

DUET GROUP

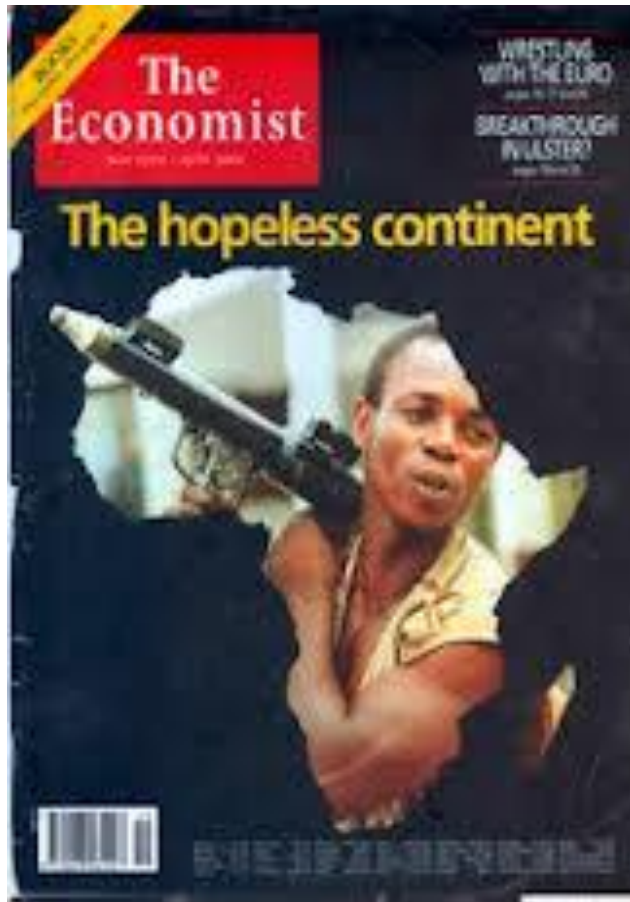
Dr Ayo Salami, CIO of Duet Africa Funds

Africa – The Next Frontier of Growth Investment



DUET|TEUD

Changing perceptions of Africa



May 13th 2000



March 2nd 2013



Africa in perspective

Global Land Mass and Proportion of World's Resources

Square Miles:

China	3,705,390
United States	3,618,770
India	1,266,595
Europe	1,905,000
Argentina	1,065,189
New Zealand	103,736
Total	11,664,680
Africa	11,707,000



Proportion of global resources in Africa:

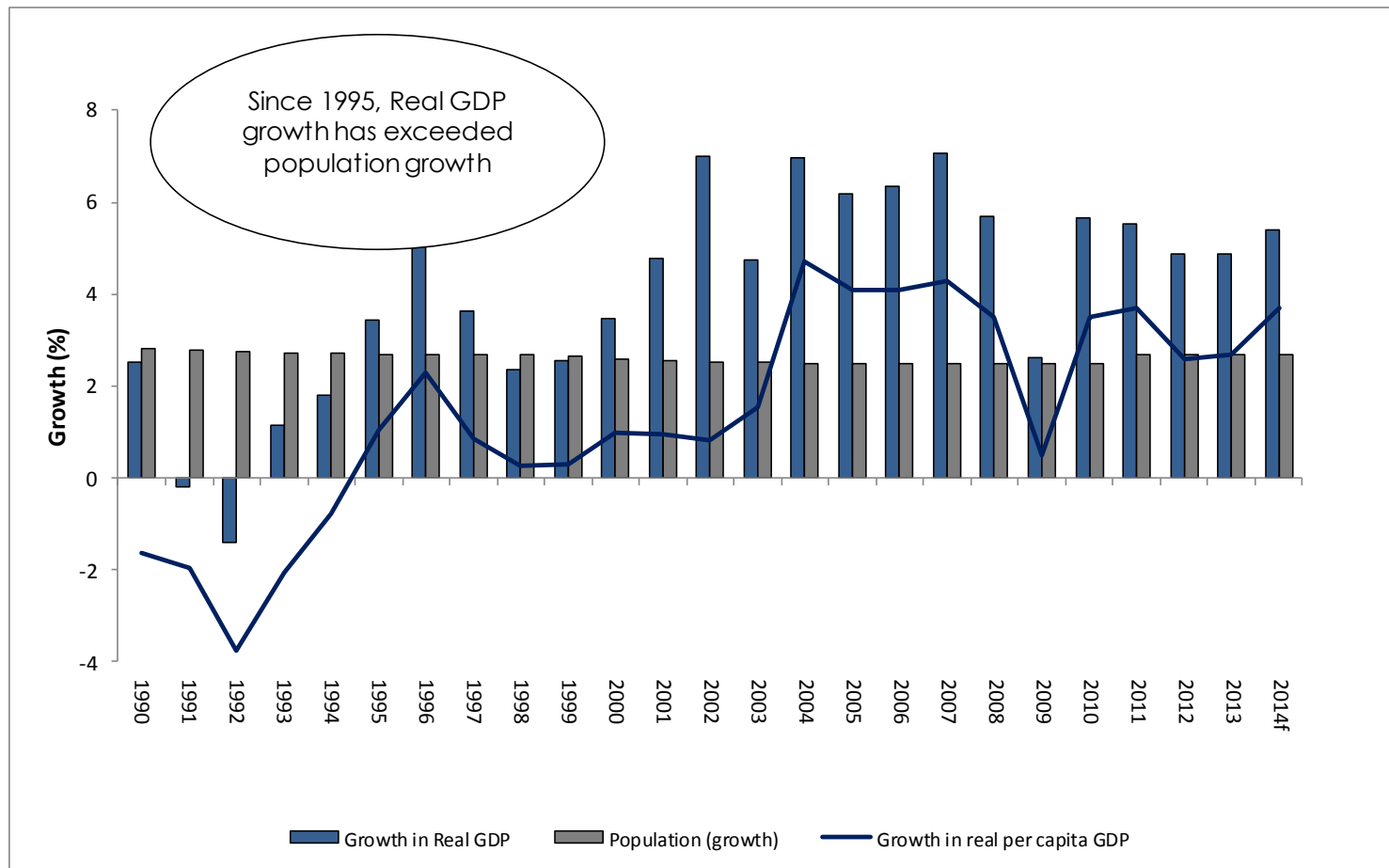
Land Mass	20%
Diamonds	90%
Gold	50%
Phosphate	90%
Platinum	40%
Petroleum	8%
Natural Gas	12%



