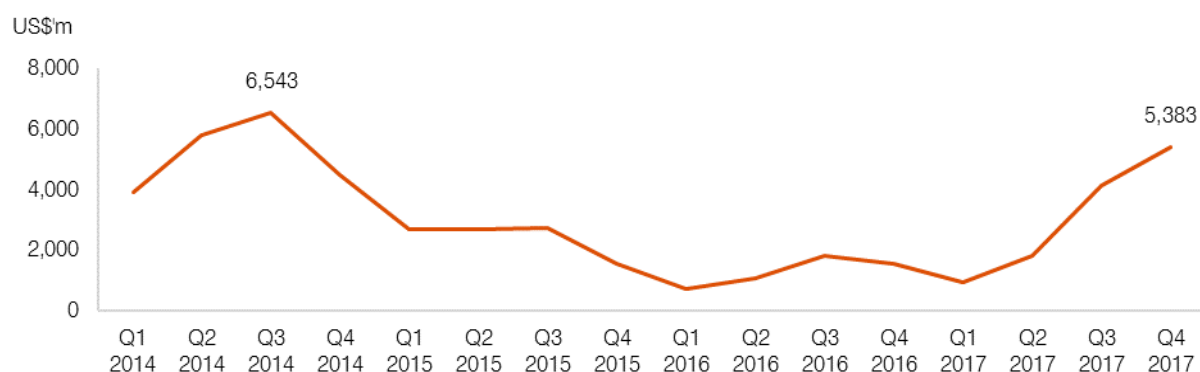


NIGERIA | MACRO | Capital Importation

The Nigerian Bureau of Statistics (NBS) released its Capital Importation report for Q4 2017 recently, which showed a 248% year-on-year (y/y) and c.30% quarter-on-quarter (q/q) increase in capital imported in Q4 2017 to US\$5.38 billion.

We point out the US\$5.38 billion reported in Q4 2017 was the largest inflow since Q3 2014, the period in which global oil prices began its downward spiral from the highs of US\$114/barrel.

Total Capital Importation



Source: NBS, Investment One Research

The surge in capital importation was largely driven by the 1124% y/y spike in Portfolio Investments in Q4 2017, which expanded faster than the other two sub-categories. The increase in Portfolio Investment was driven by a strong growth in Money Market Instruments, which recorded US\$2.18 billion, an increase of c.2545.1% y/y compared to 2016 levels.

Contacts:

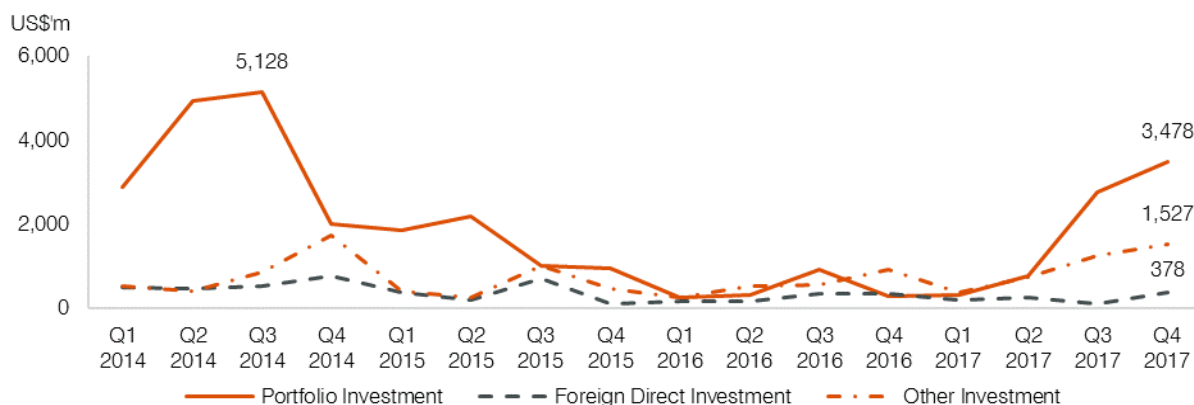
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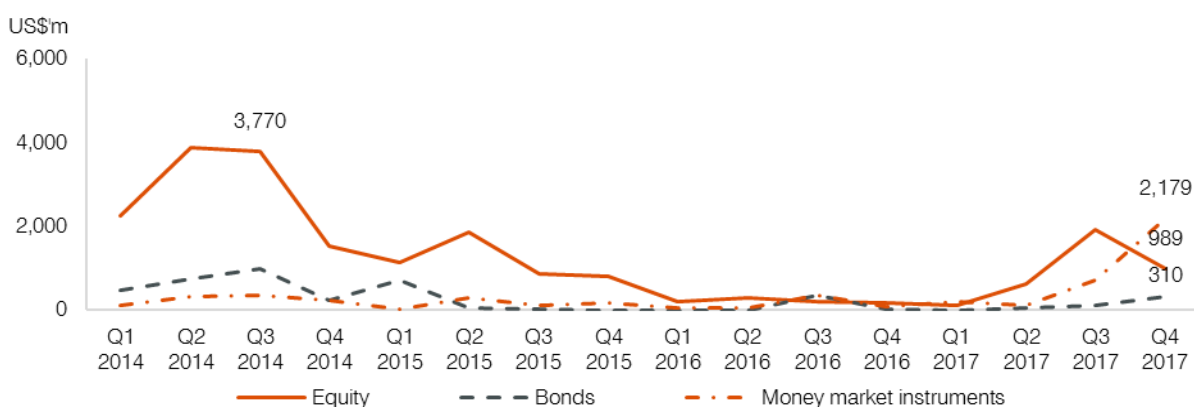
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Total Capital Importation



