

NOVEMBER 2022

CORPORATE DIGEST

The Nigerian Power Industry: An Engine of Economic Transformation

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more than banking

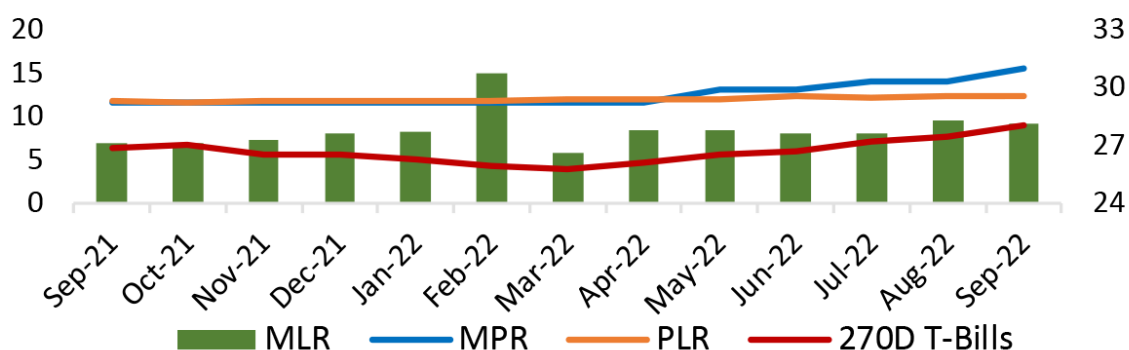
Overview

- The Nigerian Power Industry is divided into 3 subsectors namely Generation Companies (GenCos), Transmission Company of Nigeria and Distribution Companies (DisCos). There are 25 GenCos, 1 TCN and 11 DisCos.
- Of the 25 GenCos, 21 are gas-fired thermal power while 4 are hydropower plants. According to the Nigerian Electricity Regulatory Commission (NERC), the power industry had an available generation capacity of 5,465.72 Megawatts (MW) as at Q4 2021 (most recent data), reflecting a 3.10% increase from the preceding quarter.
- Despite the multi-year tariff order (MYTO), cash flows have remained inadequate to cover the cost of electricity supplied. Electricity has consistently been sold at a discount, with end-user electricity tariffs much lower than the cost of generation. The shortfall from unreflective tariffs is borne in large part by the federal government. Reports showed that the government spent about N1 trillion between 2019 and 2021 in subsidizing electricity.
- Despite the influx of private sector participants electricity supply from the national grid has remained weak and unable to adequately meet demand. The Industry also continues to grapple with several pre-privatization challenges but in a more complex operating environment with multiple operators along the value chain.
- Nonetheless, there have been notable efforts, by the key stakeholders to bridge the electricity supply gap, drive operational efficiency and enhance the financial viability of the Industry as a whole.
- Some of these efforts include the implemented service-based tariffs, the merit order dispatch, the national mass metering programme and the minimum market remittance threshold for distribution companies.

To ramp up the objectives of privatization in the industry, reforms must be accompanied by a stronger and better enabling regulatory environment.

Macroeconomic Update for October 2022

Lending & Investment Rates (%)



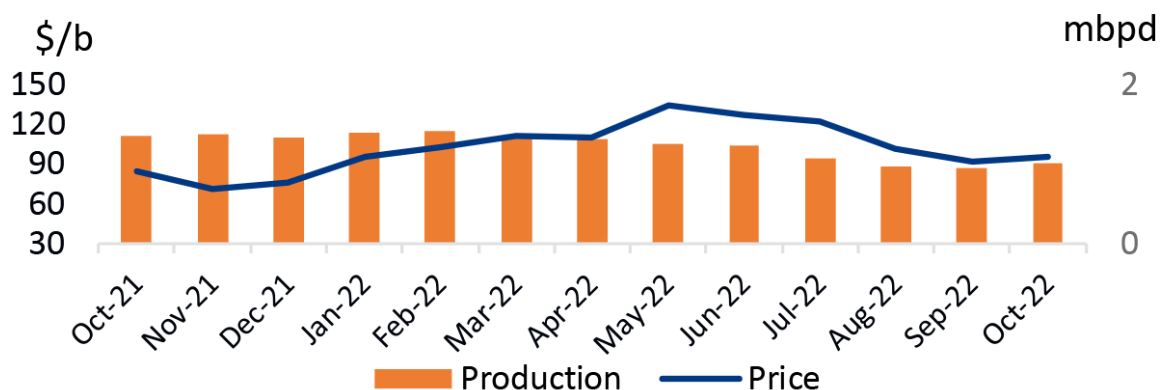
The Monetary Policy Rate (MPR) remained at 15.5% in October 2022 as the Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) expects that higher interest rate will rein in soaring inflation.