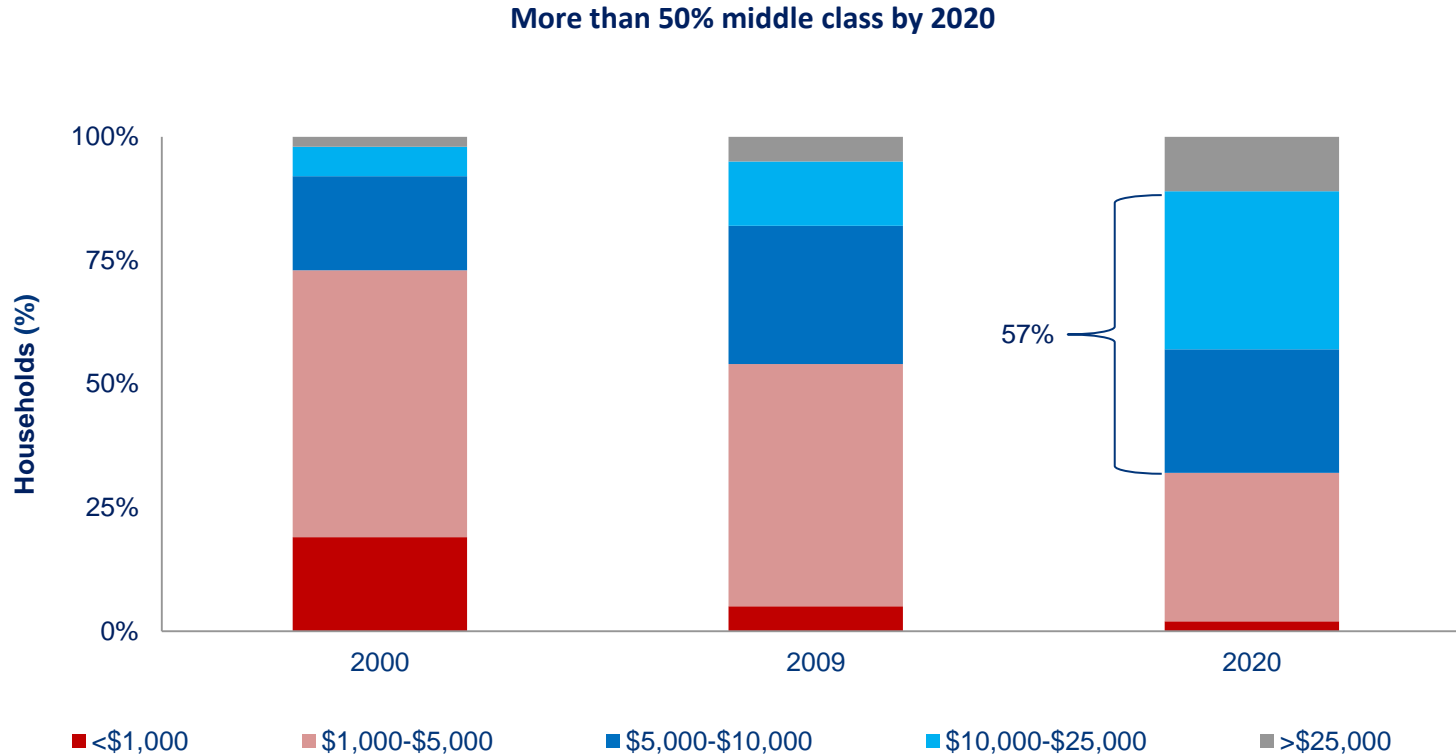
Macro overview

17 consecutive years of growth in real per capita GDP

Population and GDP Growth (Sub-Saharan Africa ex South Africa)



Rise of the African consumer



- Consumer expenditure in SSA was approximately \$800bn in 2010 and is expected to reach \$1 trillion by 2020. Consumer spending is growing at approximately 4% per annum.



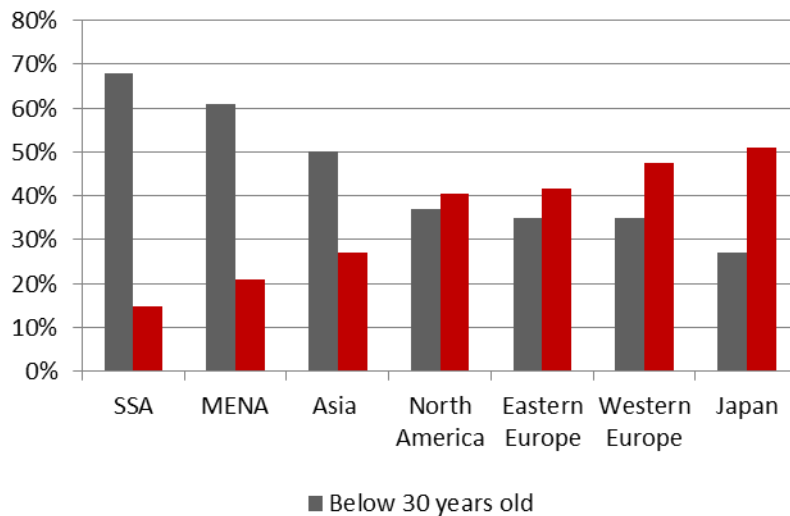
Young Population

African growth is supported by a young population

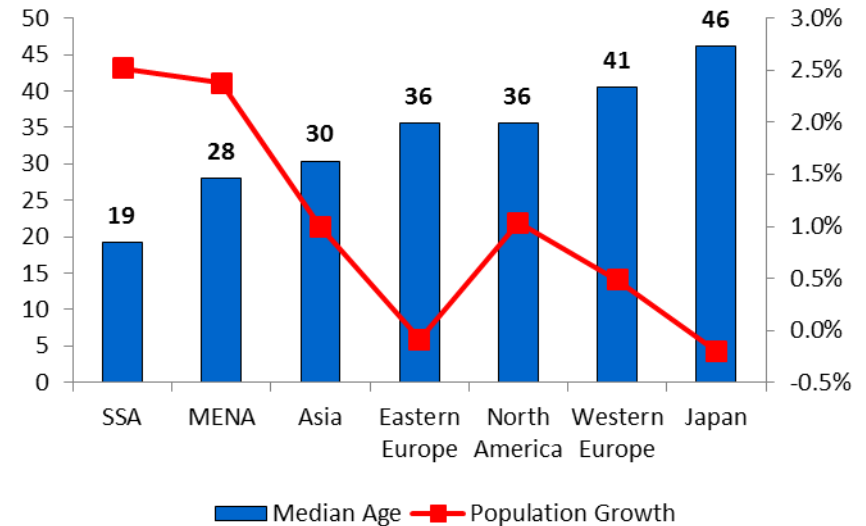
Compared to Developed Markets, the Sub-Saharan Africa (SSA) has a much younger population growing at a faster rate: This supports economic growth and consumption.

Developed Markets are not getting younger. Sub-Saharan Africa (SSA) offers a young and growing population.

