PREPARING FOR CHANGE

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"...plans are useless, but planning is indispensable."

- Dwight D. Eisenhower

There is growing concern at the perceived lack of action on the part of President Buhari, in the wake of the euphoria of the 'change revolution.' However, just as there is no one question to which President Buhari is the 'answer', his systematic and calculating appointment of technocrats across key administrative arms of government should be reassuring; institutions not individuals are the cornerstone of development in any economy. So far Buhari has played to his apparent strengths, making concerted moves against corruption and insecurity in the country – ostensibly to leave the running of the economy to his future cabinet

In the interim....

Storm clouds are gathering...

- Global concerns stemming from continuing commodity price crash, drastically slowing growth in China, and fears of US Federal Reserve's imminent hike in interest rates are 3 major factors driving market hysteria
- Amidst global uncertainty, the Nigerian economy is forecast to grow 2.8% this year, a rapid decline from 2014 Q3 high of 6.2%
- Crashing oil prices coupled with a local currency pegged to the dollar continues to reduce the government's revenue collection
- Dollar volatility creates fears of further devaluation of the Naira; although without transparency on policy, direction is unclear
- A number of factors are drying up the stock market - compounding investment and liquidity concerns, increasingly difficult business environment, amongst others. The All Share Index declined 11.0% YTD and valuations are crashing to all-time lows
- According to a recent Fitch ratings report, Nigerian banks are facing a tough outlook amidst tighter regulation, lower oil prices, reduced government spending and restrictions on foreign exchange availability

...Cause for alarm?

Global uncertainty is largely being fuelled by the media.

- China's growth has slowed; but China's economy is still growing...
- The relationship between interest rate hikes and stock market dips persists mainly when interest rates are high – a 25bps move from 0.25% will hardly create a shift of capital flows towards savings
- Locally, a commodity price decline has the potential to create the incentive at the Federal level to diversify the country's income streams; meaning diversified government spending, and wider investment scope

Although there is cause to be wary in the short term, there is not yet reason to panic about medium term prospects

Implications

- We expect this period of slow growth to persist in the immediate-term ; with cabinet appointments set to be made by the end of Q3 don't expect any effective policy before the end of the year
- Reduced investor appetite for deals, as investors look for more promising trends in macro indices before returning to the market
- Local manufacturers will struggle as forex volatility heightens margin pressures
- Worsening economic woes place increased pressure on the central bank to print money, heightening inflation fears
- Pressure on consumer spending as disposable income may tighten given a possible removal of oil subsidy
- Fiercer competition from international companies - good corporate governance will increasingly become a necessity for companies looking to compete
- Expect a tight capital environment on both the debt and equity side, and a premium on the limited capital available in the current clime.

What to do whilst we wait...

Acknowledge the apparent reality

- Tighter management of cashflows is a harsh reality that must be faced
- Recapitalisation looks increasingly more expensive
- Explore local and international partnerships especially through mergers & acquisitions – pursuing cashless transactions, if possible
- Seek backward integration to increase efficiency through your value chain and less reliance on imports
- Target improved efficiency:
  - Corporate restructure through divestments to streamline business
  - Balance sheet optimisation through debt restructuring and currency risk management
  - Operational efficiency through audit and analysis of people, technology and processes with a view to achieving cost reduction
- Enhanced treasury management and stricter policies guiding company expenditure and operation is needed to instil the cultural change needed in coming to terms with what is a new reality. The world continues to go through a deleveraging process which will last many more years. The penalty for years of excessive spend whilst the markets were awash with capital can only be met by commensurate period of calculated conservativeness.

"This remains a buyers' market – for those with dry powder, various asset classes carry significant opportunities at attractive pricing".

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