Stears 2024 Outlook

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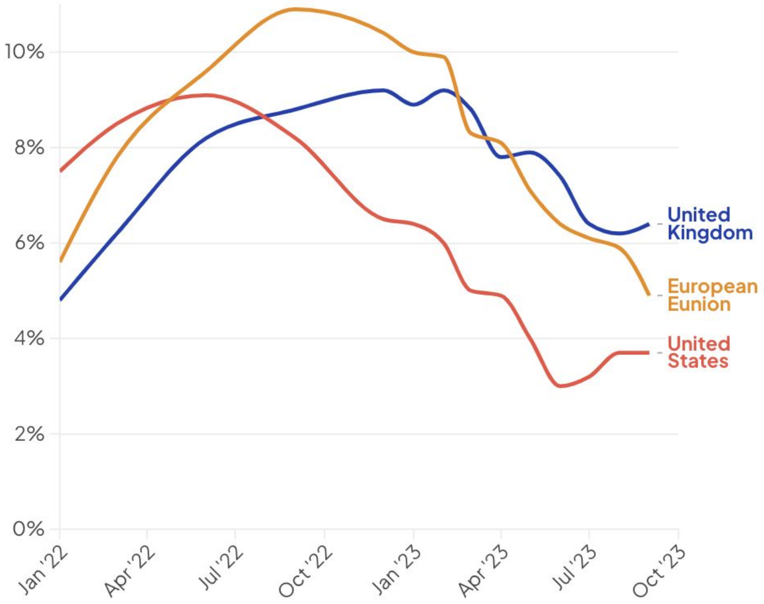
Global Macroeconomy

Global growth will decelerate but not stall

Advanced economies witness notable decline in inflation since 2022 peak

Headline Inflation



Source: IMF International Financial Statistics Database, eurostat

- Amidst the cooling inflation in advanced economies, particularly in the U.S,central banks are expected to contemplate rate cuts in early 2024.
- However, with the prevailing consensus that inflation won't return to target levels until at least 2025, central banks are refraining from hasty rate cut decisions. These choices will have notable impacts on Africa's economic trajectory.
- Geopolitical risks, such as the escalation of the Israel-Hamas conflict and ongoing Russia-Ukraine tensions, pose significant threats to global economic stability. These conflicts risk disrupting trade, particularly through the Strait of Hormuz, a critical channel for 20–30% of the world's oil consumption.

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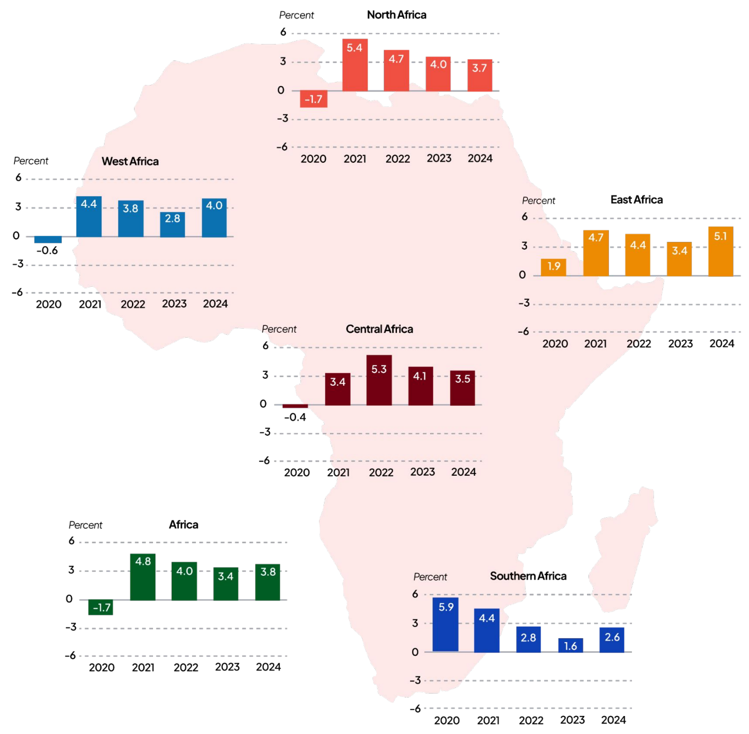
Africa's growth trajectory will be determined by regional disparities



Source: AFDB Statistics, Stears

- Africa's growth narrative is multifaceted, defying the notion of a monolithic 'one Africa'.
- The IMF projects that Africa will grow by 4.0% in 2024 from 3.3% in 2023, the second highest growth rate globally after Asia (4.8%). Meanwhile, the AFDB is more conservative, projecting a growth rate of 3.8% for Africa in 2024.
- East Africa will continue to show higher growth rates than the rest of the continent but looming debt defaults threaten growth prospects. Still, Rwanda, Tanzania, Uganda, and Kenya will be key drivers of growth in the region.
- Other bright spots to watch are Mozambique, Cote d'Ivoire and the Democratic Republic of Congo which have shown steady growth, partly owing to investments in sectors such as oil and gas and critical minerals.
- Africa's big 3 - South Africa, Egypt and Nigeria are predicted to grow sluggishly, underperforming the continent's average growth rate.

Nigeria Macroeconomy

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A pivotal year for Nigeria's economy

- 2023 witnessed substantial shifts, starting with a change in administration and followed by key economic reforms.
- These reforms were essential steps towards stabilising and reviving Nigeria's economy.

A change in administration

Removal of fuel subsidy that aimed to create fiscal space and redirect resources to critical sectors.

₦238.11

Average premium motor spirit (pms) price pre - subsidy removal

₦545.83

Average premium motor spirit (pms) price post - subsidy removal (June 2023)

The devaluation of the naira followed the consolidation of exchange rate windows into the I & E window, allowing market forces to dictate the exchange rate. This step aimed to bolster investor confidence.

₦466/$1

Official exchange rate pre-reform

₦770/$1

Official exchange rate post-reform (June 2023)

Monetary policy outlook

Post FX liberalisation, multiple rates have remained in Nigeria's FX market

Exchange rates (₦/$)

Rate	Regulator	Rate	Comment
The Nigerian Autonomous Foreign Exchange Rate Fixing (NAFEX)	FMDQ	1,034.78	Computed to capture the spot market rate for the day and activities at the FX futures & derivatives market
Nigerian Autonomous Foreign Exchange Market (NAFEM)	FMDQ	907.11	Spot market rate for each trading day. Formerly called the IEFX rate
Nigerian Foreign Exchange Market (NFEM)	CBN	899.89	Spot market rate for each trading day as reported by the CBN
Parallel Market	-	1,210.00	Market rate for FX activities carried outside the official market

Source: Stears Africa FX Monitor
All rates are reported are as of December 29, 2023

- The CBN's commitment to a tight monetary policy, with a policy rate at 18.75%, is underscored by its use of Open Market Operation (OMO) auctions.
- Despite these measures, Nigeria grapples with high headline inflation at 28.2% (Nov'23), indicating negative economic returns and the need for continuous policy interventions.
- Stears projects an average annual inflation rate between 27.59% to 31.85% for 2024, considering the current economic climate and the depreciating naira.
- We anticipate the CBN will maintain orthodoxy and continue its tightening policy in the near term to address inflationary pressures.
- Immediate action on dollar illiquidity is crucial for effective inflation management. In the longer term, enhancing productivity, a task for fiscal authorities, will be key.

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Nigeria's fiscal deficit is projected to narrow in 2024

2023 budget assumptions	2024 budget assumptions	
Fiscal deficit ₦11.6 trillion	Fiscal deficit ₦9.2 trillion	▼
Oil price $75pbl	Oil price $78pbl	▲
Exchange rate ₦435.57/$	Exchange rate ₦750/$	▲
Oil production 1.69mb/d	Oil production 1.78mb/d	▲
Inflation 17%	Inflation 21.4%	▲

Source: Budget Office of the Federation, Stears

- Fiscal deficit as a percentage of GDP will remain above the 3% threshold specified in the Fiscal Responsibility Act, but will likely narrow in 2024 to 3.9% from 6.1% in 2023.
- The deficit is expected to reduce on the back of improved oil production, tax income, exchange rate gains emanating from trade surplus' and the fuel subsidy removal creating fiscal space for debt servicing.
- Risks loom on the government achieving its revenue target of ₦18.3 trillion, 66% higher than 2023's ₦11 trillion amid ambitious oil production and price estimates.
- In 2023, oil production averaged 1.4mb/d, 17% below the budget estimate of 1.69mb/d.
- Nigeria's revenue consistently falls short of projections, while the assumptions guiding national budget allocations remain overly optimistic.

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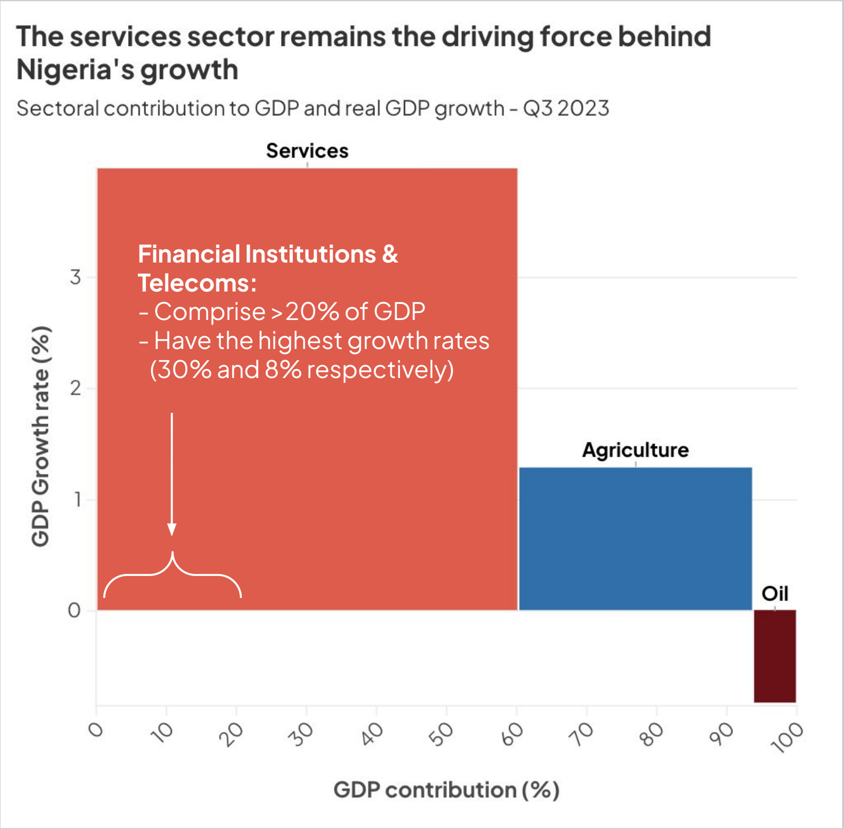
Services continues to power Nigeria's growth



- While traditional sectors like oil & gas show a rebound in activity, the burgeoning sub-sectors within services are rapidly reshaping the growth narrative.
- The services sector, commanding 52.7% of GDP, has shown consistent growth since 2003 and will remain a driving force behind Nigeria's growth.
- Telecoms and financial services, in particular, are forecasted to be significant contributors to future growth.

