2023

HALF YEAR INVESTOR SNEAK PEEK

PearlMutual
Consulting Limited

THE ECONOMY AT A GLANCE

As we conclude the second quarter and approach the 2023 halfway point, certain insights into the economy are more readily apparent. The aggregate GDP for the first quarter stands at N51.2 trillion. This is 13% higher than the N45.3 trillion recorded in the final quarter of 2022. However, according to the latest GDP report by the Nigerian Bureau of Statistics (NBS), Nigeria's GDP growth rate in the first quarter of 2023, slowed to 2.3% in real terms from 3.11% recorded in the corresponding quarter of 2022 and 3.52% recorded in the fourth quarter of 2022.

This decline is primarily the result of the nationwide cash scarcity experienced in the first quarter due to the issuance of new notes. Further adversaries to the economy in the first half of the year include a contentious presidential election, the suspension of the governor of the Central Bank of Nigeria, Godwin Emefiele, hyperinflation, and a deteriorating global economic outlook.

As an investor looking to maintain your current portfolio and achieve positive returns during economic uncertainty, you should be focused on investing in resilient sectors that historically outperform the stock market and government bonds.

SECTORS TO WATCH

Agricultural Sector

In Q1, the agricultural sector contracted by 0.9%. This negative growth rate contributed to the decline in the overall GDP growth rate of the country in the first quarter of the year. The sector contributed 21.66% to the national GDP in the first quarter of the year, 4.06% points lower than its contribution in the corresponding quarter of 2022 and 2.95% points lower than the last quarter of 2022.

Despite its short-term performance, we predict that in the long run, the Agricultural sector will remain a worthwhile investment choice. This prediction is largely based on:

Public and private investment

• The sector benefits from public and private investment targeted at increasing crop production (maize, rice, cassava, yam, cattle, and poultry)

Government policy.

• The government is committed to modernizing and improving the sector. Recent policies have been aimed at promoting the use of technology and improving access to finance and markets.

The nature of the sector.

• In times of economic downturn, the Agricultural sector is one of the safest industries to invest in because it is a defensive sector. This means that any decline in revenue for agric companies will be minimal, compared to firms operating in cyclical sectors such as aviation. Therefore, even in times of imminent recession, Investors can look forward to modest returns provided that they invest for longer periods.

Information and Communication Sector

Telecommunications and Information Services, Publishing, Motion Picture, Sound Recording, and Music Production, and Broadcasting are all sub-sectors of Information and Communications Technology. In contrast to the agricultural sector, the Information and Communications Technology (ICT) sector contributed 17.47% to Nigeria's real GDP in Q1 2023, an increase from the 16.2% rate recorded in the same period the previous year. Quarter on quarter, the sector also recorded growth in real GDP contribution when compared to the 16.2% it added in Q4 of 2022. The Telecoms sub-sector was the real engine behind the growth experienced in the ICT sector, contributing 14.13% to the nation's real GDP. This growth was driven by factors such as the government's commitment to developing the digital economy, the diligent implementation of the National Digital Economy Policy and Strategy (NDEPS) for a Digital Nigeria, stakeholder engagement, and the creation of an enabling environment. In terms of investment prospects, Nigeria continues to attract foreign direct investments in the ICT sector, cementing this sector's status as an investment hub. One of the standout sub-sectors of the Tech industry is the FinTech industry. While the cash scarcity of the first quarter crippled the economic activities of most sectors in the country, the FinTech industry was given a brilliant opportunity to thrive as consumers had to resort to more digital means of transacting business. Nigeria's FinTech is surging as one of the leaders in Africa today. The continuous growth of ICT/ tech in the country will rapidly change the future of e-commerce, trade, health, and finance. Ultimately, investors should be willing to invest resources given the potential for returns.

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Real Estate Sector

The Real Estate sector's contribution to the overall GDP of the nation in real terms stood at 5.31% in the first quarter of 2023, this is a 0.03%-point decline from the 5.34% it achieved in the corresponding quarter of 2022.

The sector is faced with challenges such as high construction costs, liquidity from the perspective of developers, declining consumer purchasing power, dwindling forex rates, poor infrastructure, and multiple taxation.

However, a rebound in the real estate sector is expected before the end of the year. The sector has been one of the six major contributors to the Nigerian real GDP in the last 11 years. Specifically, the housing market (house prices, commercial and residential rents) has remained relatively stable, with few marginal rises. The sector is still projected to experience significant growth largely due to drivers such as persistent housing deficit in the country, rapid urban population, expanding middle class, supply and demand factors, demand for real estate assets, innovation in building technology, eco-efficient buildings, and business models that leverage technology for digital sales and leasing purposes. Due to the existence of these drivers, there are currently institutional investors seeking opportunities in the sector for strong returns. Ultimately, the real estate sector is a prime investment destination in Nigeria and should be on your investment watch list.

Transportation and Storage Sector

The sector grew by 20.22% in nominal terms (and 9.36% in real). This rate is higher relative to the figure of -16.02% recorded for the corresponding quarter of 2022 and lower than the 33.67% recorded in the previous quarter. Five of six sub-sectors in the industry recorded positive growth rates in the first quarter of 2023. Transport activities contributed 1.71% to Nominal GDP in Q1 2023-an increase from the 1.60% recorded in t he corresponding period of 2022, and lower than the 2.33% recorded in the fourth quarter of 2022. Investment-wise, the country's transportation and storage sectors are integral to Nigeria's development- they support the supply chain, local and international trade, and the nation's economic progress. Public transport, specifically, is a key ingredient for a dynamic economy. Currently, the demand for basic and diverse transportation infrastructure services continues to outpace the existing supply. As a result, investment opportunities are present, as the country is determined to improve its transportation and storage infrastructure to catalyze economic growth. There is therefore a need for cooperation between the public and private, and local and foreign investors for the realization of this objective. With Nigeria being an African powerhouse, as well as the most populous African country, opportunities for investment in the transport and storage sector are numerous and can prove to be particularly lucrative for investors.

In Conclusion...

Threats of a global recession in 2023 and rising inflation threaten to further destabilize the Nigerian economy. In times such as these, industries that are considered essential to the population and provide consumers with necessities (non-cyclical), are expected to fare better, and will provide more stable returns. When choosing specific companies to invest in, in the third quarter of 2023, prioritize companies with strong balance sheets and good cash flow. Investors that are interested in investing in cyclical industries, should exercise restraint and extreme caution as they tend to underperform during economic downturns. Ultimately, the key to surviving a possible recession as an investor will be to seek out opportunities for longer-termed investments.

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