Post-election Outlook

Buhari emerges victorious — what next?

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President Muhammadu Buhari has emerged victorious in the 2019 presidential elections—one of the most keenly contested since the beginning of the Fourth Republic in May 1999—winning a total of 15.2 million votes compared to the 11.3 million votes of his main challenger, Atiku Abubakar. Indeed, much of the nation's economic activity in recent months have been conducted against the backdrop of electoral uncertainty. Now that the elections have been concluded, and the results announced, the question becomes: what does a second term for President Buhari hold for 2019 and beyond?

Below, we highlight several themes that are likely to play out within the first full year of the president's second term:

1. Sustained implementation of Economic Recovery and Growth Plan (ERGP) to support growth at 2.0%
2. Central Bank governor has a better chance of re-appointment in June
3. FPI's to return to the equity market
4. Expect sustained welfare programs
5. Post-election events to watch out for

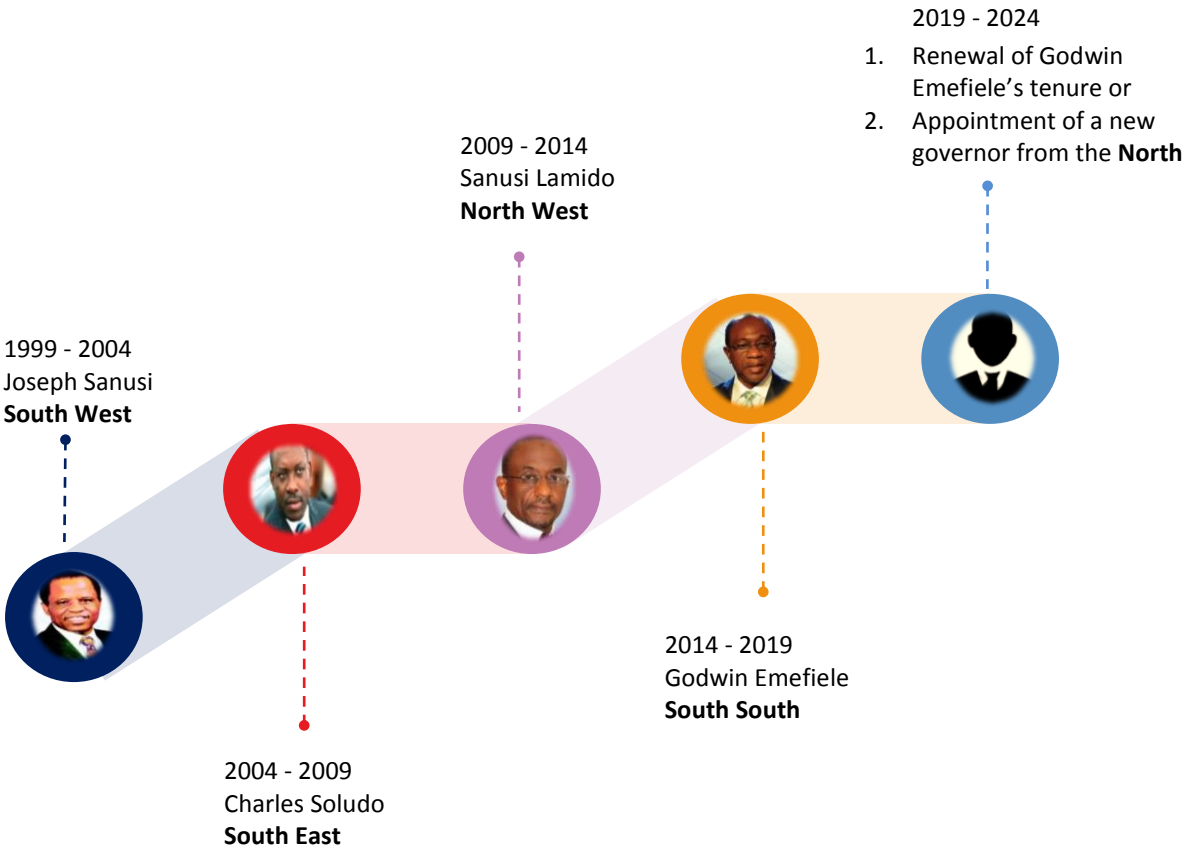
Sustained implementation of Economic Recovery and Growth Plan (ERGP) to support growth at 2.0%