% of total Population



Median Age & Population Growth

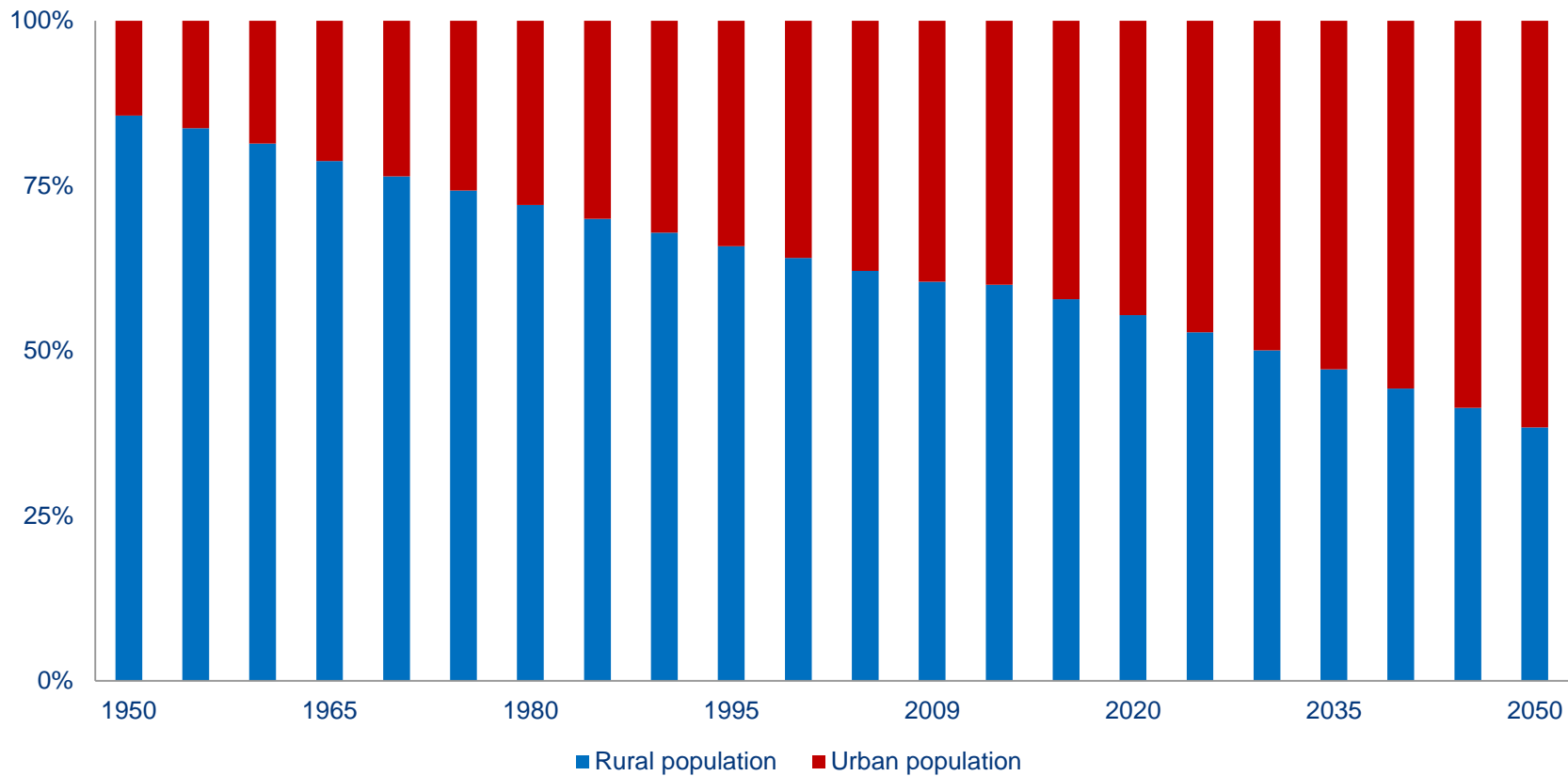


Sources: United Nations Population Division



Urbanisation

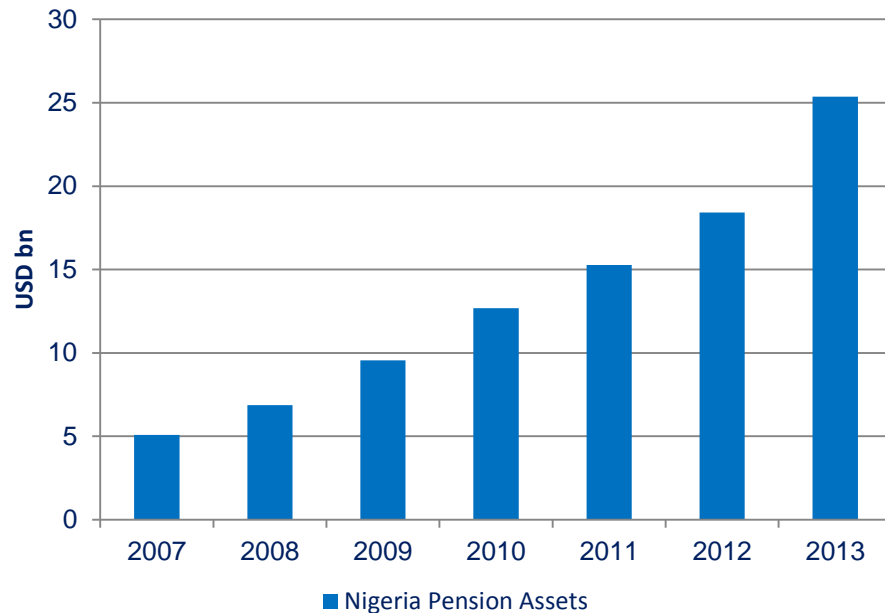
Urbanisation is bringing people closer to economic opportunities



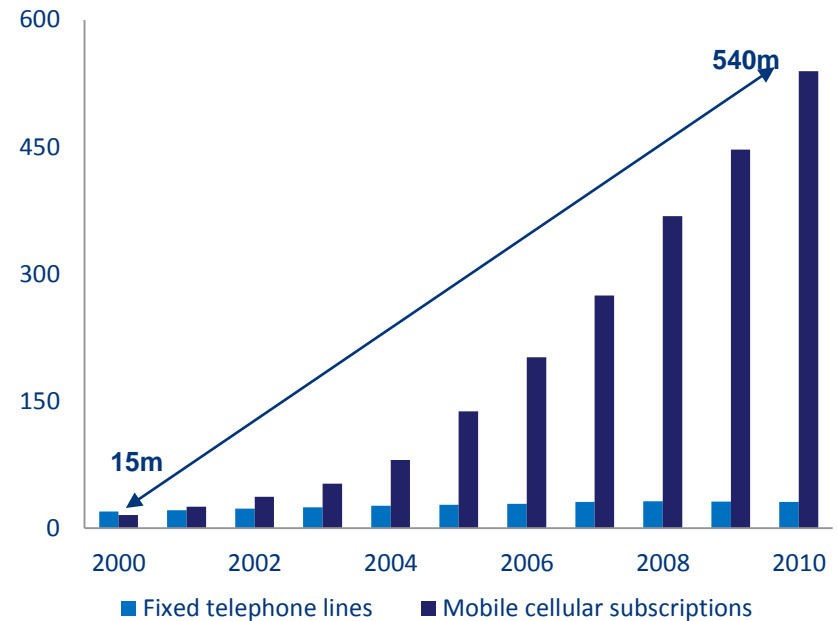
- By 2050 about 60% of the people in SSA will live in cities compared to 40% today implying that 800 million more people will live in urban environments.



Capital and technology enabling rapid change



In 2002 when pension reform was introduced, Nigeria had pension assets of less than USD1bn. Assets are approaching USD30bn and growing at CAGR of ca.30% per annum

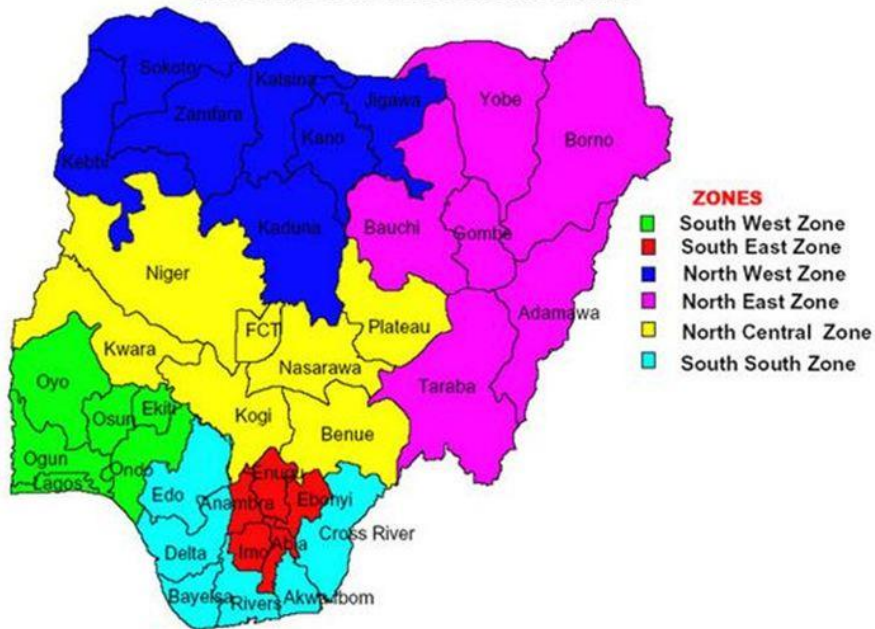


At the beginning of the 21st century, over 70% of Africans had never heard a phone ring. Today, mobile penetration is approaching 60%.



Nigeria Basic Facts

NIGERIA GEO-POLITICAL ZONES



Population: 170m

Economy: USD500bn (largest in Africa and #23 in the world with a vision is to become a top-20 economy by 2020)

GDP Per capita: (USD2,800, # 128 in the world)

- Democratic transition (third republic) began in 1999. There are three branches of Government at the Federal level
 - President (elected for four year term with 2 term limit)
 - National Assembly : Senate 109 members, House of Representatives : 360 members
 - Independent Judiciary
- 36 state Governments (Governor with a state assembly)
- 2015 witnessed the first transfer of power from a ruling to opposition party in Nigeria's history

Nigeria Election results

	1999	2003	2007	2011	2015
PDP	62.7	61.94	69.82	58.89	44.96
APC					53.96
AD	37.22				
ANPP		32.19	18.72		
CPC				31.98	
Others	0.08	5.87	11.46	9.13	1.08