Risk Assessment

Category	Risk	Probability (0-5)	Impact (0-5)	Comment
Economic	Inflation continues to soar	4	5	Inflationary pressures include lingering effects of the petrol subsidy removal, naira devaluation, high exchange rate from persistent FX scarcity, and higher production inputs and operations costs.
	A decline in oil production	2	4	Tepid oil output levels will decrease revenue and foreign exchange earnings, fueling a weaker naira and wider fiscal deficits. Wider deficits will also lead to a higher debt to revenue ratio.
	Volatile global oil prices	2	3	Though beyond Nigeria's control, volatile oil prices will have negative effects on budget planning for the fiscal year 2024.
	Currency volatility & depreciation	4	5	An ailing currency will continue to nudge imported inflation and taper Investor confidence.
Geopolitical	Insecurity in Northern Nigeria	3	4	Already detrimental to the agriculture sector, should insecurity persist, it will continue to discourage foreign investors from setting up shop in Nigeria.
	Exposure to coups in the Sahel	2	3	Increased Sahel tensions will negatively impact cross border cooperation and exacerbate insecurity in Northern Nigeria.

0 : no likelihood & no impact
1-3 : average likelihood & impact
4-5 : high likelihood & high impact

Kenya Macroeconomy

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2024: Higher stakes under the new normal

$2 bn

Kenya's Eurobond repayment will set the tone for the fiscal year.

5%

The economy will remain resilient, growing above the SSA regional growth average of 4%. Growth will be driven by agriculture and services.

$21.5 bn*

Kenya will enhance revenue mobilisation in 2024. Current revenue estimate for 2024 is up 16% to KES 3 trn ($21.5 bn) from its 2023 estimate.

6.4%

Stears forecast for average inflation in 2024, lower than the 7.8% average in 2023. Inflation will be driven by food and fuel prices.

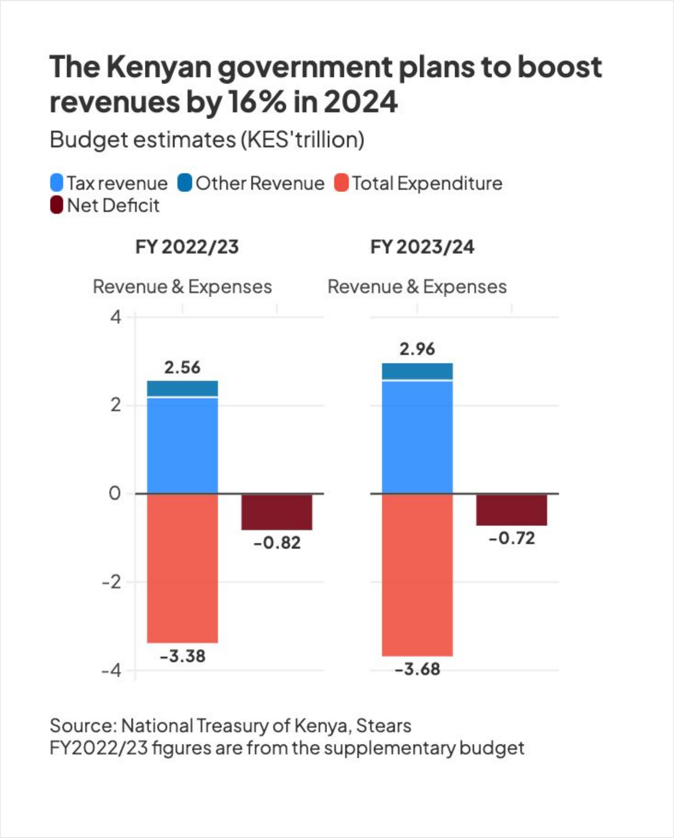
**Converted using Kes 139.8/$: the average exchange rate in 2023.*

- 2023 was a paradigm shift for the Kenyan economy, especially with the Finance Act.
- Global monetary policy tightening, lean forex reserves, a bloated debt burden, currency depreciation and high inflation negatively impacted Kenya.
- Between 2013 and 2023, total public debt grew 5x to $69 billion, increasing debt-to-GDP ratio to 64% from 40%.
- In 2024, we expect Kenya's fiscal and monetary policy authorities to laser focus on debt management, revenue generation, price stability (exchange rate and inflation), and investment inflows.
- The key indicators to watch are: the Eurobond repayment, GDP growth rate, revenue (actual & estimates), exchange rate and inflation.

Fiscal policy: Kenya is expected to repay its $2 billion Eurobond in June 2024

Scenarios	Assumption	Implications	Comments
A debt buy back between 15-50% of the $2 billion.	With expected dollar inflows from the IMF, World Bank and Trade Development Bank, the Kenyan government is likely to embark on a buyback in Q1'2024.	The debt buy back will ease the Eurobond repayment burden ahead of June 2024. Resilient growth, moderating inflation and a less aggressive currency depreciation will persist.	Kenya reversed plans of a $300 million debt-buy back in December 2023 but made interest payments of $68.7 million. With over $1 billion inflow expected in Q1'2024 from multilateral and bilateral lenders, the government may reconsider the buy-back. However, the bets are on the government solely depending on external financing to foot the repayment.
A reserve drawdown of $2 billion.	If external funding delays until Q2'2024, Kenya may likely drawdown from its already lean reserves to repay the Eurobond debt.	A fiscal crisis could emerge. The KES will come under attack, with monthly depreciation of around 2-3%. Inflation will spiral on the ailing shilling with growth prospects dwindling on higher operating costs.	A full drawdown of $2 billion is less likely due to commitments from multilateral and bilateral lenders. The government is expected to depend on external finance to repay the Eurobond debt.
A debt default	If external funding delays until Q2'2024 and Kenya is unable to draw from reserves, a debt default is unavoidable.	A further downgrade of Kenya's sovereign credit rating to "junk status". Macroeconomic instability will follow suit.	A default is unlikely with international support. Plus, the government plans to boost revenue to avert this scenario at all costs.

Fiscal policy: The Kenyan government will focus on revenue mobilisation



Revenue mobilisation will be anchored to:

Taxes

- Higher PAYE contribution
- Improved tax collection from corporates and their subsidiaries.

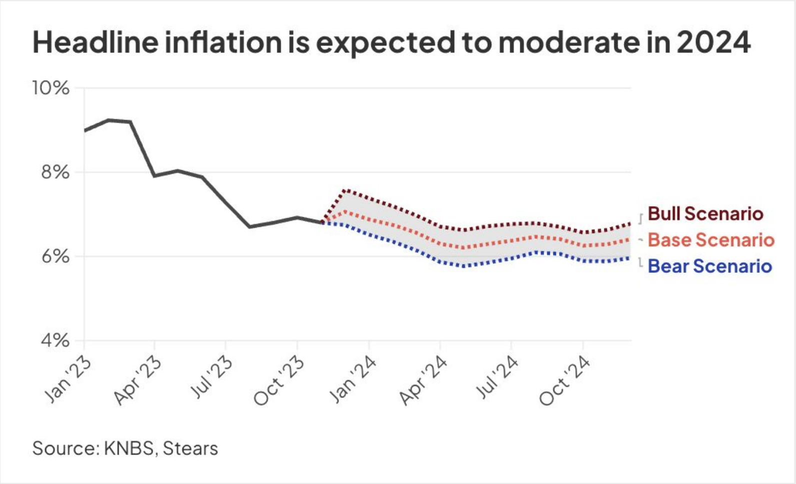
Exports & Remittances

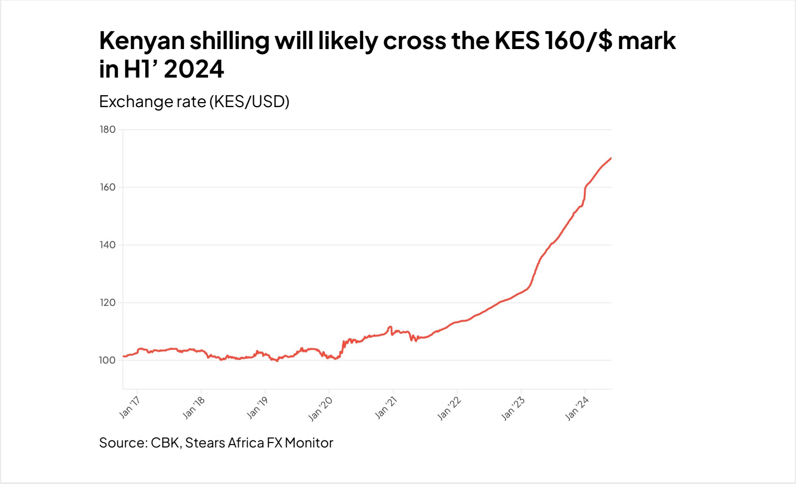
- Tea, coffee and horticulture exports which jointly account for ~30% of Kenya's export earnings to pick up.
- Inbound remittances particularly from the US, accounting for over 50% of inflows to rebound.

Reducing deadweights

- A quick follow-through of the privatisation bill.
- 6 to 10 state-owned-enterprises to be privatised across agriculture, energy and the finance sector.

Monetary policy: The CBK will maintain orthodoxy to achieve price stability





- Inflation targeting is the new approach towards price stability.
  - Inflation averaged 7.8% in 2023, up from 7.6% in 2022.
  - Stears forecasts inflation between 6% and 7.4% in 2024, within the CBK's target range of 5±2.5%.
- The shift towards more orthodox monetary policy measures alongside the CBK's surprise rate hike by 200 basis points in December 2023, and is expected to slow the shilling's depreciation ahead of the Eurobond repayment in June 2024.
  - The currency is expected to cross KES 160/$ in H1'2024.

Where will opportunities emerge in 2024?

Trend		What we are seeing	Likely macro implications	Opportunities
	Above average growth performance in the East Africa region	The EAC attracts 20% of Africa's FDI, with Kenya as a top destination.	Kenya is seen as a gateway to the rest of East Africa.	FMCGs and Telcos like EABL & Safaricom benefit from the broad-based growth in East Africa.
	Increasingly diversified economy	Renewed SEZ drive to support manufacturing sector growth.	Broad-based growth across real sectors will keep supporting GDP growth.	As the global economy rebounds prospects emerge in the finance and hospitality sectors.
GDP	**Rising GDP per capita**	Kenya's GDP per capita is 30% higher than the SSA average, though lower than Asian counterparts like India.	Rising GDP per capita indicates a rebound in future consumer spending and sizeable market potential.	Hockey stick growth in GDP per capita in other East African countries like Ethiopia point to other prospective consumer markets.
	Positive real rates of return on investment	Compared to other top economies in Africa (Nigeria, South Africa, Egypt and Ghana), Kenya has the highest positive real rates of return on investments.	The expected moderation in inflation amid relatively favourable interest rates, could boost investment inflows to Kenya.	Expected slowdown in global monetary policy tightening will keep yields on Kenyan investments attractive, cheery news to emerging market investors.