A victory for President Buhari means consolidation of the progress made on economic growth since the recovery from recession and sharp currency devaluation in 2017. The domestic economy has recorded improvements, albeit sluggishly. The economic expansion by 1.93% YoY in 2018 (vs 2017: 0.82% YoY, 2016: -1.58%) was predicated on the implementation of the ERGP and we expect the sustained execution of this plan throughout 2019 to culminate in a growth of 2.0% YoY. Key tenets of the plan include the diversification of the revenue base through import substitution policies, investments in agriculture, slow and steady progress on refinery expansion among others. However, in our opinion, the slow pace of execution falls short of providing the impetus to propel the economy beyond vapid growth of around 2% levels.

Central Bank governor has a better chance of re-appointment in June

A Buhari second term signals continuity in prevailing monetary policy for the next four years, all else equal. These policies achieve price and exchange rate stability through routine interventions in the foreign exchange market and an elevated yield environment to attract/ retain foreign portfolio investors. The incumbent governor of the Central Bank of Nigeria (CBN), Godwin Emefiele, has done a satisfactory job in aligning with the administration's objective. As such, there is a likelihood to maintain status quo rather than opt to appoint a new CBN governor. However, there remains the chance that the governor is replaced, as has been the case since 1999 (the inception of the Fourth Republic). The position has changed hands every five (5) years and has so far rotated across four of six geopolitical zones in the country, with the two remaining zones being North Central and North East. Considering the unofficial rotation policy, we believe there is the possibility of the central bank governor being replaced by an appointee from the Northern region.

Figure 1: Previous CBN governors



Source: Central Bank of Nigeria

Improved foreign portfolio flows to the equity market

The NSE All-Share Index shed c. 18% in 2018, following US rate normalization, sour emerging market sentiments, political concerns and falling oil prices in Q4'18. As a result, several fundamentally justified stocks currently trade at a discount despite a relatively stable exchange rate environment. We note that the equities market remains undervalued compared to peers (Nigeria P/E 9.4x; MSCI P/E 12.9x). However, with enough clarity in the political space (following conclusion of the presidential elections), a slowdown in US Fed rate hikes and improved emerging market sentiment, we see a return of foreign investors into the stock market. It is noteworthy that the equities market had been the preferred destination for foreign portfolio investments (FPIs) in the last five (5) years, accounting for over two-thirds of total FPI inflows. Only recently did we begin to see a tilt in favour of money market instruments (see chart below). Given the aforementioned, we foresee renewed interest in Nigerian equities. We expect the rally to begin in the banking sector, owing to its liquidity benefit and spill to other counters on the index, trading at relatively attractive valuations. Both foreign and local investors have already begun taking positions as evinced by average market breadth of 2x witnessed in the past 3 weeks.

Figure 3: Average composition of FPI inflows between 2014 and 2017

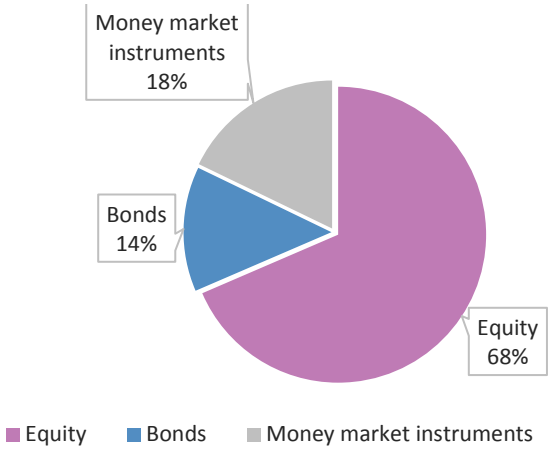
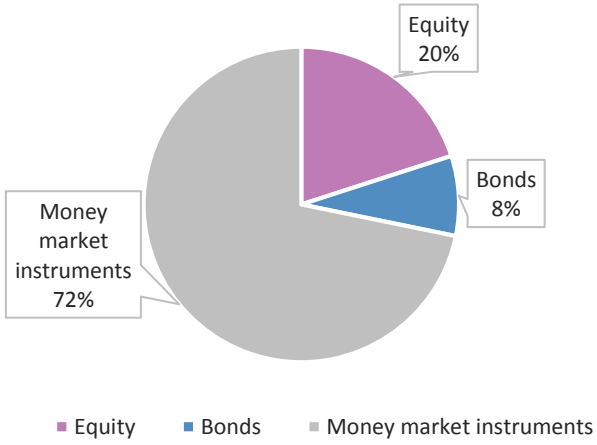