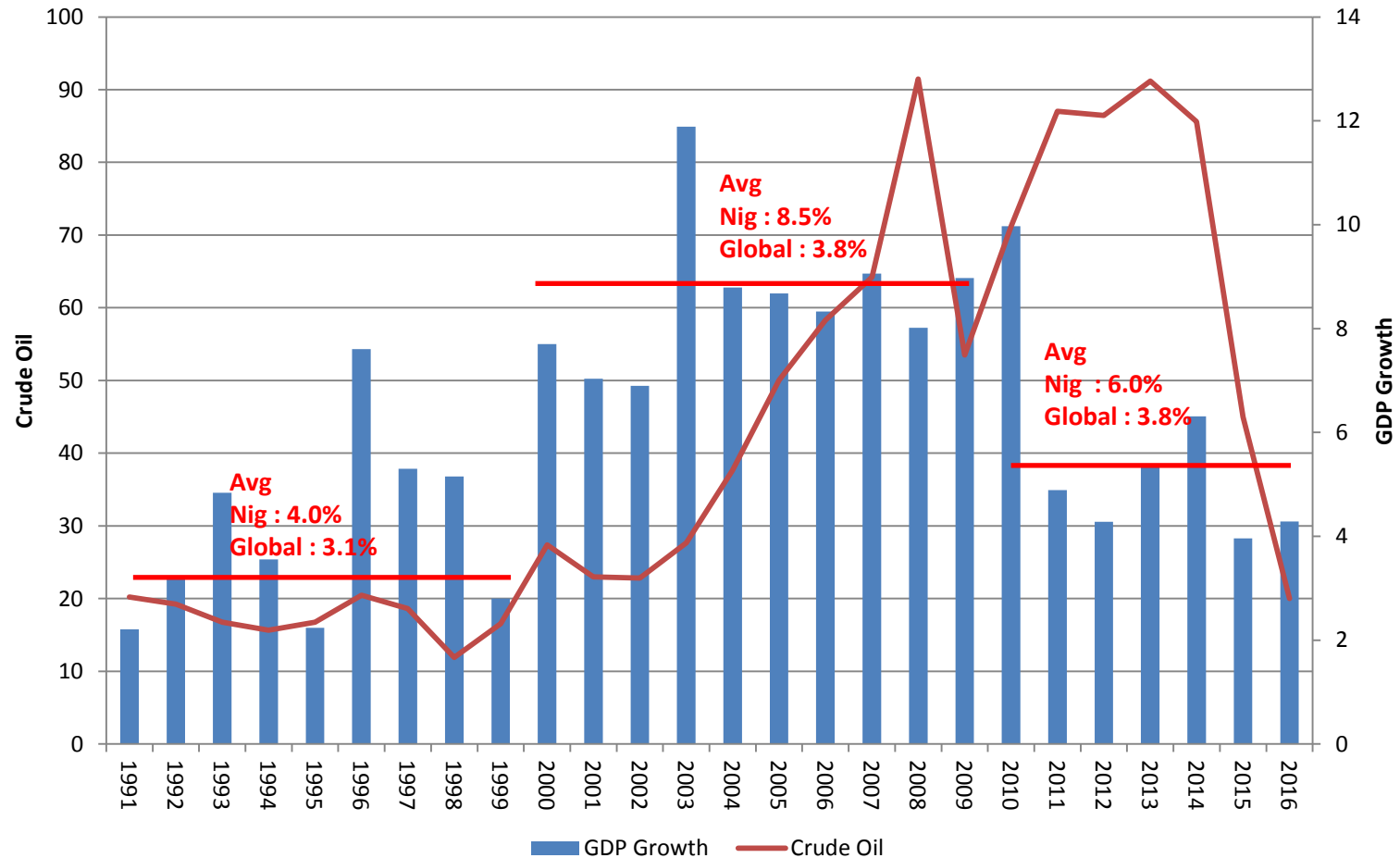


Nigeria : Political Overview

- President Buhari – Version # 2, is a former military ruler (1984-1985) and during his previous 20 month rule, he gained a reputation as an incorruptible and austere leader. This is probably his greatest strength and his source of appeal.
- He took a rather simplistic approach to governance that reduced all of Nigeria's multifaceted challenges into a single issue – “Indiscipline”. He promptly launched a “War against Indiscipline”. Civil servants turning up late for work were made to perform frog jumps. Traffic offences and queue-jumping were punished by public floggings.
- He cut the budget deficit by downsizing the civil service by ca.30%. He broke off relations with the IMF (refusing to devalue the currency), but subsequently introduced an austerity programme with greater severity than that demanded by the IMF.
- He severely curtailed press freedom and threw over 500 politicians into jail on allegations of corruption for which they were never charged. For gregarious people like Nigerians, this was shock therapy and there were few complainants, when he was ousted in a palace coup in August 1985.
- For his second term in office, Mr Buhari can be expected to run a more interventionist Government and anchored on 8 broad points
 - War on Corruption
 - Food security to position agriculture as the main supplier of raw materials for domestic industrial processing and manufacturing
 - Accelerated power supply to expand electricity generation and distribution of up to 40,000 megawatts in four to eight years (current capacity is about 5,000 mgws)
 - Integrated transport network
 - Free education
 - Devolution of power from the Federal Government
 - Affordable health care
 - Accelerated economic growth



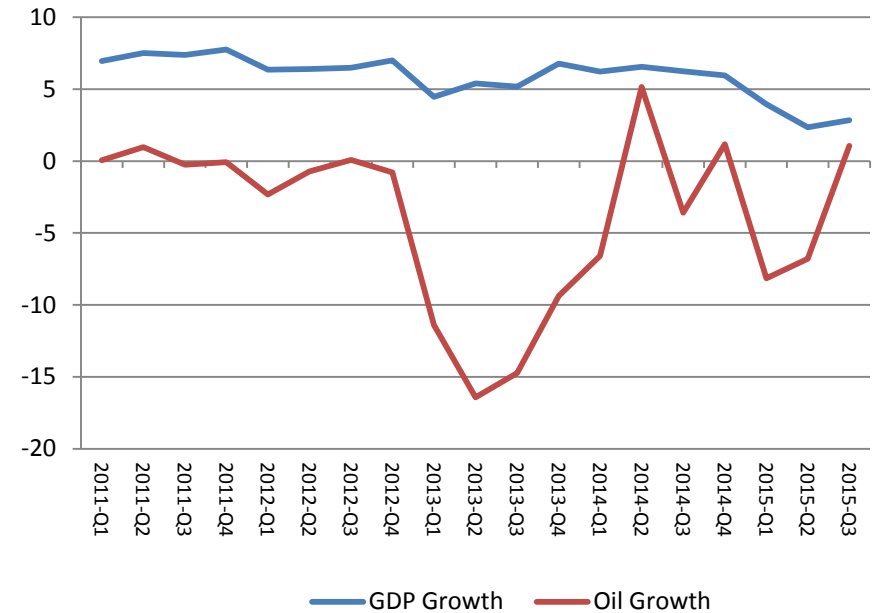
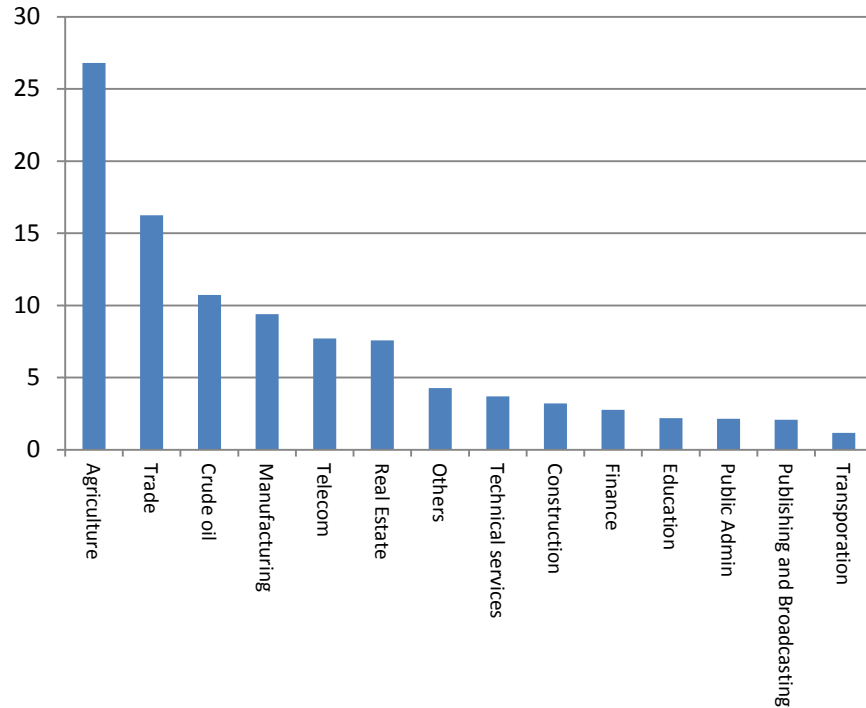
Nigeria : Economic Growth



- Slow down in growth from 8.5% in the last decade to ca.6% due to combination of base effects and lower oil prices. However average of 6% growth in a low oil price environment demonstrates that the economy is not driven by oil.