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Risk Assessment

Category	Risk	Probability (0-5)	Impact (0-5)	Comment
Economic	Eurobond default on dollar illiquidity	1	5	Kenya is unlikely to default on its Eurobond maturity, but should it happen, the impact on the economy will be detrimental.
	Persistent inflationary pressures	3	4	Unexpected inflationary shocks will squeeze consumer wallets further.
	Continuous currency depreciation	4	5	Currency depreciation will persist, but a closer alignment of the KES to its fair value enhances investor appeal.
	Fiscal mismanagement	1	3	To keep external funds flowing, the government will improve efforts to be fiscally prudent and responsible.
	Nationwide protests on public discontent amid high living costs	2	4	Protests will disrupt business activities, likely reducing output and disincentivizing new investments.
	Global monetary policy tightening	2	3	The slowdown in global monetary tightening will cool the debt burden on developing economies like Kenya.
Geopolitical	Domestic insecurity risk (Al Shabaab, war on the rift)	3	5	Revenue from tourism/hospitality sector is under threat in the face of domestic insecurity attacks.
	Widespread geopolitical tensions in the Middle East	4	4	Export earnings to be negatively impacted if tensions spread to key export destinations like Egypt.
	Russia-Ukraine war extends until year-end 2024	3	2	Though the impact of the war is tapering, a higher refined petroleum import bill persists.

0 : no likelihood & no impact
1–3 : average likelihood & impact
4–5 : high likelihood & high impact

Consumer outlook: Global+SSA

2023 consumer landscape: unhappy consumers, closed wallets

39%

of global respondents said they would spend less money in 2023, compared to 25% that said they would spend more.

46.0

The IPSOS Global Consumer Confidence Index has remained below 46 through 2023; the first time since 2015.

6.9%

The 2023 global inflation forecast would be the second-highest yearly average since 1996.

- The coronavirus pandemic, astronomically high commodity prices, global monetary tightening, and food protectionism shaped the consumer landscape in 2023.
- World inflation is projected to average 6.9% in 2023, the highest level since 1996.
- However, bright spots exist in the consumer landscape in 2024.
- Global inflation is expected to slow to 5.8% in 2024 from 6.9% in 2023, pointing to reopened consumer wallets.

In 2024, global consumer spending will pick up

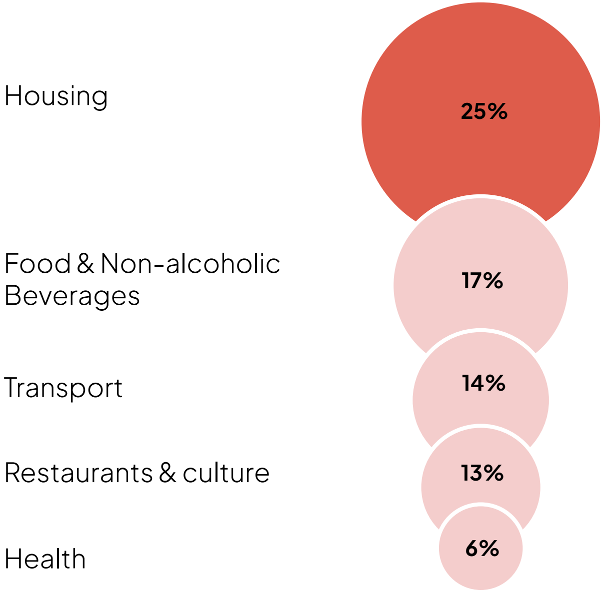
Top five consumer optimistic countries

1	Indonesia
2	India
3	Mexico
4	Singapore
5	Brazil

Source: IPSOS Global, Stears

- Emerging markets in Asia and Latin America are highly optimistic about consumer spending in 2024.
- Housing, food, transport, restaurants and culture will gulp over 50% of global consumer spending in 2024, largely reflecting bias for essential goods as consumers recover from the 2022–2023 inflation surge that eroded savings.
- Increased social spending expected, particularly among older generations (baby boomers), signalling that brand strategies should not solely focus on the younger generation.
- Rising demand for AI (e.g voice assistants) to enable global consumption decisions.

Top five consumer spending sectors



Source: WDL, GWI, Stears

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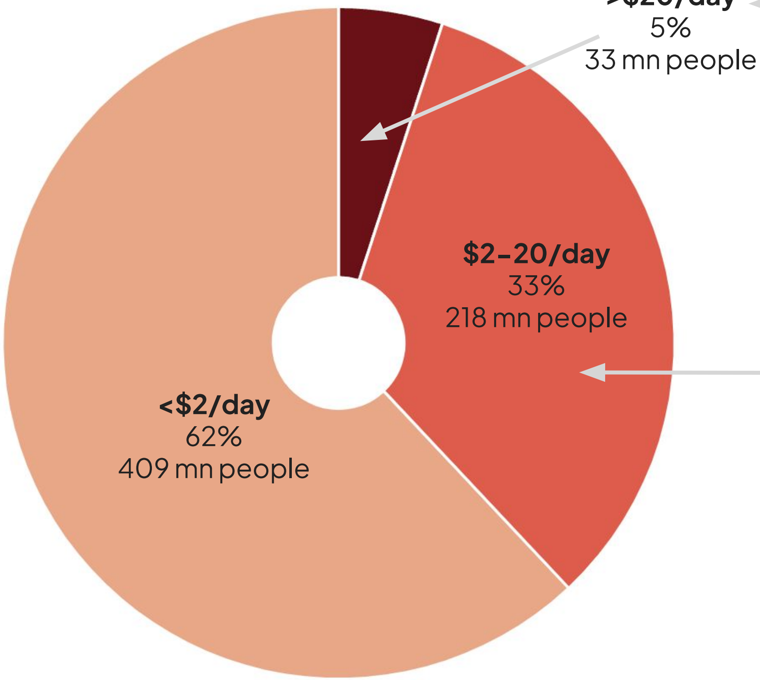
The African consumer will be distinct from global norms…

Over 60% of Africans spend below $2 everyday

% of population in each per person spending bracket



Upper segment consumers

- A small yet affluent class with annual salaries ranging $10,000 to $1 million.
- Spending is unlocked through access to credit, savings, and disposable income.
- Have a strong preference for quality, convenience and luxury goods.
- Pivotal for the growth of high-end brands in Africa.

Entry-level consumers

- Includes a significant 'floating class', spending $2–$4 daily.
- Consumers are rapidly urbanising and key in informal markets, engaging in trades like retail and construction.
- Market participation is enhanced by innovations like mobile money platforms.

Source: AFDB, Atlantic Council Africa Centre, Stears

…and more price-conscious

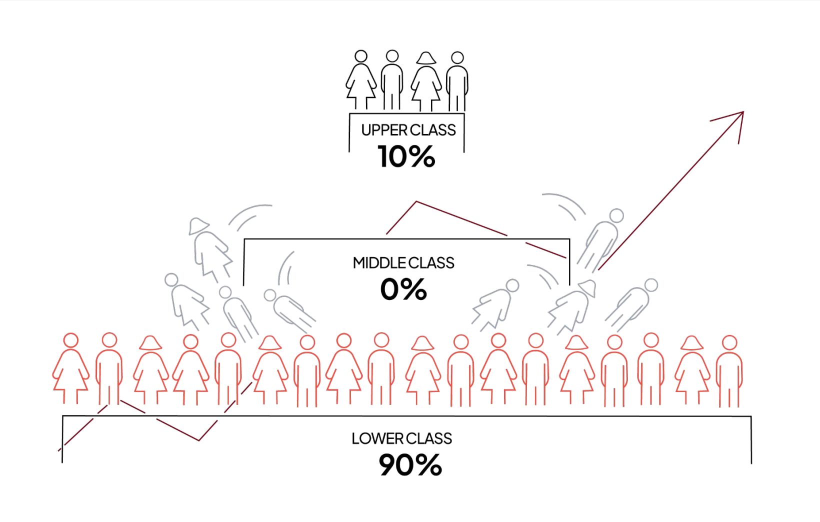
$4,970

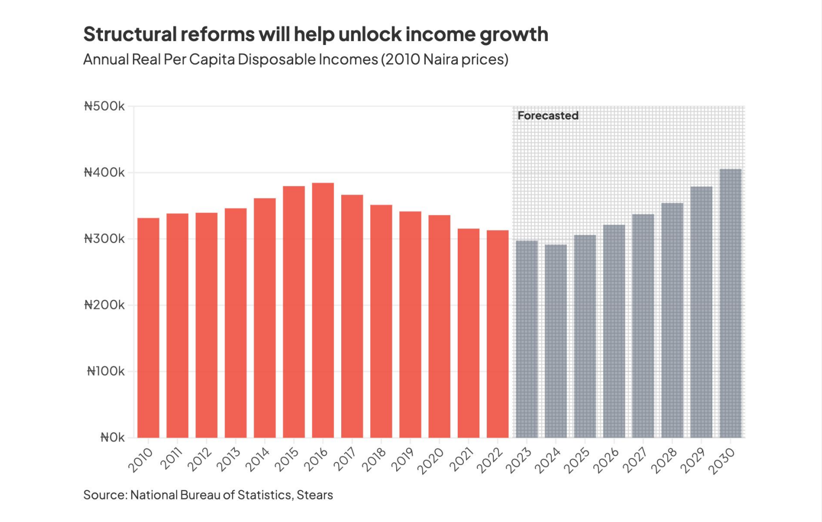
Sub-Saharan Africa's GDP per capita (PPP) will improve compared to compared to 2023 ($4,798) but remains significantly below the global average,

- SSA's GDP per capita underscores a consumer market deeply rooted in price consciousness, reflecting heightened focus on affordability.
- Purchasing patterns favour essential goods and value-for-money products.
- Entry level consumers will drive demand, while the upper segment's preferences will evolve to include more refined tastes geared toward luxury and convenience.
- Inflation projected at 13% in 2024, down from 15.8% in 2023 but still high compared to the global average (5.8% in 2024).
- Countries like Kenya might see a gradual increase in consumer spending as inflation slows, but overall, spending will be cautious and value-driven.
- Despite broader economic pressures, the upper income consumer is expected to maintain brand loyalty and continue their consumption of luxury goods, offering opportunities for high-end brands.
- The rise in individual loans will likely enable consumer spending.
- Promotional offers and sales are expected to attract more consumers, especially those who are price sensitive.

Consumer outlook: Nigeria

The Nigerian consumer market in 2024: The Hollow Middle





- Price sensitivity, risk aversion, cyclicality and delayed gratification will shape the consumer landscape in Nigeria.
- Stears forecasts a baseline inflation of 30% (average) in 2024, more than double the SSA average and 5x the global average of 5.8% in 2024.
- The real income squeeze will shrink the middle-income consumer group, deepening the stratification towards two extreme ends of the consumer spectrum.
- Sticking to supply side reforms like the FX liberalisation is expected to unlock productivity and support future spending beyond 2024.

Nigerian consumer profiles

Entry-level consumers

Profile

- Monthly income: <₦ 1 million monthly
- Share: makes up 90% of Nigeria's consumer class.
- Characteristics: 9-5 workers, daily wage earners, and informal sector players like petty traders and bricklayers.

Consumer Behaviour/Trends

- Includes a significant "floating class" earning ₦0-150K monthly.
- Price sensitive, with proclivity for sales/promotional offers.
- Food takes up over 50% of income, with a strong preference for cheaper substitutes.
- More consumers will empty into this consumer class as living costs rise .
- Spending will be enabled with access to credit financing like BNPLs, trade-in etc.

Upper Segment consumers

Profile

- Monthly income:₦1 million and above monthly.
- Share: makes up 10% of the consumer class.
- Characteristics: CEOs, HNIs etc.

Consumer Behaviour/Trends

- Price-conscious, value-driven, brand-loyal, quality-focused, and increasingly risk averse.
- Lipstick effect: consumers will maintain luxury demand (e.g travel, clothing) but with a budget constraint.
- Access to credit financing supports spending.