Figure 4: Composition of FPI inflows in 2018

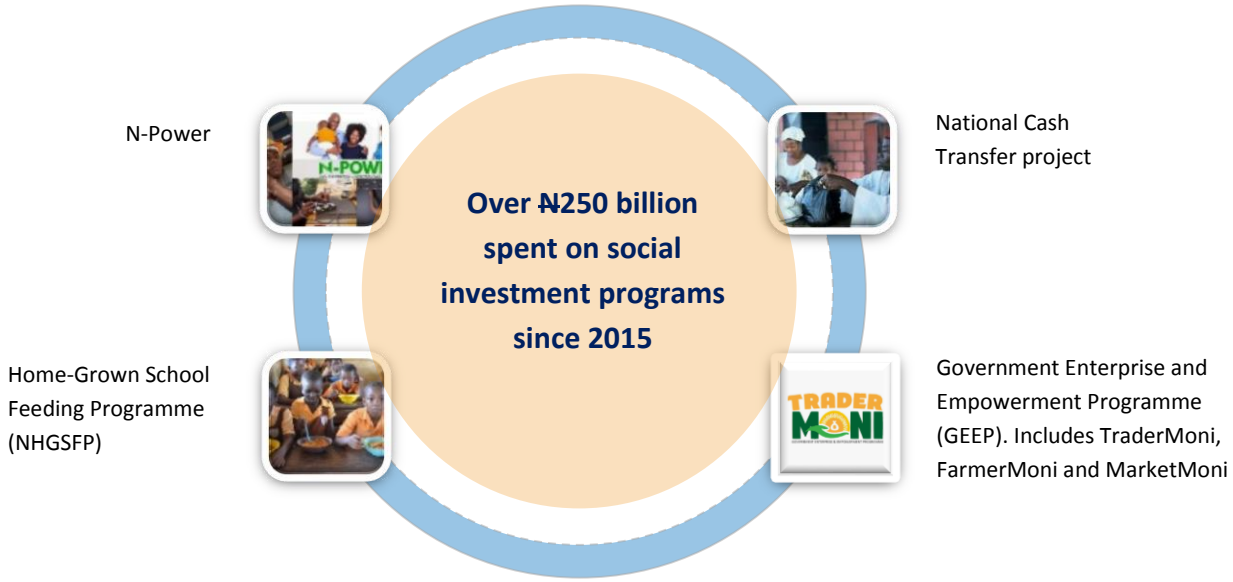


Source: National Bureau of Statistics; CardinalStone Research

Expect sustained welfare programs

A second term in office for President Muhammadu Buhari entails sustained implementation of welfare initiatives such as TraderMoni, MarketMoni, FarmerMoni, the National Home-Grown School Feeding Program (NHGSFP), among others. These programs provide extra money to the lower income bracket, who have a higher propensity to consume, and is intended to drive demand as well as improve living standards. However, increased spending on welfare, given the nation's low revenue generation profile, may widen the budget deficit and heighten debt sustainability concerns (debt service to revenue ratio 2018: c.60%). This could have an adverse impact on the debt service costs and leave the nation even more susceptible to crude oil price fluctuations. While the impact of these policies on poverty alleviation and economic growth is up for debate, we expect to see more social programs as the administration battles with a high unemployment rate of 23.1% (Q3'18).