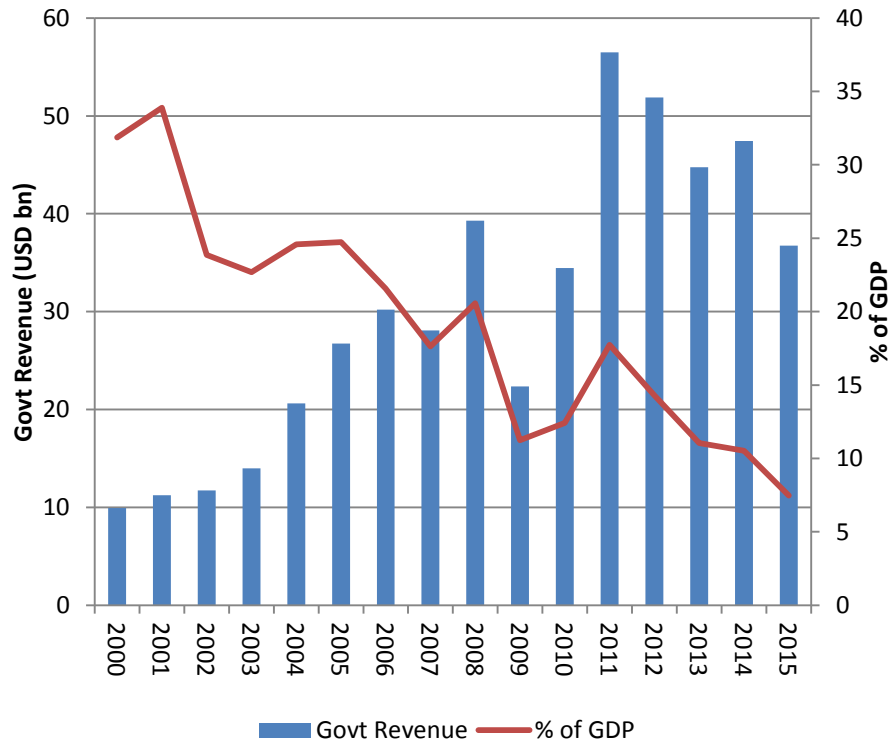
Nigeria : Structure of the Economy



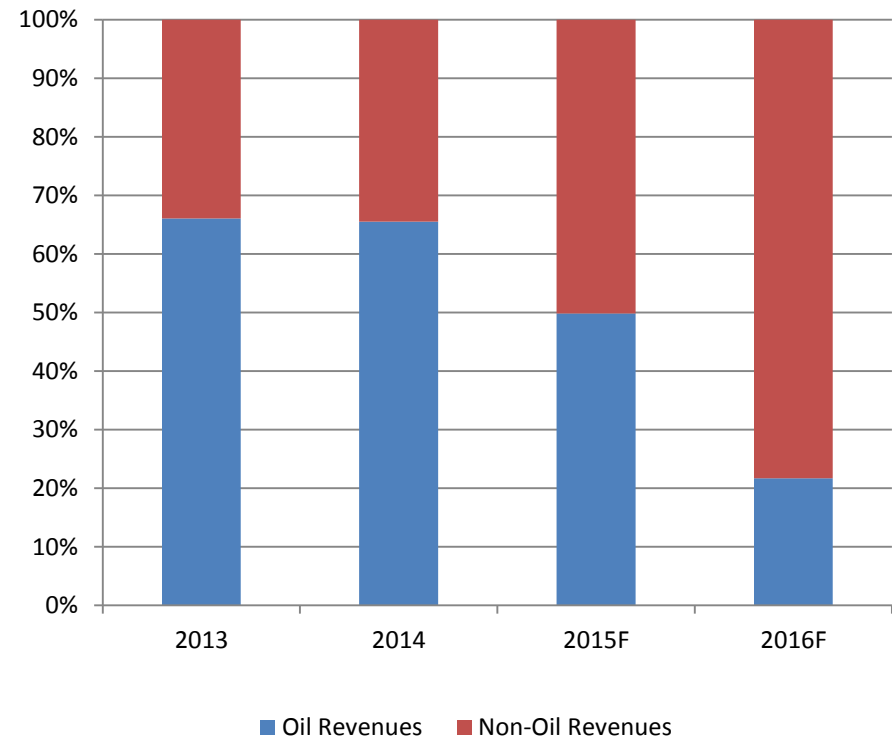
- Oil sector represents only ca.10% of GDP, demonstrating that the economy is not dominated by oil.
- While GDP growth has been positive in the last 19 quarters, oil sector growth has been positive in only 6 quarters.



Nigeria : Tax Efficiency Declined



Source: World Economic Database (IMF)



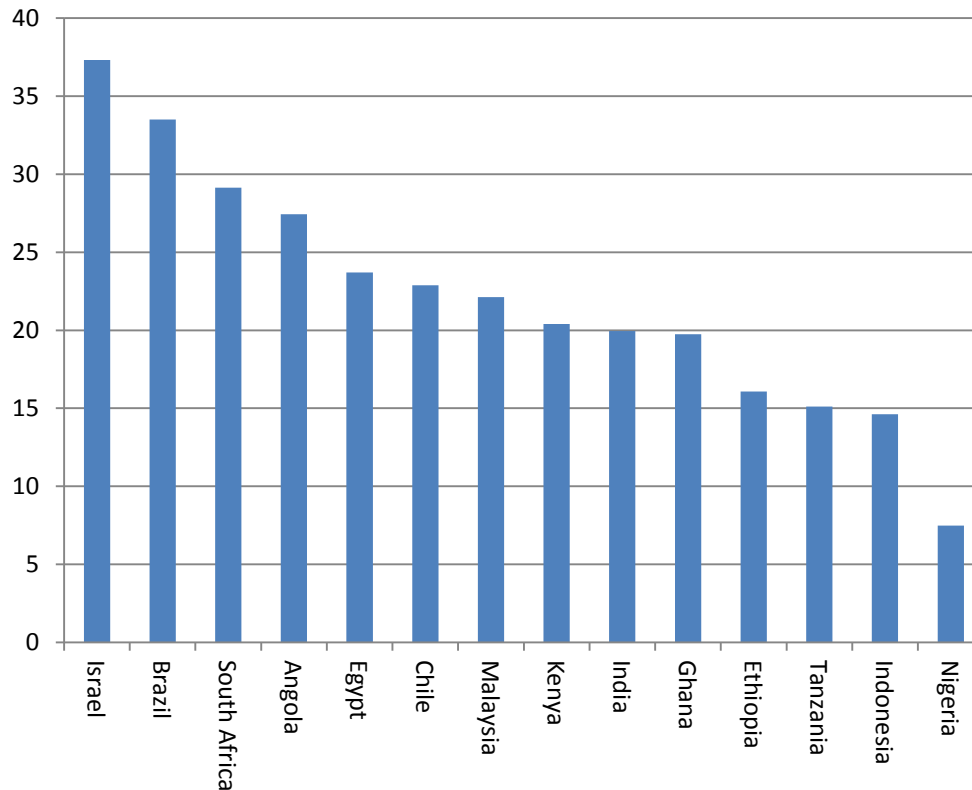
Source: Budget office of the Federation

- Easy oil revenue resulted in inefficient collection of taxes
- For the first time since the 1970's the Government is aiming to raise more than 60% of revenues from non-oil related sources



Nigeria : Significant Scope for Revenue Improvement

Tax to GDP Ratio (2015)

