



Nigeria: An African Giant

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I've been a frontier market fan for some time now, especially when it comes to Africa, and particularly when it comes to investing in Nigeria. On May 7-9, Abuja, Nigeria, had the honour of hosting the World Economic Forum on Africa, which South Africa has hosted for the past 17 of 23 years. The event offered an opportunity for Nigeria to showcase its economic potential and build some investor confidence. Unfortunately, the shocking kidnapping of school girls by the Boko Haram, probably designed to embarrass the government at the time of the Forum, highlighted that Nigeria's path to development will not be an easy one. My thoughts and well-wishes are with the families of the girls for their safe return.

I don't believe even such a hideous act of terrorism should dislodge Nigeria's path to future economic growth. Despite its challenges, we continue to see potential in Nigeria from an investment standpoint for a number of reasons.



While not the largest country in Africa in terms of land mass, Nigeria is an African giant by other measures—and certainly not a sleeping giant. Nigeria boasts the largest population in Africa, at 174 million as of July 2013¹ and recently stole the top spot from South Africa as the largest economy on the continent. How did that happen? Without question, Nigeria's economy has been growing at a fast pace—among the fastest in Africa in the past few years. GDP growth in Nigeria stood at 6.3% in 2013 and is projected to reach 7.1% this year, while South Africa grew a more modest 1.9% in 2013 and is projected to grow 2.3% in 2014.² Nigeria boasts one of the fastest-growing economies not only in Africa but in the world, with GDP growth rates above 6% every year since 2003.³

Some say Nigeria's gross domestic product (GDP) figures had been hiding a secret; the assumptions for the shape of the economy were years out of date as Nigeria's GDP data had not been rebased since 1990. In 2013, Nigeria's National Bureau of Statistics announced the intention to rebase its data from 1990 to 2010, and hints emerged that the rebase was going to paint a picture of a much larger economy than previously reported. Sectors that had barely existed in 1990 would be granted larger weighting. Early in April 2014, the new figures for Nigeria's GDP were published, and at US\$509.9bn, the new 2013 GDP figure was roughly 1.9 times the previous estimate.⁴

Of course one cannot just look at the numbers, as there are a number of important caveats. South Africa's per-capita GDP remains far above that of Nigeria, and its stock market has a market capitalization value more than twice that of Nigeria. As the only market that is generally classified as "emerging" in Africa (vs "frontier" for the rest of the continent), we think South Africa is likely to remain the key initial investment destination in Africa for some time to come—and one we remain keenly interested in, too.

However, no matter how you measure it, we think the development of Nigeria has great implications for the entire continent. Nigeria could set an example for other countries and act as a "growth engine" for the rest of Southern Africa. Of course, Nigeria has many problems and the way which its leaders solve those problems will determine how fast progress is made. Most important, for example, are basic public services. The most evident of those is electric power. Most hotels and businesses require their own gasoline or diesel electric power generators because of the unreliability of the government power system. My team and I have had our share of being stuck in elevators in Nigeria when the power fails, so we know first-hand how important it is to an economy and the businesses in it to be able to keep things running. If the privatization process is successful in Nigeria, we think it could be a revolutionary change to the country.



Nigeria's government appears determined to tackle a number of major issues that have hampered economic development in recent decades. Nigeria's huge resources of oil and gas are a case in point. The country is a global player in terms of oil and gas production, but corruption, inefficiency and widespread theft have stunted output, while subsidized prices for fuel have so distorted incentives for refining and marketing oil that Nigeria is among the largest importers of refined petroleum products in Africa. From our perspective as investors, the biggest challenge for Nigeria is to develop a government leadership that will be intent on economic development, and intent on utilizing the country's resources to develop infrastructure: roads, railroads, electric power, sewerage, water, and so on. We believe this would establish a platform for growth of new enterprises and would lead to more employment.

Of course, Nigeria has its issues, including social unrest, corruption and religious intolerance. Social inequality has been fuelling instability all over the world, but we believe a primary problem in Nigeria is a lack of public services and a bureaucracy which inhibits development. With mobile phones prevalent throughout the country, Nigerians are becoming more aware of government inefficiencies and corruption. This has stirred resentment and strife, which unfortunately, can lead to the type of violence we saw flare up in Abuja recently. While tragic, this increased transparency can also inspire positive change, and Nigeria's leaders seem to be getting the message. Technology has also allowed the people fed up with the violence to organize and protest for peace. We are hopeful that the country and its people can come together to resolve their differences and move forward toward a more positive future.

Looking for Nigerian Values

In our view, valuations have been getting stretched in some areas in Nigeria and other frontier markets which have been attracting more investor interest. However, we are still finding plenty of potential opportunities not only in Nigeria, but in the Ivory Coast, Ghana, Kenya and other frontier markets. We are selective stock pickers and spend a lot of time researching and visiting as many companies as we can to determine what we feel the true value and potential is, with a long-term time horizon in mind.

In terms of particular sectors or themes, we find consumer-oriented companies in Nigeria (and other areas of Africa) are most interesting to us right now, since overall per-capita incomes have been rising and the growth potential appears to be quite good not only in Nigeria but in other places in Africa. We are focused on anything relating to consumer goods and services, including consumer banking. One incident struck me when I was interviewing the manager of a soft drink company in Nigeria. When I asked him who his biggest competitor was, he said: "My biggest competitors are not the other soft drink companies but the cell phone companies, because when a customer has some extra money he has to decide whether to buy a bottle of my soft drink or more time on his cell phone!"

I hope that the positive news surrounding Nigeria's economic standing and the nod it has been given as host of the World Economic Forum on Africa this year will help spur even more positive change there and help advance the movement for peace. As an investor, I think it's my job to remain optimistic about the countries and companies in which I invest, and I think other emerging and frontier market investors would be remiss to ignore the potential that we see in Africa's giant, Nigeria.

Read more about Nigeria in my previous blog, "[Notes from the Nigerian Frontier.](#)"

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1. Source: The World Factbook. Washington, DC: Central Intelligence Agency, 2014.
 2. Source: World Economic Outlook Database, April 2014. © by International Monetary Fund.
 3. Source: The World Bank, GDP Growth (annual %), World Development Indicators.
 4. Source: World Economic Outlook Database, April 2014. © by International Monetary Fund.