The Prime Lending Rate printed at 12.23% in September, unchanged from August figure. The Maximum Lending Rate

slightly declined to 28.06% from 28.30% within the same period

Yields on the 270-Day Treasury Bills (T-Bills) moved to the double-digit space rising to 13.56% in October from 8.93% posted rose in September.

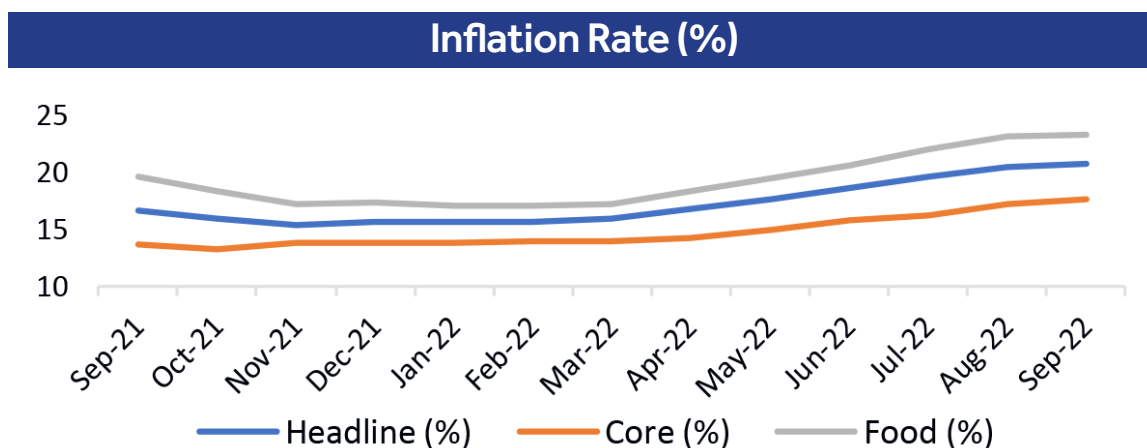
Crude Oil Production & Price



Oil price rebounded as the Organization of the Petroleum Exporting Countries Plus (OPEC+) agreed to cut production by about 2% of global supply from November.

Bonny light crude oil, Nigeria's crude oil benchmark, declined to \$92.34/b in September 2022 from \$101.14/b posted in August 2022.

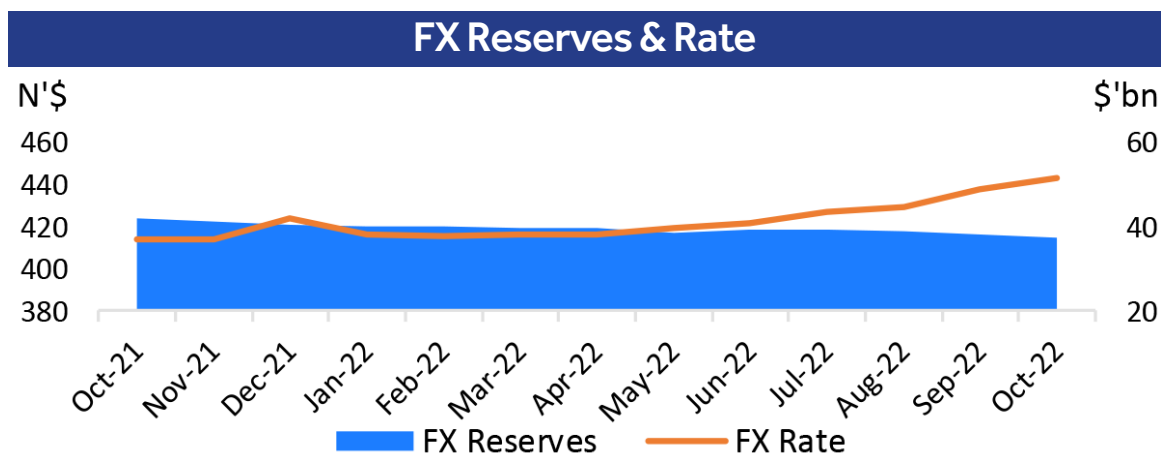
Nigeria's crude oil production improved to 1.01 million barrels per day (mbpd) in October from 0.94mbpd recorded in September, reflecting the government effort in curbing oil theft.