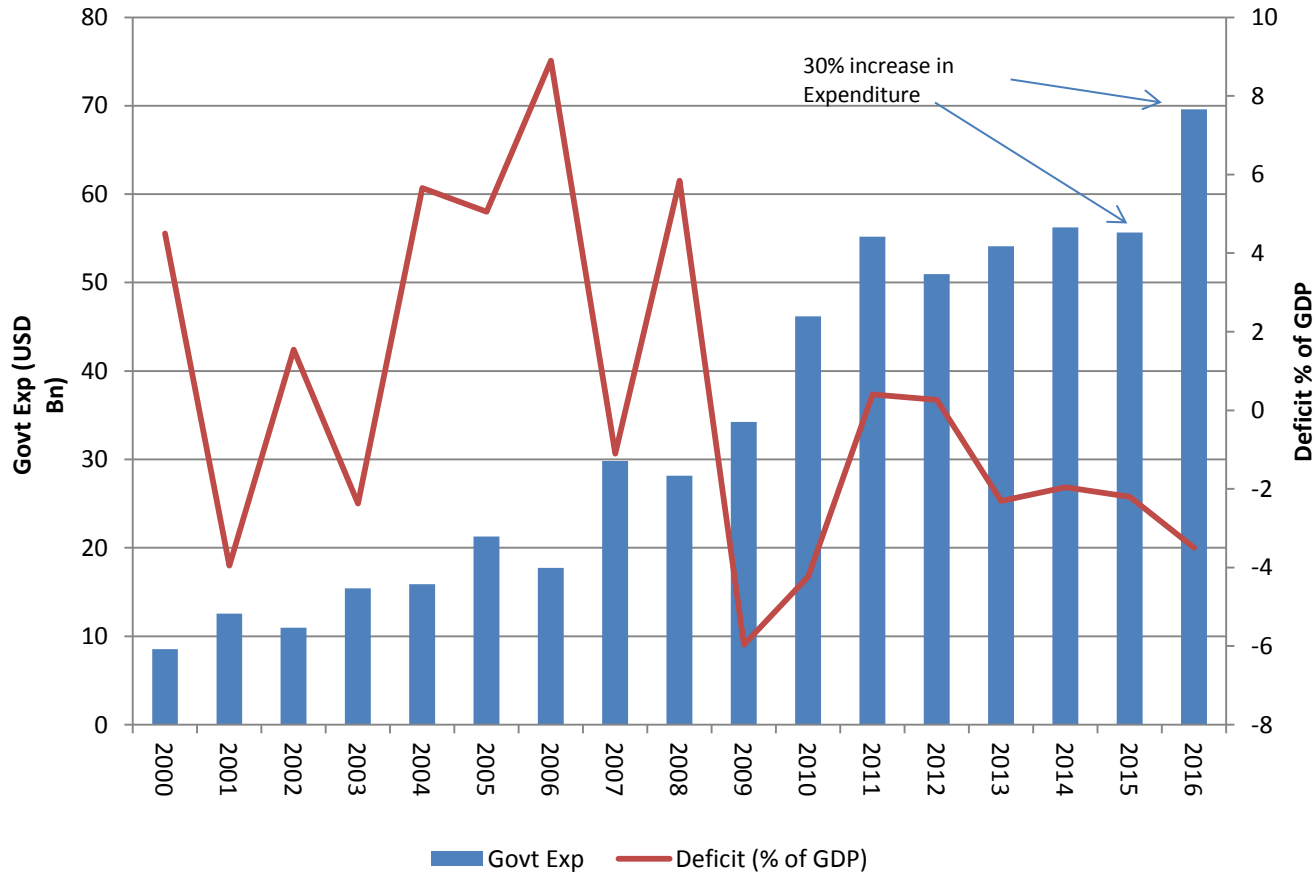


Source: World Economic Database (IMF)

- Nigeria does not have a revenue problem, it has a tax collection challenge. Low oil prices may finally provide the impetus for longer term reform.
- The new head of the Federal Inland Revenue Service (FIRS) was spectacularly successful, when he headed the Lagos State Revenue Service.
- While the Government has ruled out raising tax rates, increasing the VAT rate from 5% to 10% could generate additional USD4bn (40% of the deficit for 2016).
- Current focus is on tax compliance: -
 - FIRS claims to have identified 360,000 payer of Corporation tax in 4Q15 following commencement of an tax compliance audit and the figure will reach 500,000 by 1Q16. if successful, this will increase the number of taxpayers by almost 2.5x.
- Eliminate the issuance of duty waivers
- Recovery of stolen funds



Nigeria : 2016 Budget is expansionary

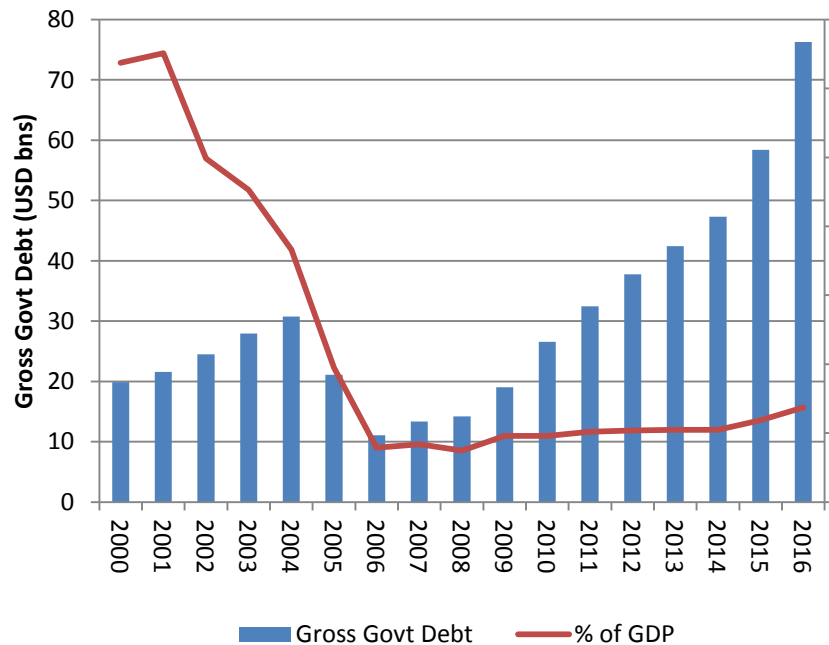


Source: World Economic Database (IMF)

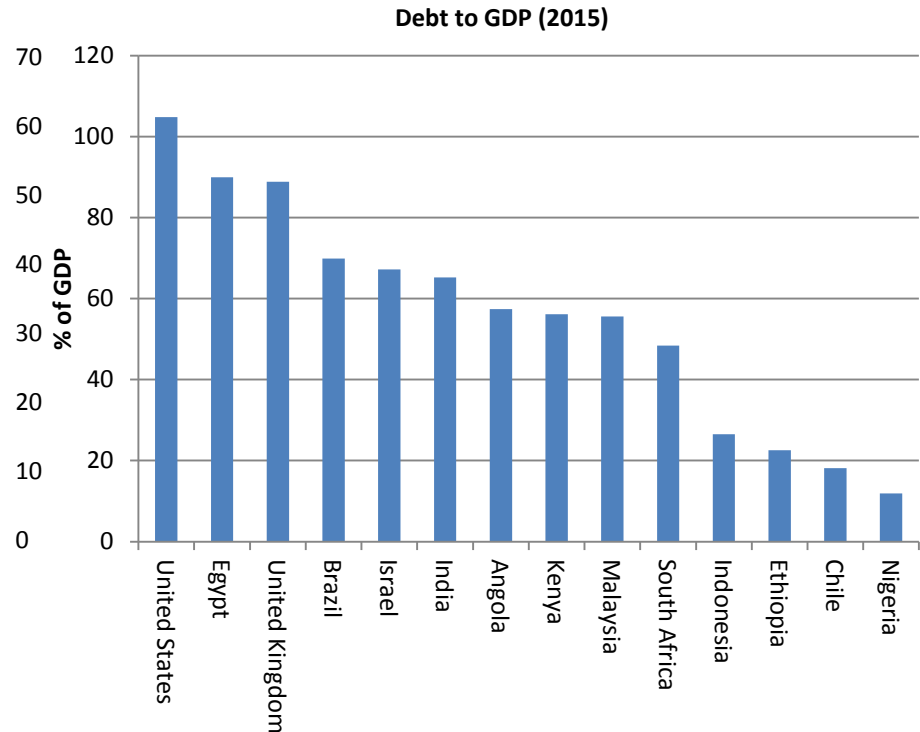
- Government implementing counter-cyclical expansionary budget in 2016.
- Depending on the oil price, the final deficit is likely to be between -2.2% and -3.5% of GDP



Nigeria : Debt Ratio is Very Low



Source: World Economic Database (IMF)

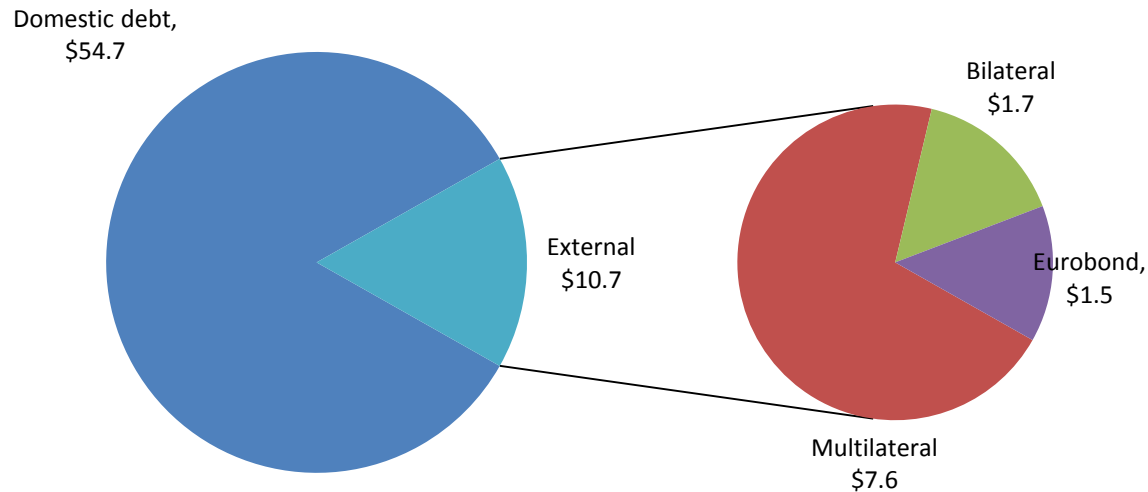


Source: World Economic Database (IMF)

- With one of the lowest debt ratios in the world, the Government has the room to implement its counter-cyclical expansionary budget. There is no requirement for emergency funding.