Consumer trends to watch out for in 2024

Strong wallet consciousness and price sensitivity. **Balancing their budget** is the primary aim.

Rising demand for smaller product sizes, i.e. **Sachetisation.**

More frequent trips to stores, accompanied by **smaller basket sizes**.

Increased **down-trading** to lower-value brands or products.

Frequent trips (higher foot traffic) to stores to make **unit purchases**.

Neighbourhood stores are gaining ground due to **convenience**. Every pharmacy is a variety store.

Strong preference for sales and promotions to stay on their indifference curve.

Where will opportunities emerge in 2024?

Trend	What we are seeing	Likely implications	Opportunities
Young demography	Nigeria has a young population wherein consumers between 25–54 years make up over 50% of the spending population.	A thriving working-age population points a lucrative workforce, beneficial for output growth.	A young population signals potential growth in the consumer market and more disposable income to unlock spending on consumer goods.
Social commerce	Social media is becoming a strong tool for product/brand discovery, price comparison, and brand affiliation, especially among the younger generation.	The rise in e-commerce will support consumer spending among the entry level and upper segment consumers.	A strong social media presence and e-commerce opportunities for consumers will likely support brand discovery and engineer product-market fit for businesses.
Income stratification	A shrinking middle income class.	Consumers prioritising necessities over luxury items.	Easier market segmentation and targeted product differentiation to support revenues.
Consumer financing	A rise in consumer financing solutions like BNPL and SNPL.	Credit will help drive consumption as consumer wallets remain battered.	Persistent inflation to drive demand for consumer financing, especially among the upper class and higher income earners within the entry level segment with steady monthly salaries.
Brooding consumer markets	Rising migration from more expensive cities like Lagos to neighbouring states like Ogun and Oyo.	Increase in consumer spending from the brooding markets, supporting business prospects.	A potential increase in Nigeria's consumer market size and diversified spending mix.

Energy – Global

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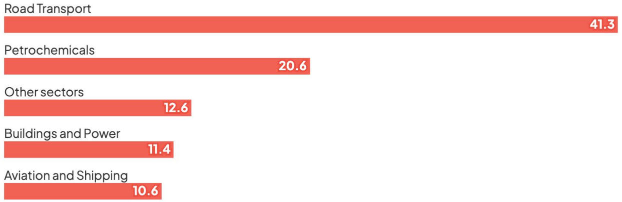
Global oil prices: The law of demand and supply

Road transport accounts for 43% of global oil demand

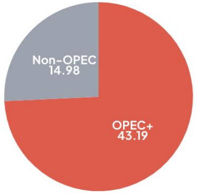
2022 global oil demand by sector, million barrels per day



Source: IEA

Russia's alliance with Saudi Arabia has strengthened OPEC's impact

October 2023 oil supply in million barrels per day

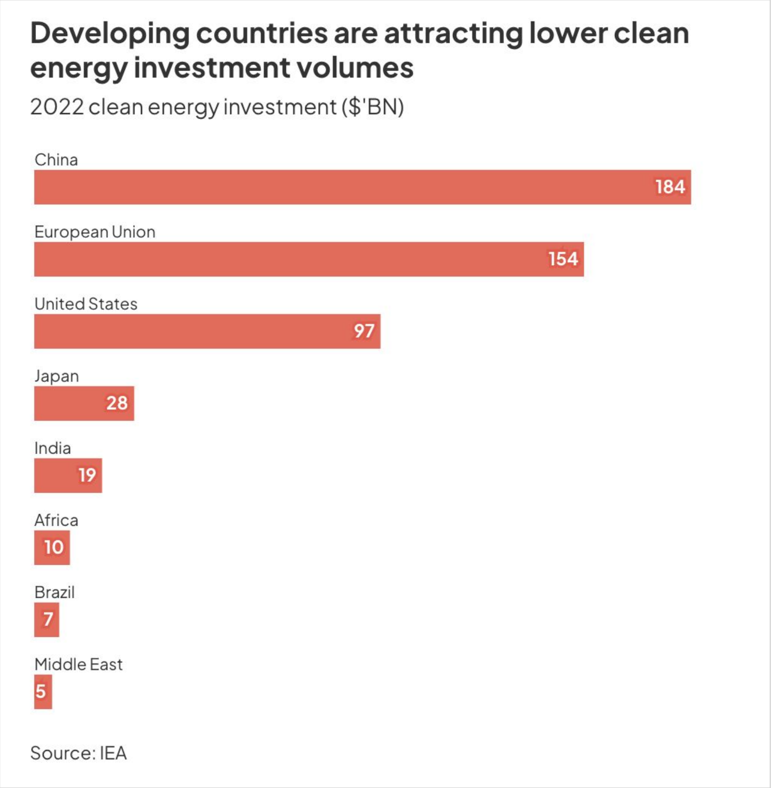


Source: IEA

- Road transport accounts for over 40% of global oil demand, followed by petrochemicals
- China accounted for more than 50% of global energy demand growth but the economy is changing. China is also the largest e-mobility market, accounting for the highest volume of sales globally, reducing oil demand from road transport.
- China's oil and gas demand is expected to stay stable before slowly declining from 2025/2026.
- **2024 oil prices to range from $70 – $80, lower than 2022 and 2023 average prices**

- Russian production and exports continue to find buyers worldwide, although Russia's revenues have been considerably lower than a year earlier
- Concerns about weaker demand and prices have prompted a series of output cuts from Saudi Arabia and OPEC+, which will continue into 2024
- However, the US has been a formidable contender against OPEC, increasing oil production despite OPEC+'s supply cuts and ultimately driving prices lower.

Natural gas boosts clean energy funding in developing countries



- Developing countries have historically fallen behind countries like China and the US in terms of clean energy investment. The African continent as a whole recorded $10 billion in 2022, compared to $28 billion in Japan.
- According to the IFC and IEA, annual clean energy investments in emerging economies will need to hit $ 2.8 trillion by the early 2030s to meet rising energy needs and align with the climate goals set out in the Paris Agreement. For context, $770 billion was raised in 2022.
- However, following the Russia-Ukraine crisis, natural gas has been classified as a clean energy source by the EU and will play a significant role in the energy transition.
- Liquefied natural gas (LNG) has now become a base source of supply for Europe, with its share of total energy demand in the European Union rising from an average of 12% over the 2010s to close to 35% in 2022, similar to the contribution from piped gas from Russia before it invaded Ukraine.
- This presents an opportunity for emerging economies like Nigeria, Mozambique and Tanzania to raise more funding for natural gas projects and ultimately raise clean energy investment.

Energy – Nigeria

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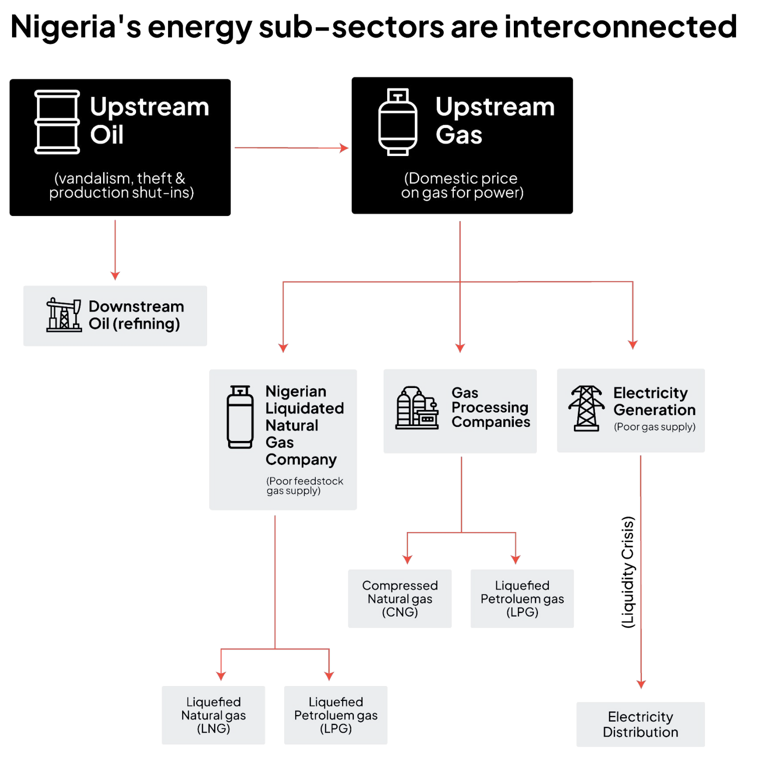
Context: The Intersections of the Nigerian Energy Market



Source: Stears

- Nigeria's energy market is broad but sub-sectors are interrelated. As a result, the issues plaguing specific sectors tend to spill over into others.
- Vandalism and theft in upstream oil have affected gas production, given Nigeria's reliance on associated gas. This adds to the supply shortages caused by the domestic price cap in the gas sector.
- As a result of gas shortages, liquefied natural gas (LNG) exports and liquefied petroleum gas (LPG or cooking gas) production have been affected.
- Given that over 50% of Nigeria's domestic gas goes to the power sector, the non-profitability of companies in the power sector has spread to gas companies as power companies are unable to make timely payments for gas supplies.
- Further, off-grid energy companies providing alternatives to the grid have a reduced market potential caused by non-cost reflective tariffs in the power sector.

Indigenous oil firms assume control of onshore oil production

IOCs will continue with onshore divestment plans

- Due to Nigeria's poor operating environment, fears of declining demand, vandalism and theft and the global energy transition, IOCs are divesting from less profitable assets in Nigeria—onshore and shallow water
- This will continue into 2024, and we expect more progress with announced exits and acquisitions such as Oando-Agip and Seplat-Mobil

IOCs remain focused on deep offshore oil and gas

- Deep offshore is more secure, cheaper in terms of taxes and has lower operating costs.
- Nigeria's current unit operating cost ranges from $15 (deep offshore) to $25 (onshore/shallow waters)

Afrexim Bank remains the financier of choice for acquisitions by local companies

- The exit of IOCs like Shell, Agip, ConocoPhillips, and ExxonMobil from onshore oil has created opportunities for local oil and gas companies to buy up assets from exiting IOCs while expanding to other African countries.
- Afreximbank, which is partly owned by African governments and financial institutions, remains the primary financier of choice for these acquisitions
- This will continue into 2024 as the appetite for Nigerian oil and gas projects remains low from other financiers due to the operating risks and FX liquidity issues from local commercial banks

Challenges persist for upstream gas in 2024

NLNG's Force Majeure shifts investment prospects to Floating LNG and LPG

- For over a year, NLNG's force majeure has derailed the country's ability to attract gas investments.
- Getting feedstock gas to NLNG should be the top priority, but the window for gas investment is narrowing, and this should be done while exploring other opportunities. We expect more investment in LNG from private players.

