

SEPTEMBER 2020



CORPORATE NEWSLETTER

The Nigerian Hotel Report 2020

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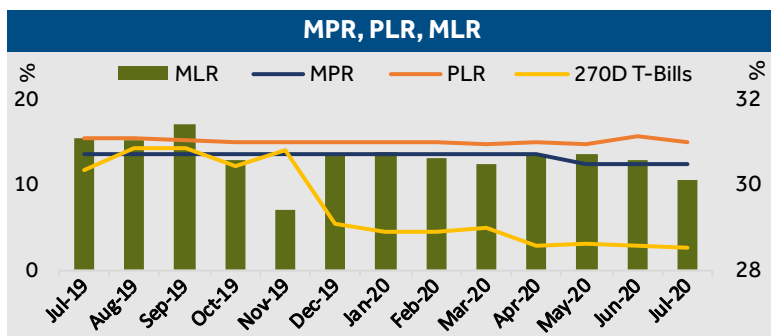
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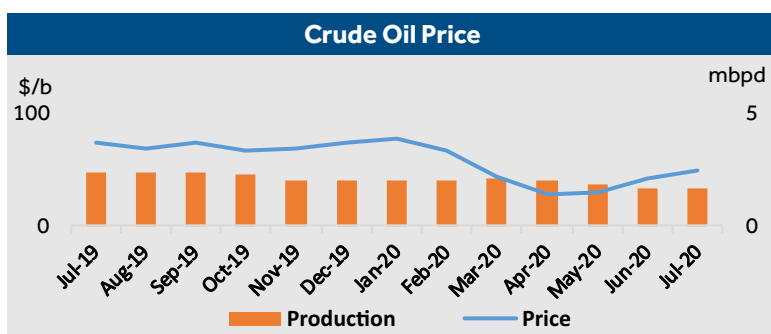
more than banking

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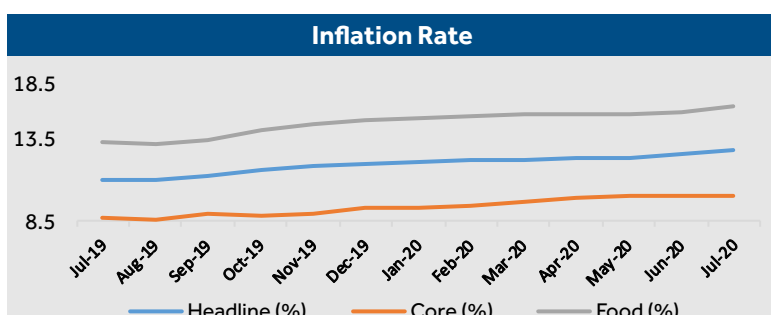
Macroeconomic Update - September 2020



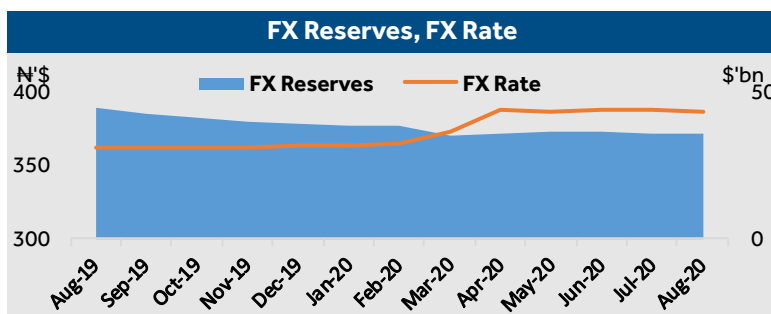
- The Monetary Policy Rate (MPR) remains locked at 12.5% amidst rising inflation with the Cash Reserves Requirement (CRR) at 27.5%.
- In July, Prime Lending Rate (PLR) & Maximum Lending Rate (MLR) declined by 0.66% & 0.45% after a pickup in June 2020.
- The 270-Day Treasury Bills (T-Bills) rate maintains its downward trend, dropping further to 2.3% in July 2020 from 2.6% in the previous month.
- This has created limited access to cheaper funds due to the CRR. Also other investment options might be explored given low T-bills yields.