The inflation rate pushed higher to settle at 20.77% in September 2022 from 20.55% recorded in the preceding month. This is the 8th consecutive increase in 2022.

The increase in inflation was driven by the disruption in the supply of food products, higher energy costs, the pass-through effect of currency depreciation, as well as a general increase in the cost of production

The food and core inflation rate surged to 23.34% and 17.60% in August 2022 from 23.12% and 17.20% recorded in the previous month.



External reserves declined further in October 2022 to settle at \$37.39 billion relatively to \$38.25 billion posted in the preceding month, reflecting a decline of 2.24%

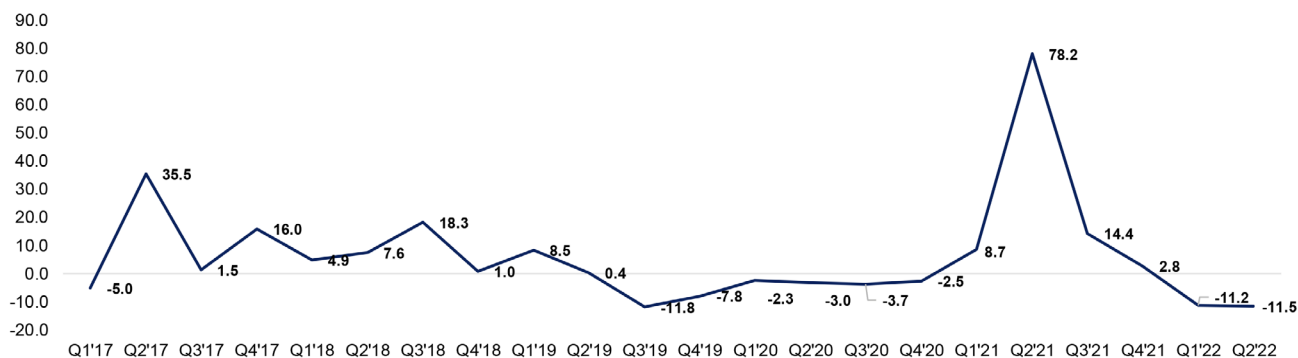
the NAFEX window.

The Naira weakened further in October 2022, closing at N443/\$ from N428.91/\$ recorded in the previous month at

Continuous increase in the demand of the greenback amidst a weak inflow of the same impacted the growth of the reserves.

Industry Overview

Real GDP Growth (%) for the Electricity, Gas, Steam & Air Conditioning Supply



Source: NBS



Interest Rate Sensitive	Exchange Rate Sensitive	Employment Sensitive
✓		

- The power industry remained in the positive space in Q2 2022
- Data as at full year 2021

SWOT Analysis

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- The government has made improving Nigeria's infrastructure a top priority for national development across all sectors particularly in power sector.
- Nigeria's large economy offers huge demand for expansion of power infrastructure in order to facilitate growth
- The presence of large discovered hydrocarbon resource base

STRENGTHS

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- Over-reliance on the oil proceeds leaves government revenues vulnerable to global price shifts
- Nigeria's power infrastructure has been identified as one of the most neglected globally
- Gas supply disruption in the Niger Delta threatens domestic power generation.