Nigeria : Debt Burden is Sustainable

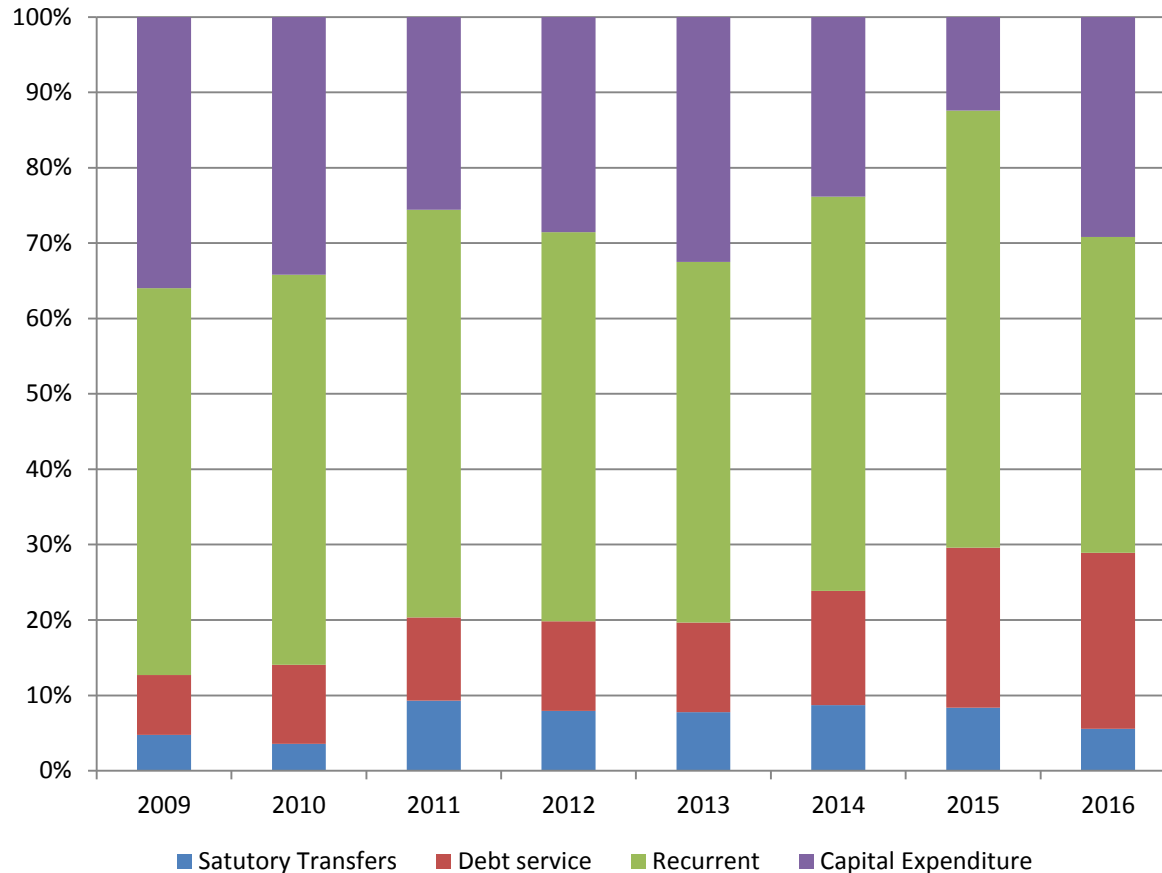


- 83% of Nigeria's debt is domestic debt
- 87% of the external debt is concessional borrowing from multilateral and bilateral agencies.
- Commercial external debt is only USD 1.5 bn (2.3% of total debt).
- The current budget deficit can be funded from domestic sources without resorting to external borrowing



Nigeria : Objectives of the 2016 budget

Expenditure Profile



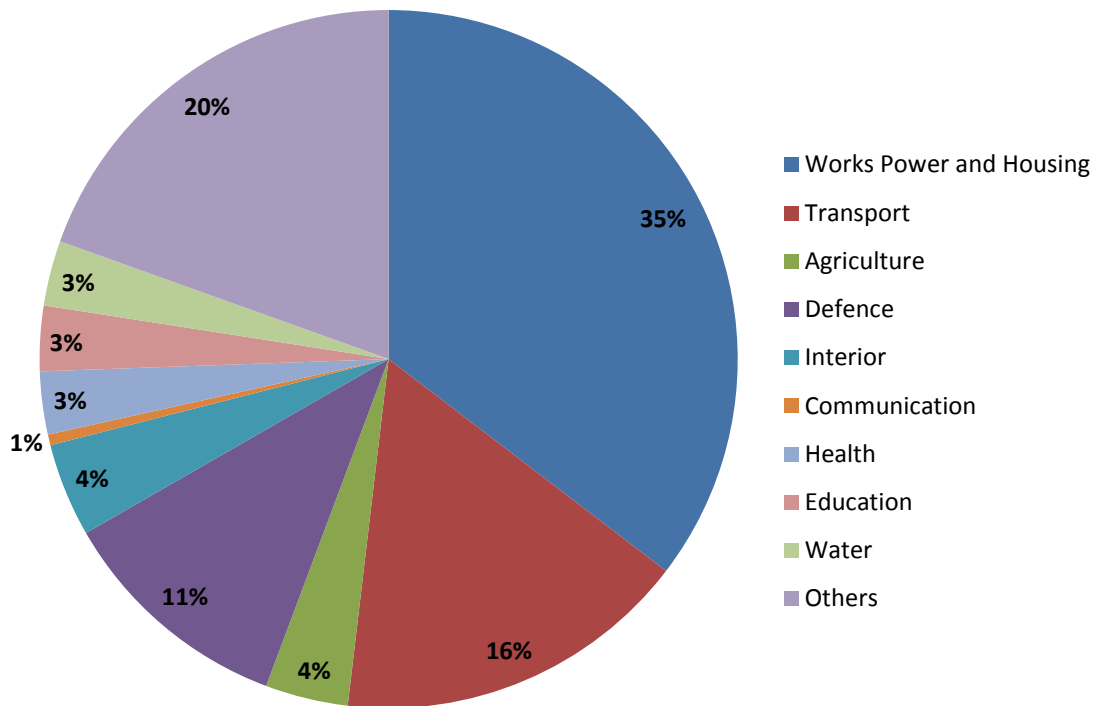
- Stimulate the economy to achieve a real GDP growth rate of 4.2% in 2017
- Reduce the cost of governance, extract efficiencies in the public service and enhance collection of internally generated revenues
- Increase government expenditure on infrastructure
- Fund the budget deficit and negative trade balance cost effectively

Source: Budget Office of Nigeria



Nigeria : Addressing Infrastructure deficit

Allocation of 2016 Capital Budget



Source: Budget Office of Nigeria

- **Increase capital expenditure to 30% of spending (currently 12.3%)**
 - 2015 spend on travel + stationary + consumables = NGN18.9bn
 - 2015 spend on Road = NGN 19.8bn
- **N1.8trn to be invested:** Transport, Roads, Housing, Power, Health

