FINANCING THE UTILITIES SECTOR THROUGH THE NIGERIAN CAPITAL MARKET

Presented by
Oscar Onyema
CHIEF EXECUTIVE OFFICER

At the
CEO UTILITIES SECTOR DINNER
Oriental Hotel, Lagos

July 16, 2013
Outline

1. Introduction: Nigeria’s Profile
2. Profile of the Utilities Sector (Power, Water & Waste)
3. Global Performance on Selected Stock Exchanges
4. Why List on the NSE?
The market potential for privatized utility companies is enormous.

- **Total GDP:** USD243.98 billion (2012)
- **GDP Growth (%):** ~ 6.56% (Q1 ’13)
- **Inflation (%):** 9% (May ’13)
- **External Reserves:** US$48.2 billion (26 Jun ’13)
- **External Debt:** - US$6.675 billion (Mar ’13)
- **Total Population:** ~170 million
- **Main stock markets:**
  - NSE - $112.34bn market cap, (28 June ’13)
  - 255 listed securities
- **Resources:**
  - Oil (Largest oil reserves in Africa)
  - Gas
  - Mining: minerals, precious metals,
  - Commodities: agriculture, textiles,
  - Fishing
- **Main Industry Sectors:**
  - Agriculture
  - Oil and Gas
  - Infrastructure
  - Telecoms
  - Financial Services

Source: National Bureau of statistics
% access to electricity for sub-Saharan countries

Sources: World Bank, Constant Capital Research
Profile of the Utilities Sector - Power

% Reliance on Self-generation

Sources: World Bank, Constant Capital Research
Overview – Power Generation

- Important infrastructure pillar
- Characterized by unutilized generation capacity, inefficient supply/plant maintenance, poor gas supply, low water levels
- Captive power supply (self generation by businesses)
- 46% of the population have access to electricity
- Poorly motivated work force in power sector

- Lack of investments
- Unbundled the Power Holding Company of Nigeria (PHCN) for greater efficiency and effectiveness
- Current power generation stands at about 3,443MW (April 9 2013)
- 2013 electricity power target generation 16,000MW
- Current electricity power demand 200,000MW
Overview – Power Distribution

- Essential services sector
- Oligopolistic in nature
- Net positive income flow in medium to long term
- Captive power supply (High reliance of self generation by businesses)
- Illegal connections resulting in overloaded distribution lines, unannounced load shedding, prolonged/intermittent power outages

- Vandalisation/theft of cables
- Accidental destruction of distribution lines
- Preferred bidders for the BPE/Niger Delta Power Holding Company (NDPHC) joint sale of 10 National Integrated Power Project (NIPP) power plants will be announced August 8, 2013
- Privatized the power distribution companies (DISCOs) under a transparent bid process
The diagram illustrates the Electricity Market Value Chain, which includes:

- **Gas Producers/Transporters**
- **GenCos** (Generation Companies)
- **Transmission**
- **DisCos** (Distribution Companies)
- **Consumers**

The flow of the process is as follows:

1. **Gas Supply/Transport Tariff** from Gas Producers/Transporters to GenCos.
2. **Wholesale Tariff for Power** from GenCos to Transmission.
3. **Wheeling Charge** from Transmission to DisCos.
4. **Retail Tariff for Power** from DisCos to Consumers.

- **Generation Bill** from GenCos to Transmission.
- **Transmission Bill** from Transmission to DisCos.
- **TuOS Payment** from DisCos to Consumers.
- **Payment of Bills** from Consumers to DisCos.

The diagram also highlights the agreements and payments:

- **Power Purchase Agreement** from GenCos to Bulk Trader.
- **Vesting Contract** from Bulk Trader to DisCos.

Source: NERC, DEC 2012
Selected Countries Access to Water

% access to improved water source (public/bore hole/protected well (spring))

Source: World Bank data
## Overview – Water

<table>
<thead>
<tr>
<th>Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Huge capital outlay for production and distribution</td>
</tr>
<tr>
<td>- Rising operational/maintenance cost of water infrastructure</td>
</tr>
<tr>
<td>- Competing demands on government funds</td>
</tr>
<tr>
<td>- Captive &amp; commercialized production accounts for about 50% of daily consumption</td>
</tr>
<tr>
<td>- Uncharted water dangerous for navigation and hampers maritime activates</td>
</tr>
<tr>
<td>- 80% of Nigeria's trade carried out at wharfs located around the country</td>
</tr>
<tr>
<td>- Access to improved water source is 58% (2010 figures)</td>
</tr>
<tr>
<td>- Threat to livelihood of small business farmers</td>
</tr>
<tr>
<td>- High prevalence of water borne diseases</td>
</tr>
<tr>
<td>- Current water situation compounded by climate change (lowering of the water table), population expansion and urbanization</td>
</tr>
</tbody>
</table>
Overview – Waste

- Nigeria largest black nation in the world
- Generate 25m tons of solid waste annually (2000) which has increased due to industrialisation and rapid population growth
- No segregation of waste in the country (industrial, municipal and sewage)

- 50% of waste generation captured, the remaining 50% is burnt or left to decay in dump sites
- Over 70% of waste is allowed to decompose
- Predominately open dumping where anaerobic degradation of organic material occurs releasing CH4(methane) which contributes to global warming
NextEra Energy Inc. USA