Source: NBS, Investment One Research

Portfolio Investments



Source: NBS, Investment One Research

Foreign Direct Investor Participation Remains Uninspiring

Foreign Direct Investment (FDI) increased by c.10% y/y and c.222% q/q recording US\$378.4 million in Q4 2017, the highest sum since Q1 2015. The growth in FDI was mainly driven by Equity investments, which contributed 99.8%.

The rise in FDI inflows may not be unconnected with the recent improvements in the country's ranking in the World Bank's ease of doing business ranking (up 24 places to 145th position out of 189 places) as well as strengthening of the nation's GDP growth.

While other investments increased by c. 66% y/y and c.21% q/q to US\$1.53 billion in Q4 2017, its highest recorded since Q4 2014 owing largely to loans which stood at US\$1.09 billion, contributing 71% to other investments. On a y/y basis, other investments rose by c.73% to US\$3.92 billion with other claims jumping by c.2646% to c.US\$740million.

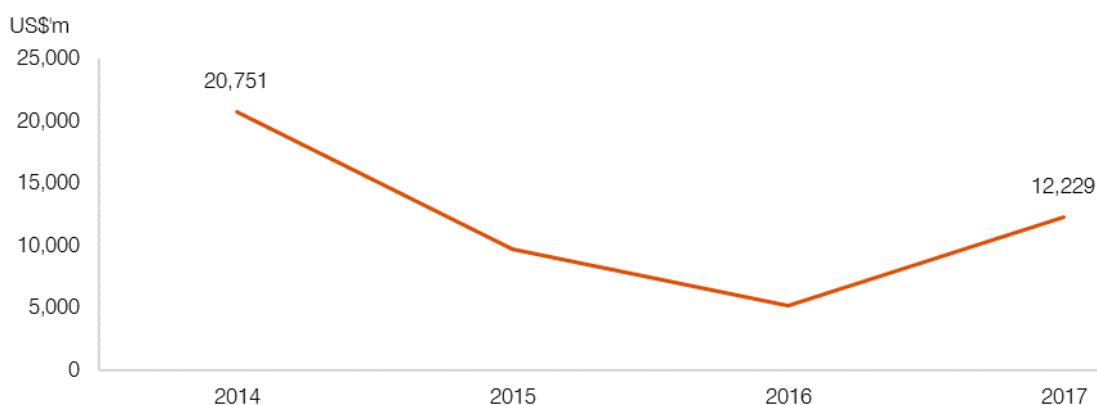
In regards to capital importation by sector, shares accounted for 68% of total capital importation in Q4 2017 growing by c.1512% y/y and 34% q/q to US\$3.68billion.

Establishment of the Investors' & Exporters' FX Window Supports Capital Importation

Total capital importation in 2017 was c.US\$12.23 billion, an increase of c.140% y/y from the figure recorded in 2016. This was mainly driven by an increase in portfolio investment which went up by c.304% from 2016 levels to reach US\$7.33 billion and accounted for 60% of capital imported in 2017.