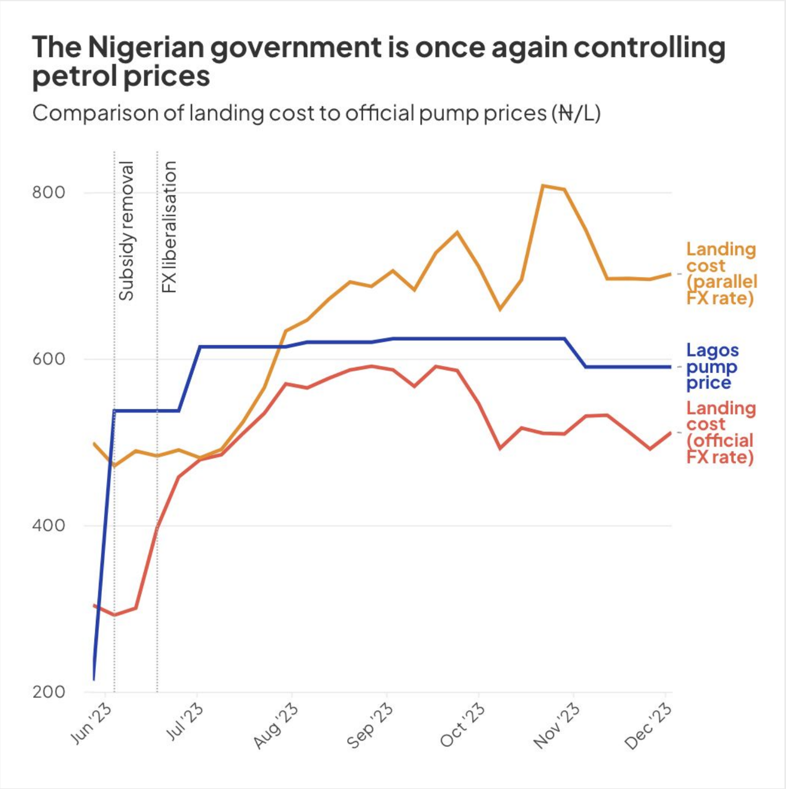
The FG is unlikely to remove the cap on gas due to the knock-on effect it will have on electricity prices

- With gas-for-power priced at $2.18/mmbtu compared to the $3–$4/mmbtu market price, the incentive for flaring lingers and gas supply remains an issue.

Upstream oil & gas projections:

- Nigeria's oil production will remain volatile in 2024, with a base of 1.4 million barrels per day, excluding condensates.
- Long-term, deep offshore investments could increase production to 2 million barrels per day within 4 years.

Stunted deregulation in downstream Oil



The petrol subsidy has returned

- We expect official petrol pump prices to be artificially fixed (with ± 5% variance) until the exchange rate stabilises or the Dangote refinery begins producing in commercial quantities.
- Deregulation sparked positive sentiment in downstream companies—MRS' share price gained 755.64% yoy. The return of implicit subsidy and temporary abortion of cost-reflective pump prices will dampen sentiments in 2024.

Petrol consumption has halved y-o-y

- Nigeria's monthly petrol imports have declined 50% year-on-year. Import volumes should remain below 40 million litres per day in 2024 as smuggling arbitrage remains minimal.

Nigeria finally resumes oil refining

- The Dangote refinery will commence refining in the 1st half of 2024 but will not reach full capacity until 2025.
- While state owned refineries are still under rehabilitation, we expect growth from modular refineries as projects are completed in 2024.

Stears

Petrol subsidy removal amplifies the significance of downstream gas

Compressed natural gas (CNG) is a cheaper alternative to petrol

- The Federal government plans to sell CNG for ₦230/kg.
- The cost-efficiency of CNG, compared to petrol post-subsidy, has created a viable market for the product.
- Companies like Axxela, with CNG processing plants, already supply CNG to power plants and could tap into a bigger market in the transport sector. However, upstream gas issues must be addressed.

Power sector still facing gas shortages.

- Vandalism and theft in upstream oil will continue affecting gas supply volumes to the power sector.
- Non-cost reflective tariffs and the resultant liquidity crisis in the sector, are also contributing to gas reliability issues.

Downstream oil & gas projections:

- We expect prices to remain relatively fixed until the exchange rate is stabilised or the Dangote refinery starts producing in commercial quantities.
- Downstream gas has become a bright spot as Nigerians seek cheaper alternatives to petrol.

Stears

Progress in Nigeria's power sector remains sluggish

Electricity tariffs will remain non-cost reflective due to government intervention

- Current electricity tariff model is based on January data: Inflation at 21.8% (Oct: 27.33%) and FX rate at N480 (Dec 5: ₦952/$) .
- Estimated tariffs using prevailing rates: ₦100/kwh vs current max of ₦70 kwh.
- Pressure to manage consumers' cost of living will defer tariff revisions beyond 2024.

State electricity markets begin to take shape but more clarity is needed

- Investors will look out for viable off-takers, availability of resources, regulatory certainty, and a clear policy and development timeline they can work with.
- Rivers, Plateau and Oyo are rushing to pass electricity laws, but we won't see viable state markets in 2024.
- States need technical support for demand studies, regulations, policy formulations and a clear jurisdictional split between state and Federal electricity markets. DFIs will be eager to work with states on shaping these policies and provide technical support.

Movement towards bilateral PPAs and the gradual expiration of NBET

- NBET's licence is up for renewal in 2024 and the two creditworthy discos are already moving towards bilateral contracts in 2024 while the others will follow as their fundamentals improve.
- This implies a more reliable electricity supply backed by contracts but requires cost-reflective tariffs to be fully effective.

Progress in Nigeria's power sector remains sluggish

Privatisation of 8 government owned power plants

- C8 IPPs are still government-owned enterprises and BPE is looking to privatise.
- We expect invitations for bids and selection of winners to happen in 2024.

Conversations about TCN's split progress but no tangible actions expected.

- NERC has mentioned moves to separate the Market Operator and the System Operator, two arms of the Transmission Company of Nigeria.
- This is unlikely to happen in 2024 due to more pressing priorities listed above.

Power sector projections:

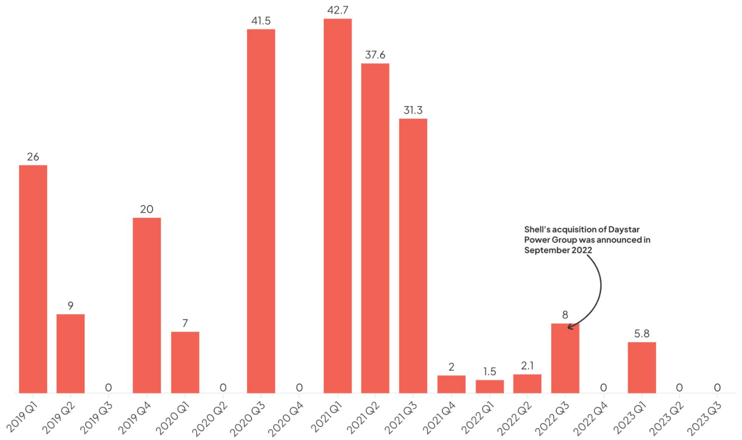
- Reliable power supply from Nigeria's grid is still a long-term ambition. Non-cost reflective tariffs make it impossible for companies in the sector to invest in infrastructure or attract funding to the sector.
- Long-term, state electricity markets in states like Lagos and Anambra offer a glimmer of hope provided that regulatory frameworks are optimally developed and past mistakes are avoided.

Stears

The rising cost of diesel amplifies the allure of off-grid electricity

Funding to Nigeria's renewable energy startups has dwindled since Daystar's exit

Amount raised per quarter ($ million)



Source: The Big Deal Database

#1 Commercial & Industrial (C&I) Companies

Rising diesel costs enhance the appeal of off-grid gas solutions for consumers.

- Diesel prices have quadrupled since February 2022, due to the Russia-Ukraine crisis.
- As a result, companies, industries and estates have recorded significantly higher power costs, causing them to consider off-grid alternatives like gas and solar.
- While non-cost reflective grid tariffs will slightly dampen consumer sentiments, C&I customers are equally as concerned about the unreliability of the grid.
- The FX devaluation and poor macro environment have also caused a surge in naira pricing of renewable energy components, which will cause higher operating costs for off-grid solution providers and steeper entry barriers for new entrants.
- We expect the 2023's slow funding trend to continue in 2024.

Stears

The rising cost of diesel amplifies the allure of off-grid electricity

#2 Retail and Mini Grids

- Similar to C&I, diesel prices and an unreliable grid have increased the attractiveness of off-grid energy solutions for retail customers. However, low purchasing power and non-cost reflective grid tariffs are still significant blockers. Further, pay-go solutions aren't as widespread in the retail space. Ultimately, there will be a slight uptick in consumer demand.
- Retail companies will keep struggling to attract funding because of poorer commercially viability than C&I nor are they improving energy access to rural consumers like mini grids.
- Achieving productive use of energy will continue to be a major concern for mini grid developers in 2024.
- Mini grid developers have historically attracted funding from DFIs, governments and grants and this won't change in 2024 as the long-term commercial viability is yet to be proven to investors.
- 2024 will bring small ticket raises and fewer new entrants due to FX devaluation, higher operating costs and poor macro condition

Off-grid power projections:

- 2024 will bring an uptick in renewable energy demand from Nigerian businesses and consumers due to higher diesel costs and the continued unreliability of the grid.
- However, we don't expect exponential growth due to non-cost reflective grid tariffs which remain cheaper than off-grid solutions, higher costs of off-grid solutions due to FX devaluation and higher operating costs.

Stears

Where will opportunities emerge in 2024?

Trend	What we are seeing	Likely implications	Opportunities
Local companies acquire IOC assets	International oil companies exit Nigeria's onshore oil sector	Local oil companies acquire onshore assets IOCs focus on deep offshore assets	Local oil companies can increase their production capacity through acquisitions.
Petrol subsidy removal creates a bigger market for gas	Petrol prices have doubled since the petrol subsidy removal in June 2023.	Reduced petrol consumption Demand for cheaper alternatives Reduced incentive for cross-border smuggling	Compressed natural gas, autogas and electric vehicles are viable, cheaper alternatives to petrol and there's a bigger market opportunity with the subsidy removal.
State electricity markets take shape	A new electricity Act was signed in June 2023.	States can operate their own electricity markets Increased competition in the power sector	State governments need support from consultants and experts to create regulations and frameworks for viable electricity markets.
Rising diesel costs make off-grid solutions more attractive	Diesel prices have quadrupled since January 2022	Reduced diesel consumption Demand for cheaper alternatives	Renewable energy and off-grid gas companies can provide electricity alternatives to a larger market.
Acquisition of state owned power plants	Government needs to raise revenues	Sale of state owned enterprises	8 power plants are still owned by the government and will be put up for sale to the highest bidder.

Energy – Kenya

Upstream oil progress remains slow but promising

2012

First large scale crude oil reserves worth 4 billion barrels discovered in 2012

15%

585 million barrels (approx. 15%) is commercially extractable.

Oil classified as high quality, light and sweet with low sulphur meaning low production costs.

100%

Exit of Total Energies & Africa Oil left Tullow Oil to control 100% stake in the oilfields.

Tullow Oil lacks financial capacity and is looking for strategic partners

2023

Tullow Oil submitted the Field Development Plan (FDP) to the Ministry of Energy & is awaiting approval and ratification from parliament.

2024 outlook and beyond

- We expect approval of the FDP from the ministry & ratification by parliament in 2024.
- Securing a strategic partner after approval of FDP will be a challenge for Tullow Oil.
- Although the plan is for Kenya to start oil export by 2027 and produce 120, 000 barrels per day, securing investment partners in this climate will be a challenge.
- Kenya stands to earn roughly $0.3 billion from oil exports per month which is about 90% of its current oil import costs of $0.33 billion.