• Has about 41,000 megawatts of generating capacity in 24 states in the United States and three provinces in Canada
• Listed on NYSE in February, 1950
• 1Yr Rtn: +22.69%

Source: Bloomberg
Selected Companies Price Performance (Power)

Copperbelt Energy Corp. Plc Zambia

- Current carrying capacity in excess of 700MW across a network of 9,000 overhead lines and 38 high voltage substations
- Listed on Lusaka Stock Exchange in January 2008
- 1Yr Rtn: +22.94%

Source: Bloomberg
American Water Works Plc, USA

- Provides water to 15m people in the US and two provinces in Canada
- Listed on the NYSE in 2008
- 1Yr Rtn:+23.59%

Source: Bloomberg
ACEA, Italy

3-Yr Performance (2010 – 2013)

- Italy’s largest water cooperation
- Provides water for 13.6m people within and outside Rome
- Listed on the Milan Stock Exchange in 1999
- 1Yr Rtn: 45.17%

Source: Bloomberg
Listed Energy Companies On Selected Exchanges

Privatization in most jurisdictions are usually followed with listing on the Exchange within three to five years to ensure public buy-in. However the Fortum Corporation was listed same year.

<table>
<thead>
<tr>
<th>Exchange Listed</th>
<th>Name of Company</th>
<th>Year of Listing</th>
<th>Market Cap</th>
<th>PE Ratio (X)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Casablanca Stock Exchange</td>
<td>Lydec</td>
<td>2005</td>
<td>MAD 280.51b</td>
<td>10.85</td>
</tr>
<tr>
<td>Stock Exchange of Mauritius</td>
<td>Vivo Energy</td>
<td>Not stated</td>
<td>MUR 947.94m</td>
<td>26.58</td>
</tr>
<tr>
<td>Nairobi Securities Exchange</td>
<td>Kengen limited</td>
<td>2006</td>
<td>KES 388.51b</td>
<td>10.44</td>
</tr>
<tr>
<td>London Stock Exchange</td>
<td>EDF Energy</td>
<td>2007</td>
<td>GBP 36.68b</td>
<td>11.07</td>
</tr>
<tr>
<td>Milan Stock Exchange</td>
<td>Enel</td>
<td>1999</td>
<td>EUR 22.17b</td>
<td>39.69</td>
</tr>
<tr>
<td>Lusaka Stock Exchange</td>
<td>Copperbelt Energy</td>
<td>2008</td>
<td>ZMW 750m</td>
<td>6.86</td>
</tr>
<tr>
<td>New York Stock Exchange</td>
<td>NextEra Energy Inc</td>
<td>1950</td>
<td>$36.281m</td>
<td>19.14</td>
</tr>
</tbody>
</table>
Selected Global Exchange Performance

Index Performance
(As at Friday June 21, 2013)

- Ghana Comp.: 57.8%
- Nigeria ASI: 29.9%
- Nairobi SE: 26.1%
- DJIA: 12.9%
- S&P 500: 11.7%
- SEMDEX: 11.5%
- NASDAQ: 11.2%
- FTSE 100: 3.7%
- FTSE/JSE: -0.6%
- FTSE AIM: -1.3%
- MASI: -5.3%
- Hang Seng: -10.6%
- WIG 20: -13.5%
- EGX 100: -21.9%
Performance Of Some African Stock Exchanges

Johannesburg Stock Exchange
- Percentage of Mkt Cap to GDP is 222.9%
- Key listings in Telecommunications, Resources and Energy

Nairobi Stock Exchange
- Percentage of Mkt Cap to GDP is 34.50%
- Key listings in Telecommunication, Utilities and refineries.

Egyptian Stock Exchange
- Percentage of Mkt Cap to GDP is 24.00%
- Key listings in Telecommunication, Utilities and refineries.

Ghana Stock Exchange
- Percentage of Mkt Cap to GDP is 120.37%
- Key listing in Mining, Oil & Gas, Telecommunications, Utilities

Nigerian Stock Exchange
- Percentage of Mkt Cap to GDP is 30.28%
- Key listing in Industrial goods, financial services and consumer goods

Casablanca Stock Exchange
- Percentage of Mkt Cap to GDP is 53.04%
- Key listings in Telecommunication, Utilities and Mining.

% Contribution of market capitalization to country’s GDP attributable to listing of companies in key sectors of the Economy (% figures as at December 31, 2012)
Common Concerns About Listing

- Loss of control by entrepreneurs
- Sharing profits
- Loss in value due to poor market depth and liquidity
- Associated cost of being listed
- Enhanced disclosures
- Additional regulatory requirements (especially if already listed elsewhere)

There is huge capacity to raise capital because the quality of a company depicted by its financial performance would attract funds from all financial markets (local and foreign).
The NSE is fully equipped to support the privatization of the Utilities sector.

- Source of deep pool of capital
- Currency for expansion
Factors For Consideration

I. Governance Structure
   I. Shareholding
II. Finance Structure
   I. Advisers
   II. Debt Equity Balance
III. Accounting Standards
   I. IFRS
   II. Quarterly Returns

Listing Mindset

Commence Operations

Year 1

Year 2

Year 3

Infrastructure Development

Listing
Thank You