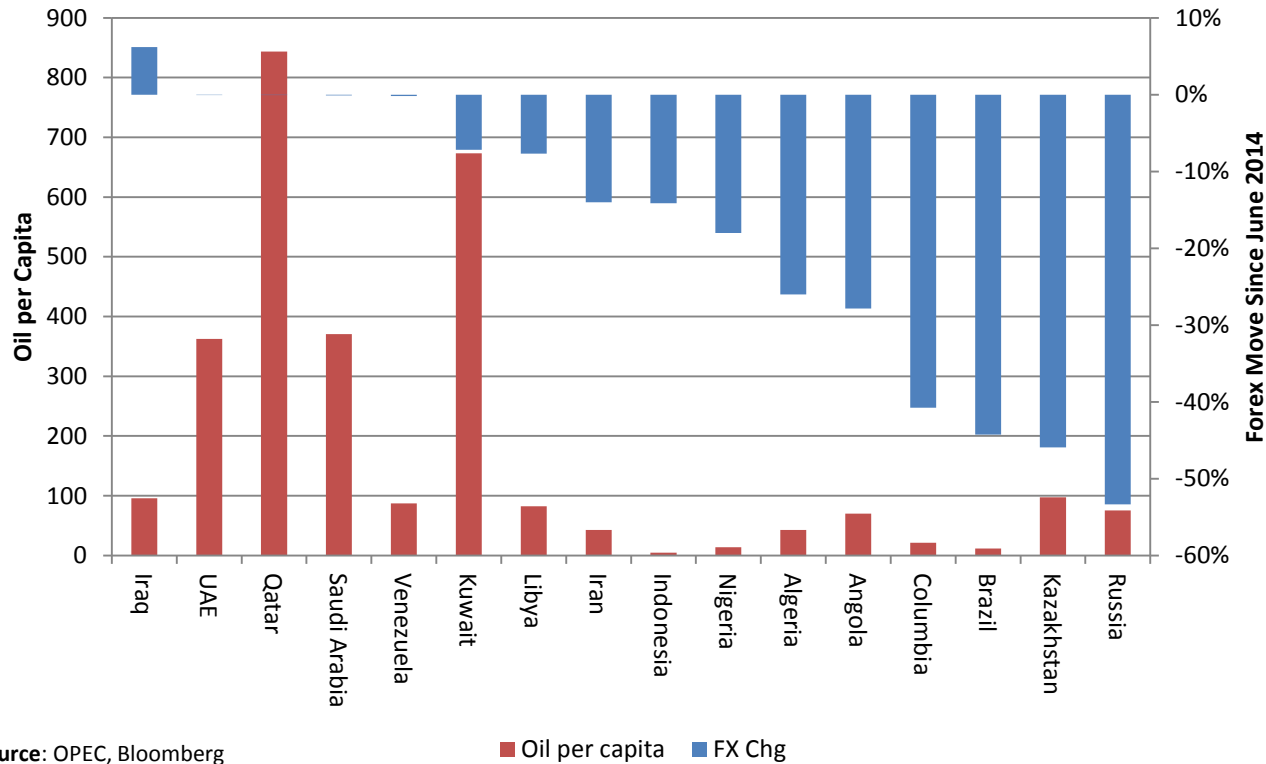


Nigeria : Funding the Deficit

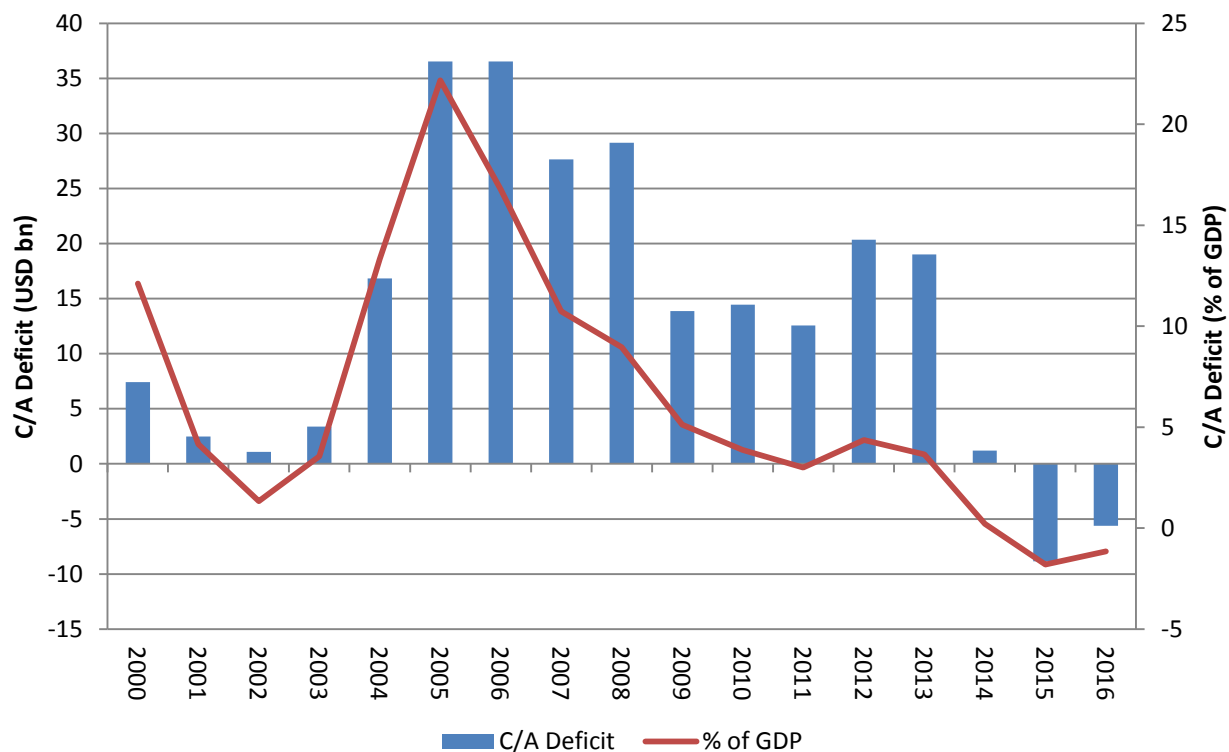
- Projected budget deficit of N2.2trn (USD 11bn) in 2016 (-2.16% of GDP)
- N1.8trn borrowing to be structured to achieve cost effectiveness and acceptable debt sustainability ratios:
 - N635bn (\$3.5 - \$4bn) to be raised from multiple external sources including multilateral agencies and export credit agencies
 - N1,2 trillion (USD6bn) to be raised in domestic market
- Paradoxically, the projected increased deficit in 2016, may not add much upward pressure on domestic yields. Since the introduction of the Treasury Single Account (TSA) in September, about NGN1.1 trillion (USD5.5bn) of T-bills have matured which was not rolled over.
- In 2016, an estimated NGN1.9 trillion (USD9.5bn) of Open Market Operation (OMO) bills will mature and if the CBN continues with its current policy (post-June 2015) of not rolling-over maturing OMO T-bills, then domestic banks alone can fund the deficit.
- Pre June-2015, when excess liquidity in the financial system was around NGN200bn, additional Government borrowing of NGN1.2 trillion would create ripples and some upward pressure on yields. However with excess liquidity now running at around NGN800bn and with the possibility of an additional NGN1 trillion being injected into the system in 2016, it appears that the domestic borrowing requirement for 2016 can be comfortably accommodated.



Oil Dependent Currencies



Nigeria : Current Account Deficit



Source: World Economic Database (IMF)



Nigeria : Longer term reforms

- Implementation of Treasury Single Account
- Ongoing initiatives to increase internally generated revenues (expand the base and increase the number of taxpayers)
- Refinancing of short term obligations into longer tenured instruments
- Direct revenues from revenue generating projects financed will be used for debt service



Africa: The investment case

Profit Opportunities

Africa offers **significant profit opportunities** – robust economic growth, rising consumer demand, strong corporate earnings, well-capitalised banks without toxic assets, relatively cheap stock markets

Growth

Sub-Saharan Africa is one of the **fastest growing regions of the world**. GDP growth for 2014 is expected to be 5.4%, whilst global growth is forecast at 3.6% and 2.2% for advanced economies (source: IMF WEO)

Macro

Improving macroeconomic fundamentals – **low budget deficits, low inflation**

Politics

Improving political situation with majority of countries having democratic governments

Consumer Demand

Robust domestic demand and is not predicated on huge stimulus packages, corporate bail-outs or incredibly low-interest rates

Young Population

Young population: 50% of the population under the age of 30

Attractive Valuation

Current valuations provide an exceptional buying opportunity – trading at P/E 2014 15x, Div Yield 4.3%, EPS growth of 15%

Diversification

Uncorrelated with global markets providing the opportunity for portfolio diversification



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