Stears

Demand for fuel declines while gas demand grows

Fuel consumption declined with subsidy removal

5.49%

January - June 2023 consumption of super petrol reduced by 5.49% compared to the same period in 2022.

4.03%

January - June 2023 consumption of diesel reduced by 4.039% compared to the same period in 2022.

2024 outlook

- Fuel import deal between kenyan government and Saudi/UAE refineries to continue beyond FY 2024/25.
- Fuel prices will decrease as oil demand declines despite OPEC+ cuts.
- VAT increase & inflation will reduce consumption of fuel by over 5% in 2024.
- We expect the stabilisation fund to continue as long as fuel prices keep increasing.

LPG growth policy to accelerate transition to clean cooking

23%

Percentage of Kenyans currently relying on LPG as the primary cooking fuel.

35%

Target share of population relying on LPG as primary cooking fuel by 2030.

2024 outlook and beyond

- Kenya targets universal access to clean cooking services by 2030 and has put this measures in place to wean off 70% from dirty fuels;
    - LPG exempted from VAT, schools & public institutions to transition by 2025, new housing developments to have gas reticulation infrastructure and provide free gas cylinders to 4.4 million people in 3 years.
- We expect price to reduce and consumption to increase by about 14% in the next few years as per the USA International Trade Association projection.

Stears

… and disruptive technologies

Technology	Overview	Outlook
Electric vehicles	Currently over 2,000 electric vehicles, 75% being motorcycles & 35 e-mobility companies. Kenya targets 5% of all newly registered vehicles being EVs by 2025. Electric motorcycles will command bigger share of sales followed by buses, taxis and personal cars. Electric vehicles are up to 8x less expensive to operate than ICE vehicles.	Price decline for EVs as Finance Act 2023 benefits such as VAT exemption,excise duty reduction from 20% to 10% takes effect and also local production and assembly peaks. Pay-As-You-Drive financing solution to make electric buses affordable. As more transition happens, we expect fuel consumption to decline in the long run.
Conversion of petrol cars to LPG	Over 2,000 vehicles converted and this is expected to increase as fuel prices goes up. LPG costs about KES 120 compared to petrol at KES 217 per litre.	Taxis will lead in conversion as they stand to benefit from more mileage. Government expected to regulate the sector as it expands its tax base.
PAYGO models for LPG	Over 250,000 households access LPG through PAYGO systems.	More households are expected to join due to the growing availability of affordable PAYGO financing options, increased taxation, shrinking income levels; and government initiatives that promote the adoption of clean cooking technologies.

Stears

Kenya's electricity sector is open to investors in 2024

89%

Renewables account 89% of generated electricity providing a potential market for companies to reduce their carbon footprint.

77%

77% of the total population is electrified, urban 97.5% and rural 68.2%.

21%

Tariff prices have increased by 21% and 27% for domestic & commercial customers respectively.

161%

Total installed captive power increased from 133.5 MW in 2018 to 349.8 MW in 2022, a 161% increase mainly due to lack of grid reliability & increase in tariff prices which encouraged the switch from grid.

Key things to watch out in 2024

- Tariff prices will rise in 2024 given fuel price hike in 2023.
- Government to focus investment on renewables with battery energy storage systems to stabilize the grid.
- Private investors to join the distribution of electricity to retailers.
- Partnership with directorate of criminal investigation to crack down on vandalism and theft to boost investor confidence in electricity distribution.
- Investment in upgrading the grid system to reduce transmission and distribution losses.
- Kenya Power to transfer transmission lines to KETRACO and offset dollar loans.

Off-grid and mini grid electricity accelerating universal electrification

Solar energy Kits

Overview

- Over 23 million people are connected to off-grid solar products,
- Increased sales of SHS bundled with appliances such as TVs during covid 19 as households sought to follow news.
- PAYGO sales increased from 50% in 2019 to 62% in 2022.

2024 outlook

- Households to transition to larger solar energy kits as households move beyond basic lighting needs.
- Sale of SHS through PAYGO models to dominate.
- Sales of solar home systems to increase as government combines effort with private sector to supply 250,000 SHS in 14 counties.

Mini-grids

Overview

- Mini grids are cost effective in reaching the rural unelectrified population.
- Currently over 12 million people have no access to electricity with over 90% of this being rural.
- There are over 180 mini grids in kenya, with renewable based accounting for over 60%.

2024 outlook

- Development of more 136 solar-powered mini-grids for rural households.
- We expect retrofitting of diesel mini grids with solar and wind.
- We expect increase in productive use of electricity as government & mini grid developers focus on boosting revenue generation.

Where will opportunities emerge in 2024?

Trend	What we are seeing	Likely implications	Opportunities
Transition to electric vehicles	Increased funding to support e-mobility sector. Reduced VAT and excise duty on EV vehicles. 8.3% market share in new vehicle sales	Faster transition to electric vehicles.	Pay As You Drive financing, battery swapping, charging infrastructure . Local assembly of e-vehicles.
Battery energy storage systems	Government prioritizing energy storage systems for grid stability with World Bank funding support	Intermittent renewable energy projects with battery storage to be given priority.	Carbon credits financing and development
Mini grids and solar home systems	Mini grids and solar home systems used to electrify rural households with World Bank funding support	Solar powered mini grids will be given priority.	Sale of solar home systems. Financing and development of mini grids.
Bulk tariff and distribution of electricity	Private investors allowed to purchase electricity in bulk and distribute to retailers.	Improved efficiency and reduced illegal connections	Retail of electricity units. Public-private partnerships.

SSA – Governance Risk

Stears

SSA trends, outlook and implications

Trend	Outlook	Implications
Declining satisfaction with democracy	Contentious elections may lead to greater unrest	Elections not perceived as free and fair are triggers for coups, and further instability
Succession for long-time leaders comes into focus. More coups also likely.	Sudden death or overthrow of another authoritarian leader could throw a country or region into chaos Insurgency in the Sahel continues to pose challenges for coastal WA states	Greater political instability and insecurity is a disincentive for investment. Countries with heightened insecurity and/or ageing/ unpopular leaders will see greater policy instability as new leaders come to power over the next few years
African countries will continue to seek a greater say in global issues like climate justice	African countries will attract climate related investment, but the extent of that investment depends on policy frameworks and the ability to execute.	Companies involved in climate adaptation and mitigation will see opportunities for expansion, as money from the Loss and Damage Fund begins to flow
Resource nationalism more prominent	Countries will drive a harder bargain on resource extraction, as they will be courted by global powers	Companies in the extractive industry who invest in some in-country beneficiation, should be more secure from political interference.

Stears

Regional focus on West Africa

Country	What we are seeing	Likely implications
Ghana	• Economic mismanagement, high inflation and high-profile corruption cases have led to widespread discontent in the country, which indicates the NPP will lose power in 2024. • In the short term, the necessary adjustments will be painful.	Ghana's long-term political stability will come to the fore and help the country get back on track.
Côte d'Ivoire	• Economy remains fast growing, with manageable inflation • Reconciliation between major political rivals • Big win for ruling party in local elections	Cote d'Ivoire has had greater political stability recently, and this should continue if the process of replacing Ouattara in 2025 proceeds without a hitch.

Regional focus on East Africa

Country	What we are seeing	Likely implications
Ethiopia	• Uneasy truce between government and TPLF rebels. There have also been battles with rebels from the Amhara region. • There are tensions with its neighbours around securing port access to the Red Sea to bolster Ethiopia's economic fortunes, as well as the building of a new dam on the Blue NIle	BMI/Fitch ranks Ethiopia in the bottom 11 on the security component of its Sub-Saharan Africa Coup Risk Index. Without fixing that, its growth is unlikely to take off.
Rwanda	• Kagame is set to win another term in 2024, enabling him to lead the country till 2029 when he will be 71. No signs of any succession planning. • Rwanda is an emerging guarantor of regional/continental security, which is improving external legitimacy. However, tensions with the DRC remain a recurring issue. • Visa-free travel should improve investment opportunities.	Policy stability is largely guaranteed as long as Kagame remains at the helm. He has adopted a Western-oriented, pro-business stance that has not wavered.
Kenya	• Cost of living and new taxes have led to protests • Trying to be a hub on the African continent with visa-free access • The Ruto administration aims to privatise 26 GOEs to open up the economy.	Kenya remains a good place for business, but must keep a close eye on Al-Shabaab to the north.

Stears

Regional focus on Southern Africa

Country	What we are seeing	Likely implications
South Africa	• The state of South Africa's governance is laid bare by the extent of its power outages and the performance of its state-owned enterprises more broadly. • The ANC has fumbled its once unassailable position, to the point where it will likely be forced into a coalition with the EFF after the 2024 elections.	This potential coalition could further complicate the ANC's attempts to govern, because many of the EFF's policy positions (like land expropriation) could further drive away investment and hamper economic growth.

Stears

Key elections in SSA in 2024

Country	Date	Likely outcome	Likely implications
Senegal	February 2024	Ruling BBY coalition should win, but the prospect of opposition politician Ousmane Sonko not being on the ballot will cause short-term unrest. The rest of the opposition is divided.	Victory for BBY's Amadou Ba will see a continuation of the Macky Sall's policies
South Africa	May 2024	The ANC will win again, but support for them will further decline	A potential coalition between ANC and EFF could lead to policy instability. Cyril Ramaphosa also appears to be on his way out.
Ghana	December 2024	The NDC look set to take over from the NPP, based on the ruling party's handling of the economy, many scandals and historical precedent	An NDC win should see a return to more sensible spending in Ghana in 2025
Rwanda	August 2024	Kagame to win without opposition	Policy continuity assured under Kagame, but tensions with the DRC will persist.

Nigeria – Governance Risk

Stears

Where will opportunities emerge in 2024?

Trend		What we are seeing	Likely implications
	Administration very focused on attracting foreign investment	Reforms could stall due to pushback from labour unions and political In-fighting. Tax reforms could be the next big battleground in 2024.	The federal government has made many pledges to improve the business environment for investors. 2024 will be a test of those pledges.
	Declining trust in institutions	Public trust in the integrity of the courts is on the decline, as is trust in the legislature to check the executive.	Loss of trust in court pronouncements could see aggrieved parties resort to violence, increasing social unrest.
	Lopsided appointments causing frustration among other stakeholders	Minor cabinet shake-up likely in 2024, to re-invigorate administration and placate certain groups.	Certain ministries may change focus with new leadership. This could lead to some policy inconsistency.
	Opposition parties likely to merge	A merger of opposition parties is highly likely in 2024/2025.	If an opposition merger happens in 2024, the administration will switch to election mode much earlier than normal, with governance taking a back seat.

Nigeria – Financial Services

Stears

2023 Financial performance overview: resilience amidst turbulence

Gross Earnings

95.7% growth in gross earnings across the industry.*

Expenses

Surging inflation and increase in personnel expenses raised expenses.

Profitability

174.3% increase due to higher net interest & non interest income.

Asset quality

Non performing loans increased by 0.3 percentage points.

Capital

CAR remain above minimum regulatory requirement.

Cost of Risk

Cost of risk deteriorated across bank under coverage.