- Bonny light oil price continues to rise slowly. It posted a 3.4% increase in August 2020 rising to \$44.28 from \$42.83 in the previous month.
- Oil production dropped to 1.49 million barrel per day (mbpd) in June 2020 from 1.5 mbpd in the previous month.
- Crude oil earnings make up over 60% of the government revenue. Lower oil prices translates to lower government revenue which further translates to lower government capital spending. This Lower capital spending amounts to higher cost of business operations.



- Inflation rate maintained its upward trend in July 2020 posting 12.82%. The negative impact of the COVID-19 pandemic, currency devaluation, border closure amongst others continues to drive up the rate of inflation
- Food inflation rate grew by 0.3% while Core inflation declined by 0.03% in July 2020.
- Higher inflation rate erodes consumers purchasing power. This means low earnings and profitability for businesses.

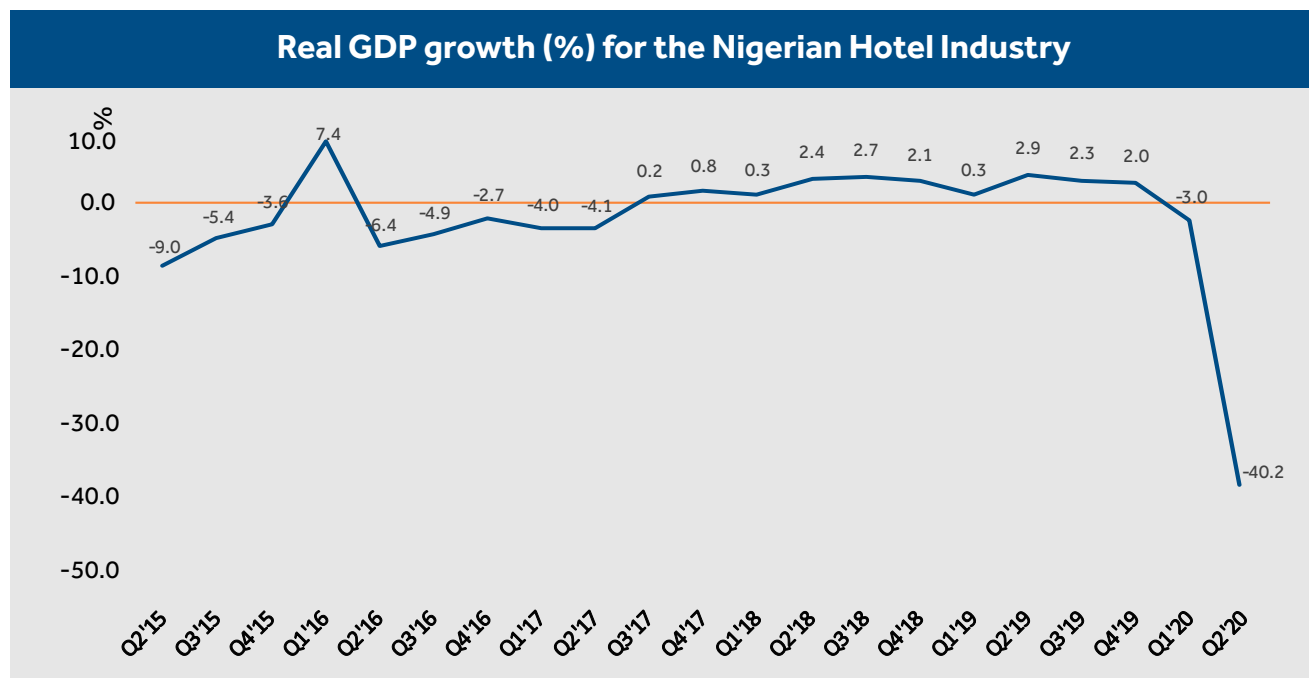


- Foreign reserves in August 2020, declined by \$200 million from \$35.9 billion in the previous month.
- The Naira appreciated in August 2020 as ₦/\$ settled at N386.69/\$ from ₦388.17/\$ in the previous month at the NAFEX window, reflecting a ₦1.48 decrease.
- Lower exchange rate reduces the cost of imported products. This means businesses would require lesser amount of money for production or purchases vice versa.

