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# 2018 OUTLOOK: THINGS ARE LOOKING UP



**EQUIPMENT LEASING  
ASSOCIATION OF NIGERIA**

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In the second quarter of 2017, the Nigerian economy witnessed positive momentum which marked the beginning of the recovery process from a grueling economic recession in 2016 with its attendant impacts felt in 2017. The Gross Domestic Product (GDP) grew for the first time since Q3 in 2015 by 0.55percent in Q2, 2017 and 1.4% by Q3, 2017. Higher oil output and positive dynamics from the agricultural sector helped the economy exit recession. The Oil and Gas recorded its best quarter since Q4 in 2014, with global oil price per barrel inching around \$65 per barrel, and Government's continued engagement with oil producing communities in the Niger Delta contributed immensely to the recovery in oil production experienced during the year.

Although the economy is still fragile, there are encouraging signs emerging. The World Bank has recently projected global economy growth of 3.1% with advanced economies at 2.2%, while developing economies at 4.5% and Nigeria to grow at 2.5%, though the International Monetary Fund (IMF) projected Nigeria's growth at 1.9%. Other macroeconomic fundamentals include receding inflation rate in last six months currently at 15%, increasing foreign exchange reserves at over \$40 billion presently, far-reaching reforms to the foreign exchange market, putting the official exchange rate at N305/\$ while the parallel market is N365/\$.

The federal government is focused on sustaining this growth in 2018. The government proposed a budget of N8.612trillion, which is a 16% increase over

2017 budget. The budget titled "budget of consolidation" is premised on oil price of \$45/barrel, oil production estimate of 2.3m barrels /day, N305/\$US, GDP growth of 3.5% with inflation rate of 12.4%. The exciting aspects of the budget include the huge allocation of N2.652trillion to capital expenditure, which represents 30.8% of the total budget. The priority of Government in 2018 is on infrastructure, focusing on power, roads and rail.

Essentially, the outlook for the oil and gas industry appears good in 2018 only to the extent that oil price is steadily tending north, creating a widening gap between it and the \$45 benchmark. The only worries here will be how to continue to leash the creek warriors of the Niger Delta while also curbing incessant strikes by oil sector employees.

Investor confidence is very likely to soar in the new year following the sustained weekly interventions by Central Bank of Nigeria (CBN) to make dollar available at the various foreign exchange windows, especially the investors and exporters' window, which was reported to have garnered \$20 billion worth of activities in the preceding year. Related to this is Nigeria's climb by 24 places to the 145th position on the World Bank's Doing Business Index.

Again, the CBN's suspension of its Open Market Operations (OMO) following the refinancing of its short-term securities is expected to embolden cash-strapped private entities wishing to raise funds through corporate bond and commercial paper issuance as they now stand to attract better coupon rates than what is currently

accruable from the apex bank's treasury bills.

Regarding the power sector, there are already reports that the Federal Government plans to expand electricity output this year to 9000MW through the establishment of 11 additional power projects across the country. It is expected also that mini grids and renewable energy sources would attract greater attention in 2018. The universities and a growing number of rural communities are already being powered through these sources.

From all indications, 2018 is not likely to disappoint as the gains of the Federal Government's 2017 – 2020 Economic Recovery and Growth Plan (ERGP) will have started becoming evident by the third quarter of this year. However, we must watch out for some key areas that may determine the eventual outcome of the year. These include; the foreign reserves capacity to respond to any shock in the economy; the stability of the Naira; interest, inflation and unemployment rates; the attraction of foreign direct investments; crude oil price and production; the timely passage and implementation of the 2018 Budget.

## **THE NIGERIAN LEASING INDUSTRY**

The Nigerian leasing industry was vibrant in 2017 and provided succour to many organisations across all sectors in the economy. The impactful visibility of leasing is increasing, contributing to capital formation in the economy and creating wealth. In 2016, outstanding lease volume was estimated at N1.26trillion, up from N1.1trillion in 2015, representing a growth rate of 14 percent. A better performance is

expected in 2017 .given the relatively stability in the economy compared to 2016. .The saying that leasing thrives during seasons of economic boom and recession, has been demonstrated over the years, as the industry remained resilient in challenging times, financing assets worth over N6.89trillion in the past ten years,.

Finance lease remained the predominant type of leases accounting for 70% of the transactions while operating lease accounted for 30%. In recent times there has been increase in the market share of operating lease due to its growing popularity among lessors as a risk mitigating mechanism against default and response to current market dictates especially from corporate customers who require service-oriented lease.