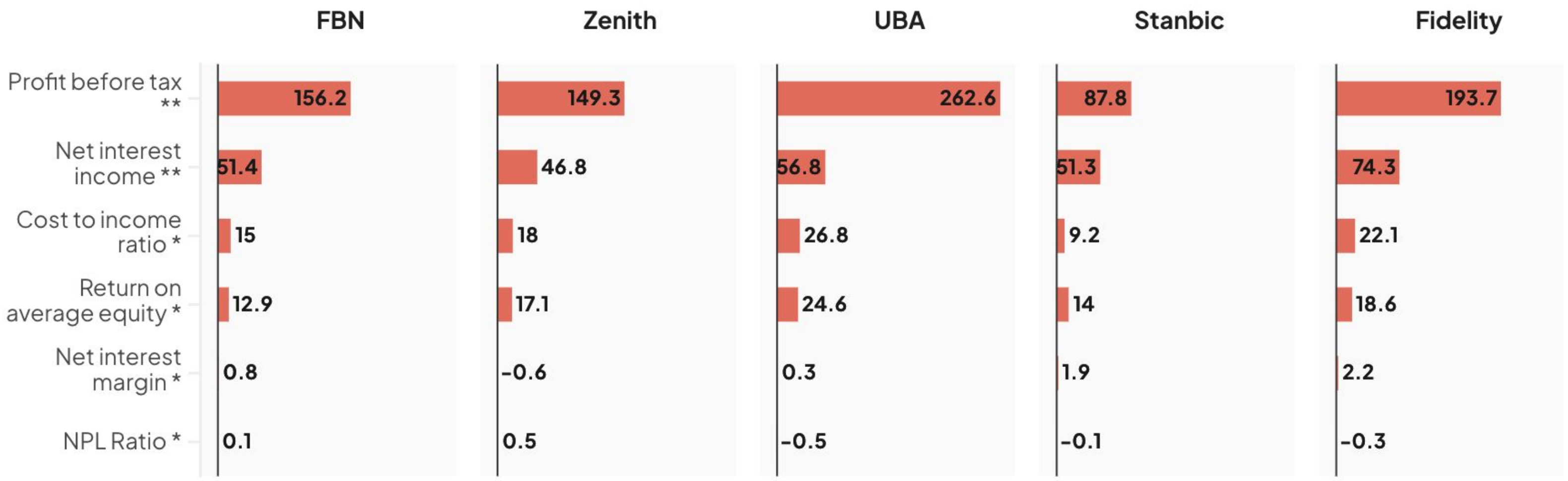
- Nigerian banks recorded a stellar performance in 2023 despite the challenging operating environment.
- The impressive performance was primarily driven by growth in net interest income and non-interest income, as Nigerian banks benefited from a rising interest rate environment, growth in loans and FX revaluation due to banks' long net open positions in foreign currency.

** Only FBN, Zenith, UBA, Stanbic and Fidelity were included in the computation.*

2023 Financial performance overview: resilience amidst turbulence

Nigeria banking sector registered remarkable growth between 2022 and 2023

Select tier 1 and tier 2 banks performance - (y/y change)



Source: Company results, Stears • Computation based on nine months 2022 and 2023 unaudited statements
* Values are percentage point changes **Values are percentage changes

Key events that shaped Nigeria's banking sector in 2023

CBN Policies

- The naira redesign policy allowed for more deposits in the banking system in Q1 2023, leaving banks with a huge capital base and allowing for more investment opportunities.
- The MPC raised MPR by 125 basis points between January and July 2023. The increases meant higher interest rates on bank customer loans, which increased their net interest income.
- In June 2023, the CBN announced operational changes to the Nigerian FX Market. The reform saw the naira devalued by 39.75% between June and September 2023. The devalued naira led to higher FX revaluation gains.
- Removing the ₦2bn per bank cap on remunerable funds placed at the SDF means banks can deposit excess funds at the CBN with rates around 15.75%.

CBN Regulations

- The CBN released the Open Banking Guidelines to improve data sharing across banks and other financial institutions.
- On June 27 2023, the CBN, in furtherance of its efforts to standardise operations in payment systems, released the Contactless Payments Guidelines.
- CBN reviewed Cash Reserve Ratio for merchant banks from 32.5% to 10%.
- The CBN released the Guidelines for the regulation of representative offices of foreign banks in Nigeria.

SDF - Standing Deposit Facility
MPC - Monetary Policy Committee
MPR - Monetary Policy Rate

Key events that shaped Nigeria’s banking sector in 2023

Wins and Investments

- Access Bank PLC purchased Standard Chartered PLC's entire operations in Angola, Cameroon, Gambia and Sierra Leone.
- Fidelity Bank completed the acquisition of Union Bank UK PLC.
- Launch of CBN Afrigo card (Africa’s first domestic card scheme). The AfriGo card should reduce the dominance of foreign card schemes (i.e VISA and Mastercard) in Nigeria’s payment card market.

Stears

2024 outlook: Continued growth momentum

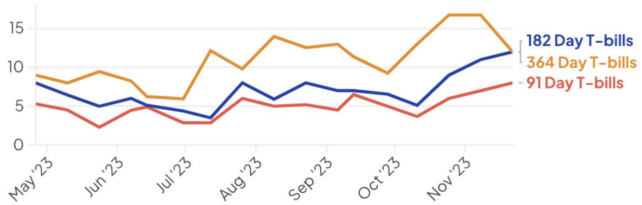
Nigeria's inflation rate continues to surge

Historical inflation rate (solid) and forecast (dashed)

Source: Nigeria Bureau of Statistics, Stears

Interest rates on T-bills have been adjusted upward

T-bill interest rates (%)



Source: CBN, Stears

Moderated Profits

- To ease inflationary pressures, the CBN will continue to apply contractionary measures
- Tightening liquidity situation could result in a higher cost of funds and interest rates on loans which could threaten asset quality.
- We expect that mid-tier banks will face increased vulnerability to loan defaults, primarily due to their exposure to consumer and manufacturing sector loans
- We also expect tighter liquidity measures and increased deposit costs to moderate banks' profitability in 2024

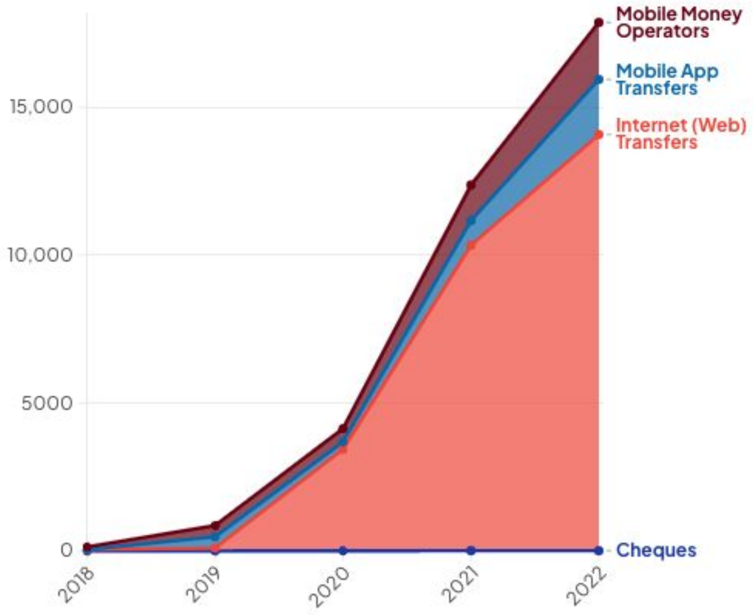
Increased interest rates on fixed-income securities

- Stears expect the CBN to raise short-term interest rates, aiming to attract foreign investments and maintain price stability, as evidenced by recent trends in interest rate auctions
- Our analysis indicates that this will intensify competition among banks for customer deposits, with individuals likely to invest more in short-term securities, yet overall, banks are expected to see more positive than negative impacts
- While the banking sector may benefit, our view is that local private investments are likely to suffer, as companies may avoid taking on debt due to the higher borrowing costs

2024 outlook: Continued growth momentum

Customers are tilting towards online transactions

Volume of E-Payment Transactions



Source: CBN, Stears - 2020 figures shows Jan-Aug only

Digital Banking Penetration

- In the last six to seven years, the Nigerian banking sector has contended with competition from Fintechs and mobile money operators (MMOs)
- Although it seems that banks are currently in a more advantageous position compared to six or seven years ago in competing with fintechs
- We maintain the view that the ongoing trend of consumer preference for digital transactions will compel banks to deepen their digital services continuously
- Looking ahead to 2024, as banks seek to reduce the cost of funds and attract low-cost deposits, we foresee a growing trend wherein traditional banks will increasingly allow fintechs leverage on their infrastructure
- We also anticipate banks exploring novel approaches to deepen customer relationships and foster a greater sense of financial empowerment. We note that personalisation will be a pivotal strategy to demonstrate long-term value. Banks will also look for opportunities to produce insurance and micro-credit products.

Stears

Where the opportunities will emerge in 2024

Trend	What we are seeing	Likely bank implications	Opportunities
CBN is showing commitment to driving digital innovation	Release of **open banking** and **contactless payment** guidelines.	Increased investments in digital banking subsidiaries.	Improved digital and targeted product offerings
Increasing number of Small and Medium-sized Enterprises (SMEs)	**Sparsity** of funding for **SMEs.**	Increased competition for banks as SMEs look to fintechs for funding.	Partnerships with SMEs Incubation programmes
Stricter regulations on fintechs and high infrastructure development costs	**Tightening** of **regulations** around fintech product offerings.	There will be more prevalent opportunities for banks to lend fintechs their infrastructure.	Deepened bank-fintech partnerships.
A significant proportion of the population still remained unbanked	Focus on digital banking leaving out the **unbanked population.**	Potential for banks to increase customer base.	Banks should rely on their established infrastructure and extensive networks to tap into the offline payment market.

Kenya – Financial Services

Stears

2023 performance overview: Sustained growth

Interest income ▲

20.1% growth in loans and advances

Expenses ▼

High inflation & investment in technology raised expenses

Profitability ▼

7.39% decline due to increased expenses

Asset quality ▲

NPLs stock increased by 1,449 basis points

Capital ▲

Banks were well capitalised. Core capital increased to Kes 856.1

Funding ▼

Overall liquidity decreased to 49.7%

* Performance for 9 month period 2023

- The banking sector registered sustained growth in 2023 amidst a challenging macroeconomic environment characterised by high inflation, rising interest rates and the Kenya shilling depreciation.
- Credit risk remained elevated with gross non performing loans to gross loans ratio increasing to 15.0% as businesses and households grappled with high inflation and sustained FX pressures.

2023 performance overview: Sustained growth

The Kenyan banking sector registered sustained growth in 2023

Select tier 1 banks performance - (y/y change)

Source: Company results, Stears • Computation based on nine months 2022 and 2023 unaudited statements
* Values are percentage point changes **Values are percentage changes

Stears

Key events that shaped Kenya’s banking sector in 2023

Introduction of the FX code

- The FX code was introduced in March 2023 allowing commercial banks to trade forex in an easier marner as long as they are within the CBK’s compliance requirements .
- This has effectively shaped the market and reduced forex disparities between the CBK official rate and the industry rate.
- Banks have continued to reap from the high FX revenues driven by the speculation on the shilling value as a result of the increased buying and selling spreads.

