuine claims of pecuniary loss
Foreign Flows - Nigerian case study
## FDI Investments – 2013 - 2014

<table>
<thead>
<tr>
<th></th>
<th>Company/Detail</th>
<th>Transaction value ($$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Chinese firm to build refinery in Cross River State</td>
<td>$7.5 Billion</td>
</tr>
<tr>
<td>2</td>
<td>MTN plans additional infrastructure investment in Nigeria</td>
<td>$1.5 Billion</td>
</tr>
<tr>
<td>3</td>
<td>Port operator Giant ICTS to invest in Lekki Free Trade Zone, Lagos</td>
<td>$1.4 Billion</td>
</tr>
<tr>
<td>4</td>
<td>WEMPCO to invest in steel plant</td>
<td>$1.3 Billion</td>
</tr>
<tr>
<td>5</td>
<td>GE makes Nigeria its Africa hub - builds manufacturing plant in Calabar</td>
<td>$1 Billion</td>
</tr>
<tr>
<td>6</td>
<td>PZ Cussons invests in palm oil refinery</td>
<td>$612 Million</td>
</tr>
<tr>
<td>7</td>
<td>Unicem establishes second cement line project</td>
<td>$500 Million</td>
</tr>
<tr>
<td>8</td>
<td>Procter &amp; Gamble builds baby-care products plant in Nigeria</td>
<td>$200 Million</td>
</tr>
<tr>
<td>9</td>
<td>CEC invests in Nigeria</td>
<td>$164 Million</td>
</tr>
<tr>
<td>10</td>
<td>Xiamen XGMA International Trade Company enters into partnership with Richbon Group Nigeria Limited to set up tractor assembly plant</td>
<td>$40 Million</td>
</tr>
<tr>
<td>11</td>
<td>Mi-Fone plans to establish a manufacturing plant in Nigeria</td>
<td>$30 Million</td>
</tr>
<tr>
<td>12</td>
<td>63.3% acquisition by Tiger Brand in Dangote Flour</td>
<td>$20 Million</td>
</tr>
<tr>
<td>13</td>
<td>Artee Group to open 100 outlets in Nigeria</td>
<td>$10 Million</td>
</tr>
</tbody>
</table>
The NSE plays a vital role in the Nigerian economy by:

- Providing a robust capital market infrastructure to enable savings to be funneled to investments;
- Providing a price discovery mechanism between supply and demand for listed financial products;
- Providing a platform for capital raising – for both expansion and exit opportunities;
- Ensuring an orderly, fair and equitable marketplace, and protecting the integrity of the market and investors; and
- Providing an avenue for investors (retail, institutional, domestic, foreign) to create durable wealth.
Foreign Portfolio Inflows

**2013**
- Europe: 72%
- No. America: 20%
- Middle East: 1%
- Africa: 5%
- Asia: 2%
- Oceania: 0%

**2014 (Q1-Q3)**
- Europe: 68%
- No. America: 17%
- Middle East: 8%
- Africa: 4%
- Asia: 2%
- Oceania: 0%

**Total 2013 Investment from Asia = $244.28m**

**2014 Investment from Asia (through Q3) = $132.22m**
Questions and Answers

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• Detailed quotes and charting • Site-wide search • Mobile access
• Easy-to-find information • Social media integration •
• Improved site load-time • Enhanced content
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