Overview of the Nigerian Hotel Industry

COVID-19 Impact

- The hotel business in Nigeria depends largely on tourism and travels especially air travels.
- Travel restriction, both domestic and international, has negatively impacted a once-thriving industry.
- However, the hotel business is expected to pick up in the last quarter of 2020 as the economy gradually reopen.
- Competition is also expected to stiffen as hoteliers try to sustain their market share while trying to adjust to the "new normal" of rendering services to their customers.
- It is worthy of note that the phobia for travelling might persist for a while thus slowing down the recovery process for the hotel business.



Recession

Sector
Characateristics*

162.5

Nominal GDP
Size (N'bn)

0.41

Contribution
to GDP (%)**

Interest Rate Sensitive



Exchange Rate Sensitive



Employment Sensitive



* - The hotel industry growth maintains a negative quarterly growth trend.

** - Data as at Q2 2019

SWOT Analysis of the Nigerian Hotel Industry

S Strengths

- Nigeria's large population provides a large market base for the hotel industry
- The need for people to travel for either business or leisure means more income.
- The Tourist sites in Nigeria have increased the patronage of hotel services
- Nigeria has one of the fastest growing hotel markets in Africa in terms of revenue from hotel rooms

W Weaknesses

- Restricted access to foreign currency coupled with devaluation/depreciation could discourage foreign travels
- Inadequate infrastructure i.e. good road network and power supply which hampers the effective running of the hotel industry
- Nigeria relies largely on domestic tourism, making the hotel industry susceptible to Nigeria's volatile economic conditions

O Opportunities

- Nigeria's ever growing population continues to grow the market base for hoteliers.
- The African Continental Free Trade Area (ACFTA) pact could also mean more business for the hotel business as travels into Nigeria would increase.
- The Mid-Scale market presents the best opportunity for growth in the industry

T Threats

- Heightened Aviophobia in this COVID-19 times would have ripple effect on the hotel industry.
- Nigeria's weak macroeconomic environment coupled with insecurity issues would discourage potential investors
- Corruption and the unfavourable regulatory environment might also discourage investment

Recovery: Post COVID-19

Listed below are some possible implications for consumers and the Industry post COVID-19:



Looming Recession

The International Monetary Fund (IMF) projects the Nigerian economy is to contract at -5.4% in 2020, the second recession experienced in the last 5 years. The effectiveness of the Economic Sustainability Plan (ESP) would also help to determine the contraction that the economy will experience.



Income Level

The income levels of the middle class will be affected but will however recover over the medium term returning to its pre 2020 level in 2023. Consumer spending is expected to drop by 2.8% in 2020. Most household income levels are expected to fall into the next lower income bracket.

Recovery: Post COVID-19 (cont'd)



Heightened Phobia

Aviophobia and Hodophobia, stemming from the outbreak of COVID-19 globally and domestically, is expected to persist till a vaccine or cure is found. The negative effect of these phobias on air travel or travelling in general would have a domino effect on the demand for hotel services in Nigeria.



Embracing Digitization

The hotel industry seeks to increase their presence in the digital space as this would improve their business process while returning confidence to their customers. The new normal for the industry is in the operation of a contactless service, as the health and safety of their customers and staff are top priority.



Revenue Pickup

The hotel industry is one of the industries most hit by the pandemic. Revenue dropped by over half from N429.7 billion in Q1 2020 to N162.5 billion in Q2 2020. However, the easing of COVID-19 restriction in the transportation sector, particularly the aviation sector will help boost revenue for hoteliers



Stringent FX Policy

The attempt to manage the external reserves by the CBN amidst dwindling oil prices, puny foreign portfolio inflows and remittances would negatively impact the aviation and hotel industries.

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