Figure 5: Federal Government's social investment programs

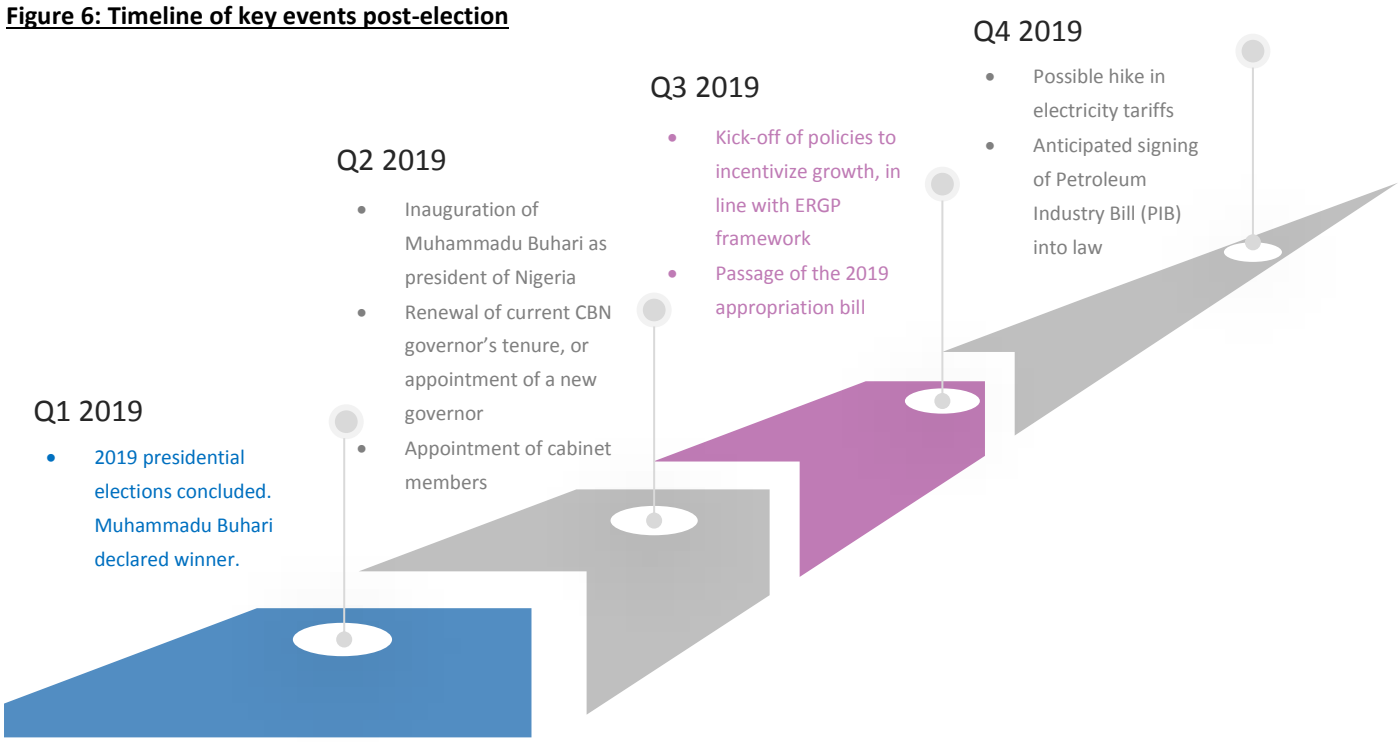


Source: Media Publications

Key post-election events to watch out for

Below, we highlight key events to watch out for within the first year of President Buhari's second term in office:

Figure 6: Timeline of key events post-election



Asset allocation view

In the table below, we highlight various asset classes and indicate our allocation preferences, on a broad base, over a 6- to 9- month investment horizon.

Asset classes		View			
		Positive	Neutral	Negative	Rationale
Equities	Financials	○	●	○	Sector remains undervalued compared to MEA peers. Asset quality, capitalization concerns, growing competition in retail space are some risks in FY'19
	Consumer goods	○	○	●	Earnings to slow; weak consumer confidence and depressed demand, rising competition will likely drag performance
	Industrial goods	○	●	○	Slow pace of budget implementation and capital investments may deter growth and weaken earnings
	Oil and gas	○	●	○	Average oil prices above recession level remain supportive of valuation for upstream companies; income diversification to support EPS for downstream firms
Fixed income	Local bonds	○	●	○	Political concerns to ease post-election; yields to moderate
	Eurobonds	○	●	○	Moderating US Fed tone will likely see yields decline. Reserves provides decent cushion to absorb short term shocks
Forex	USD	○	●	○	Reserve level and positive trade balance remain supportive of CBN interventions; expiration of CBN Governor's tenure in May raises concern

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