WEAKNESSES

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- Greater exchange rate flexibility could boost investment in the power sector.
- The government's deal with Siemens to improve the electricity grid and boost power capacity could strengthen the sector.
- Amidst lower oil prices, infrastructural investment remains at the forefront of the government development plans

OPPORTUNITIES

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- Independent power producers might be deterred from entering the market due to neglected grid infrastructure and gas supply disruptions.
- Tariffs increment will continue to meet widespread public resistance
- A lack of cash liquidity in the distribution segment is a major threat to the whole supply system

THREATS

Nigerian Power Industry Overview & Outlook

70.19%

Natural Gas: % of total generation (2023f)

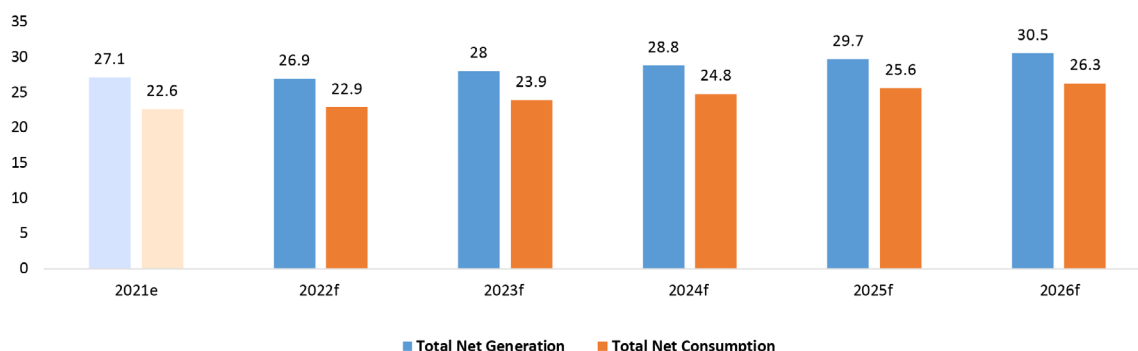
28.91%

Hydropower: % of total generation (2023f)

0.9%

Non-Hydropower Renewables: % of total generation (2023f)

Power Generation & Consumption Outlook (TWh)



- Power generation remains higher than its consumption for the period under review due to power losses coming from the country's ageing and inefficient Transmission and Distribution (T&D) network.
- Gas supply constraints, inefficient T&D infrastructure and delays to the construction of new capacity will continue to weigh on generation growth, thus impacting power available for consumption.
- The gas-fired power generating capacity has grown at the expense of new investment into hydropower in the recent years, but the FG is advancing plans to bring a significant amount of new hydropower capacity online
- A culture of non-payment in the market is a key factor hampering investment, which contributes to electricity shortages and hinders maintenance and necessary upgrades in the market.
- Many Nigerians have acquired their own generators, creating the world's highest concentration of small-scale power supply. It is estimated that two-thirds of all electricity in the country is currently produced in basements or backyards, at a combined yearly cost of \$22.0bn as of 2022
- The electricity bill passed in July 2022 aims to facilitate policies that will promote the development of new grid infrastructure, improve outdated grids that result in electricity losses and allow generation from states and individuals which can then be distributed on the national grid.

Source: Fitch

Business advice for players in the Power Industry

- Obtain advice from financial and economic professionals. Through its relationship managers, Access Bank is still dedicated to providing customers with the resources they need to grow their businesses in the face of a volatile macroeconomic climate.
- To enhance customer service and increase revenue collection, discos should continuously improve their service to customers both online and offline.
- Given the tough economic realities and the various power alternatives, particularly for companies, Discos should engage a competitive pricing strategy for cash flow improvement.
- To solve the present issues facing the sector, key players should collaborate to set clear policies and actions.
- In order to increase public confidence in the power industry, DisCos should make narrowing the metering gap a top priority
- Players in the power sector must continue to be creative. To attract further investment in the sector, particularly from the private sector, the electricity transmission model must be reconsidered, and the entire value chain must be motivated.