The surge in capital importation in 2017 may not be unconnected with the establishment of the Investors' & Exporters' FX window in April 2017, which eased the ability for FPI to repatriate funds. Consequently, we saw turnover in this window hit c.US\$23.9billion in 2017.

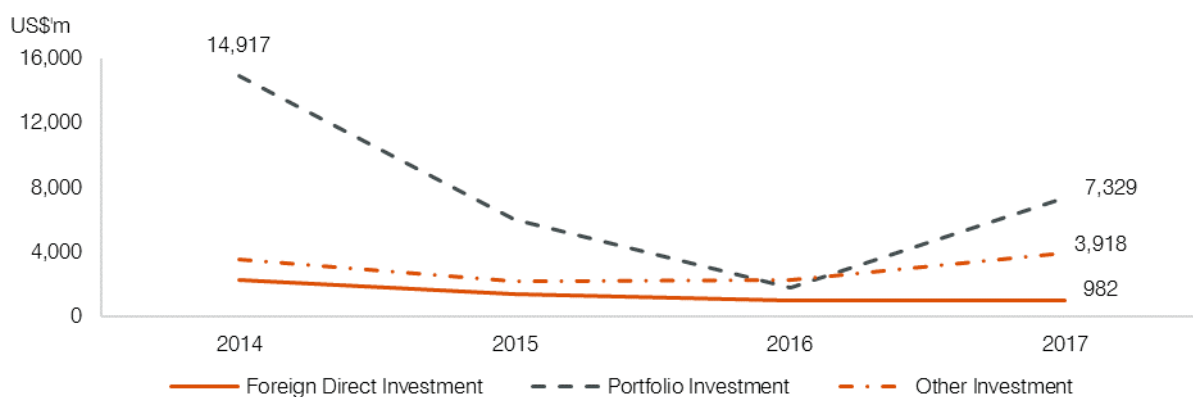
Total Capital Importation



Source: NBS, Investment One Research

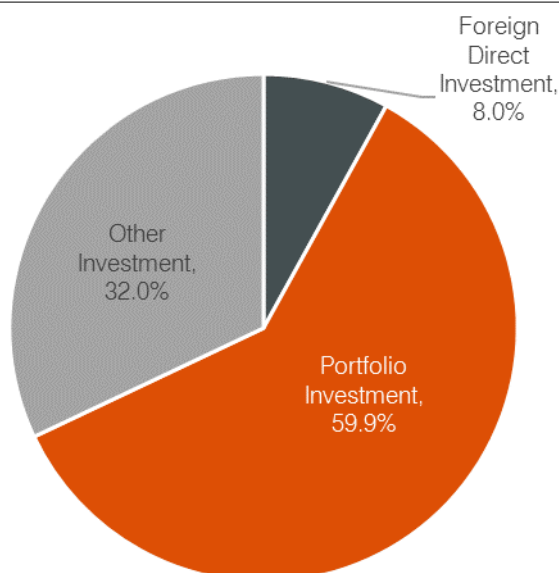
In regards to sectors, shares rose by 589% y/y to US\$10.1billion (accounting for 83% of total capital imported) the highest amount since 2014, which exhibits the significant improvement in foreign investor sentiment post-recession.

Total Capital Importation by Type



Source: NBS, Investment One Research

Contribution to Capital Importation in 2017



Source: NBS, Investment One Research

Outlook

In the near term we could see capital importation remain strong on the back of the strengthening of the nation's FX reserves (US\$46billion as at 9th of March 2018), which should be supportive of foreign investor confidence.

Additionally, a potential return to the JP Morgan index given the improvements in FX market liquidity and transparency should also add more impetus for the attraction of much-needed foreign capital.

Notably, the I&E FX Window turnover for 2018 hit c.US\$9.9 billion as at 28th of February, an indication of foreign investor confidence in the Nigerian market as global oil prices and stability in domestic oil production levels have supported country's FX market and economic outlook.

However, we highlight the potential impact of rate hikes in the USA and UK, which account for c.56% of the total capital importation in 2017 as well as political risk in H2 2018 as negatives to our outlook which may lead to a consequential capital flight.

Also, we believe the infrastructural deficit estimated at c. US\$100billion annually, according to the Nigeria Industrial Revolution Plan, and insecurity in various parts of the country remain barriers to Foreign Direct Investment in Nigeria despite the increase in the nation's ranking in the World Bank Ease of Doing Business index to 145, from 169 out of the 189 countries rated.

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