The industry continued to witness the banks as lead players, particularly financing big ticket leases, and providing funds to lessors for lease transactions. The non-bank lessors however accounted for about 80% of customer base mainly from the Small and Medium Scale Enterprises (MSMEs). Some capital market operators and other companies were attracted to the leasing industry to tap into the opportunities and as means of hedging against other non-performing product offerings. Also, vendors and service providers (telecom and oil) increased their participation in leasing industry.

In terms of asset categorisation, about 40% of leased assets are vehicles including trucks for haulage and buses for inter-state commercial transportation, which have been major attraction in recent times. Financing of specialised assets is emerging in the market especially in the health sector.

Our market projections show that the leasing industry will blossom, owing to among other things, the various initiatives of Government aimed at re-inflating the economy, the increasing relevance of leasing to capital formation in view of the challenge of access to finance especially to MSMEs and the developmental impact of the Equipment Leasing Act.

Essentially, the Government's planned massive investment in infrastructure development in various sectors of the economy, particularly, in power, rail, roads and agriculture, are emerging scenarios, which should be of interest to all stakeholders in the leasing industry. For Instance in agriculture, there is huge market for the leasing business, as a whole range of equipment would be required across the agric value chain, from planting, harvesting, processing and storage to distribution. Also, the special focus on infrastructure will open up business opportunities for the leasing industry as specialised and general equipment would be needed to support the massive construction that would take place in the rail, roads, power, housing etc.

Government is seeking for alternative means of financing the massive infrastructure requirement in view of limited resources. For instance, N100billion was recently raised from Sukuk to finance some Government projects. Obviously, leasing has a major role to play in the state of things. The attributes of leasing which facilitate greater efficiency and ease, can be brought to bear to support the investment.

Another emerging business opportunity lies in the healthcare and education sectors. Already, ELAN is exploring ways to harness

this opportunity by partnering with healthcare vendors, to provide assets for players in the sector. In the education sector, various assets are being leased including modern instructional equipment including computers, communications, laboratory, technical and research equipment in addition to the general assets like vehicles, generating sets. Indeed, leasing has immense scope in the sector given the large numbers of educational institutions across the country and the infrastructure financing gap.

While it is obvious that the future for leasing is bright in Nigeria, it is imperative that operators reposition themselves to capture the immense opportunities, through appropriate capacity building and market research to fully understand the peculiarities of these industries. Specifically, players in the industry should imbibe sound corporate governance to increase their corporate profile in order to endear them to necessary support and patronage, especially in the areas of attracting appropriate funding and business partnership. It is also important for operators to adopt proactive business approach, understand the risk profile of transactions and other dynamics before venturing into them.

Also, the Government should continue to strengthen the capacity of the leasing industry and make it more responsive to its developmental role in the Nigerian economy. A major support Initiative was the enactment of the Equipment Leasing Act 2015. The Act brings together relevant stakeholders under a public private partnership arrangement to enhance its developmental objective with the Ministry of Finance empowered as the supervisory

ministry for the leasing industry. The Act has ushered a new dawn creating sanity, certainty and encouraging more investments in the leasing industry, further facilitating easier access to the much needed productive equipment, leading to more businesses, job opportunities, enhanced quality of life for ordinary Nigerians and overall economic growth.

A key aspect in the implementation of the Act is the operation of the Registration Authority. The Equipment Leasing Association of Nigeria (ELAN) has been engaging the relevant stakeholders, especially the Ministry of Finance in this regard and the first meeting of the Registration Authority was held in October 2017. The operation of the Body is expected to commence in earnest in 2018.

While, the legal environment has improved, there are still a number of challenges facing the industry including getting appropriate funding mechanism for lease financing. The funding challenge remains critical as most practitioners rely on short term sources mainly banks for funding which are expensive. These sources are not suitable for leases which ideally require medium to long term financing. Consequently, lease tenors are generally confined to shorter tenor and lessors' capacity to play actively in the market especially big ticket leases is greatly impaired.

The availability of cheap long term funding will no doubt enhance the capacity of lessors to deepen leasing penetration in the market. A major way to broaden the funding sources is to allow leasing companies to access pension, sovereign wealth fund and the various intervention funds for

development in specific sectors of the economy. Insurance funds and the development of specialised financial instruments can equally be important funding sources for leasing. The government through relevant bodies like the Central Bank of Nigeria (CBN) and the Bank of Industry (BOI) can facilitate special funding windows for leasing.

Also, the prevailing challenging economic situation in the country has adversely impacted the industry in terms of increase in costs, depletion in value of investment, reduction in funding sources and increasing default rate. It is therefore imperative for the leasing industry to also put on the thinking cap to devise strategies to overcome the direct impact of these challenges and tap into emerging opportunities.

Indeed all these notwithstanding, it is sure that things are looking up for the Nigerian leasing industry and economy in 2018. The point to emphasise is for lessors to remain steadfast and follow the path to success.