Approval of risk based lending models

- The CBK has been developing a risk based lending model to enable banks price loans based on the anticipated risk of each borrower.
- This represents a shift from the negative listing of defaulters and toward a new credit score rating system that does not deny borrowers credit based on the quality of their credit bureau reference ratings.
- By May 2023, the CBK had authorised 33 of the banks' models

Reinstatement of the interest rate corridor

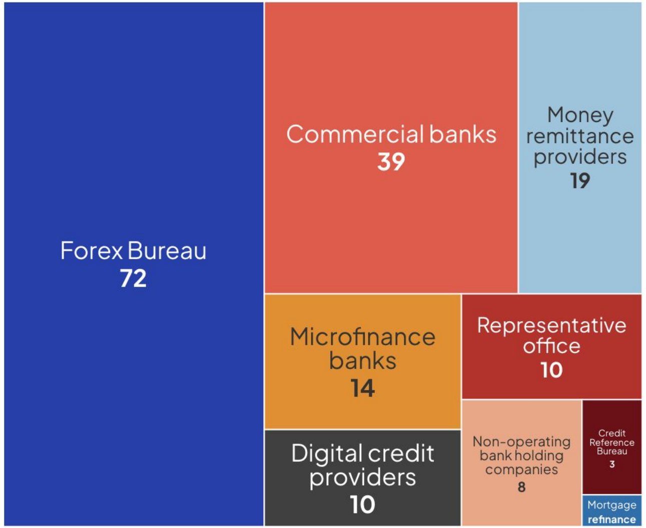
- The interest rate corridor is the standard lending and deposit rate at which commercial banks can borrow and deposit with the CBK.
- The CBK uses this corridor to manage short-term liquidity and ensure that the monetary policy transmission mechanism is effective through short-term interest rates.
- Effectively, CBK introduced an interest rate corridor around the central bank rate (CBR) set at ± 250 basis points.

Stears

2024 outlook:
Navigating uncertainties through adaptive strategies and innovation

Kenya banking sector ecosystem

Ecosystem players by numbers



Source: Central Bank of Kenya

Growth amid uncertainty

- Banks will continue to leverage on the devaluation speculation and profit on currency spread resulting in a notable growth of non interest income originating from FX sales.
- In 2024, the shilling will continue to depreciate although less aggressively as the global interest rates hikes is at a temporary pause.
- The risk based lending models which allows for risk based profiling of borrowers will result in a growth in interest income with increased loan disbursements.

A fragmented industry

- The growth of fintech companies targeting lending, payments & mobile banking continue to intensify competition in the industry.
- Banks will continue to explore partnerships with MPESA & other Fintechs as they continue to innovate their digital product offerings.
- The rapid growth of Fintech has prompted regulatory challenges.
- The CBK will continue to adapt their frameworks to accommodate technological advancements while ensuring consumer protection and financial stability.

2024 outlook:
Navigating uncertainties through adaptive strategies and innovation

Enhanced operational efficiency

- Banks will continue to leverage technology and data and analytics to enhance efficiency and ensure greater service delivery.
- The investment in technology is driven by the operational risk that continues to remain elevated due to increasing cyber security risks.
- Large banks will continue to accelerate their efficiency driven by rationalising expenses to maintain optimal performance.

Preparation for regulatory shifts

- 2023, was characterised by regulatory changes domestically and globally including a change in monetary policies that affected the sector.
- Ensuring that the infrastructure is adaptable to evolving regulatory requirements is critical for maintaining compliance and operational efficiency.
- Banks continue to monitor and analyse regulatory developments, both domestically & internationally as they prepare for any regulatory changes.

Where the opportunities will emerge in 2024

Trend	What we are seeing	Likely bank implications	Opportunities
CBK is encouraging market consolidation	Tier 1 banks are seeking expansion across the East Africa region through acquisitions	Increased number of transactions in the banking sector across Kenya and Eastern Africa	Continued market expansion
Accelerated ecosystem partnerships	Banks are continuously exploring partnership opportunities with Fintechs	Growing digital penetration across products and support for Fintech expansion	Partnerships with Fintechs and technology providers
Increased innovation around SME support	SME are struggling with access to funding due to the high interest rate environment	Increased competition with Fintechs in providing funding to SMEs	Increased innovation and financing solutions for SMEs
Growth of bancassurance business segment	Banks are growing the bancassurance business segment	Increased non funded income	Collaboration and partnerships with Insurers to increase penetration for life and general insurance

Nigeria – Fintech

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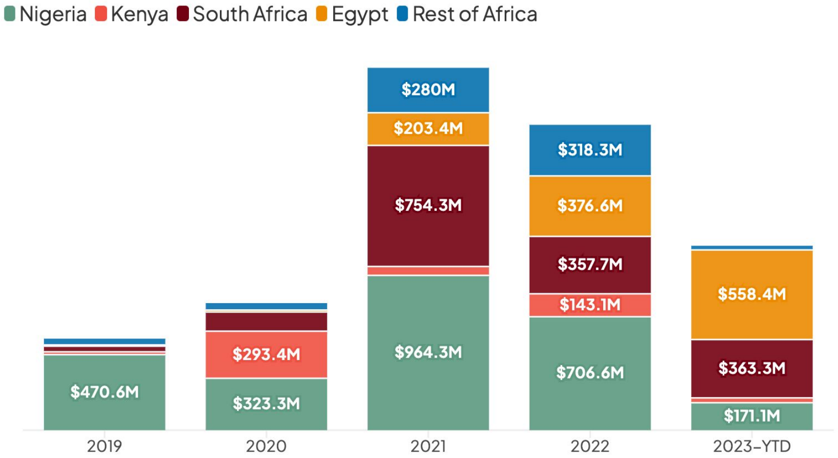
Nigeria has historically led fintech funding on the continent

Nigeria's dominance in fintech funding in Africa has slipped since 2020

Total equity & debt investments in African fintech startups by country, 2019–2023(YTD)



Source: Big Deal Database, Stears
The deal threshold captured in this database changed over the years. The database captured $1M+ deals in 2019, $500K+ deals in 2020, and $100K+ deals from 2021–2023.

- Nigerian fintechs have enjoyed **special attention** from investors
- But Nigeria's dependence on foreign VC capital means funding has been **volatile** and subject to global shocks (i.e COVID-19 and rising interest rates)
- In the short-run, **asset light startups** could possibly survive this volatility since funding rounds cover 12–18 months runway
- However, this could mean longer-term **sustainability risks** for **asset-heavy startups** i.e B2B commerce, e-commerce
- Nigeria **urgently** needs to diversify its funding sources.

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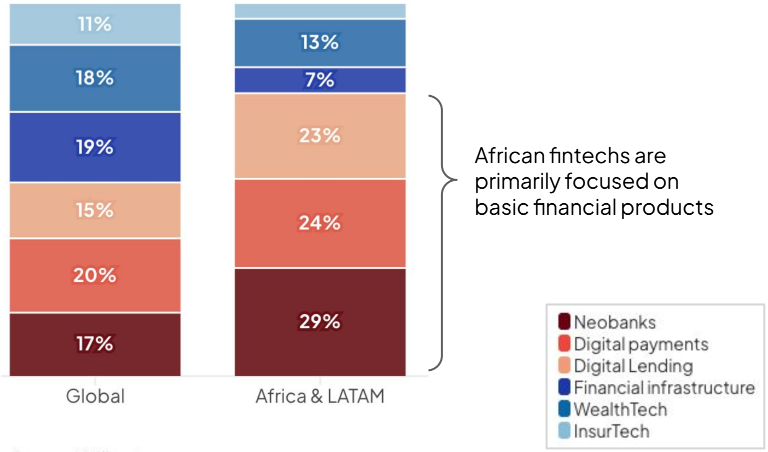
Ground zero: Nigerian Fintechs are building from scratch

African fintechs are building foundational layers of the financial stack

Share of cumulative African fintech equity funding, 2020-2023 Q3



Source: Afridigest

- Nigeria's **last-mile financial infrastructure is only partially built (i.e** ATMs, POS, mobile apps,USSD)
- Wide digital financial infrastructure gaps exist (i.e direct debits, credit scoring, lender blacklists, national ID)
- Hence, there's still latent opportunity for building basic financial products (i.e **payments** and **lending**)
- Sophisticated services such as insurance, pensions, wealth management **won't take off** until the foundational layers are in place.
- Furthermore, it creates opportunities for **infrastructure providers** that help fintechs build products more efficiently

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Key events that shaped Nigeria's fintech market in 2023

Cautious investors pull back

- Rising global interest rates & naira depreciation cause investors to pull back
- Fintech funding dipped **-76%** between 2022 and 2023
- Investors chase profitability over 'growth at all costs'

Cautious consumers spend less

- Nigeria's middle class is thinning out
- Businesses witness reduced foot traffic

A forced 'leap forward'

- CBN's cash redesign experiment was a golden moment for digital payments
- New real time payments record set in March 2023 (**₦48.3 trillion via 1.18 billion transactions**)
- A few payments behemoth emerged as heroes

The silent killer - Fraud

- There were multiple high profile fraud cases suffered by fintechs in 2023
- **GTCO** reported an **84%** increase in fraud incidents in its 2022 financial reports

Change of guard

- Necessary **policy U-turns** (i.e naira payouts) by CBN
- **BVN and NIN linking** mandated from April 2024 which could reduce fraud but disadvantage rural and urban poor that lack BVN and NIN

2024 outlook: Laser focus on the bottom-line - Payments

Cost-management is a **matter of survival** in the current funding winter.

Super Agents

- The cost of POS devices has shot up given the naira devaluation
- Super-agents will roll back agent acquisition to focus on monetizing their most profitable agents and merchants
- Kippa **shut down** its KippaPay agency service in November 2023

Cross Border Payments

- Rapidly expanding into new markets is more challenging as capital is scarce
- Operators will scale down expansion ambitions and double down on **high-margin offerings**
- Chipper Cash scrapped its **Europe and Middle East** expansion earlier this year and launched Chipper ID

Card Issuers & Processors

- Fx-denominated network fees for international card networks (i.e Mastercard, VISA, AMEX etc) are more expensive due to a weaker naira
- This will drive demand for local card networks **like Verve**

2024 outlook: Laser focus on the bottom-line – Lending & Infrastructure

Cost-management is a **matter of survival** in the current funding winter.

Digital Lenders

- Repaying fx-denominated loans is more expensive with a weaker naira and high interest rates
- Lenders will turn to local funding options
- Credit Direct Finance Company registered a **commercial paper on FMDQ** on November 2023

Buy Now Pay Later

- Merchants are struggling with weak consumer demand
- More merchants will embrace flexible payment options like BNPL or Save Now Buy Later

Financial infrastructure

- Building core payments or basic accounts infrastructure from scratch is capital intensive
- Fintechs would leverage Banking-as-a-Service providers to cut product development costs and time to market

Stears

Where will opportunities emerge in 2024?

Trend	What we are seeing	Likely fintech implications	Opportunities
Drying capital pools	Foreign investors are stepping away from risky assets	Difficulty raising follow-on rounds or seed capital	Debt Local investors Crowdfunding
Weak consumer spending power	**High inflation** and a **weak naira is cripping** spending power	Slowing transaction revenues	Buy Now Pay Later Save Now Pay Later Digital lending apps
Layoffs & Shutdowns	Flailing fintech startups are downsizing or closing shop	There will be more layoffs and shutdowns in 2023 if funding winter persists	Acquisitions Mergers Available talent
High product development costs	Technical & developer resources are costly	3rd party providers will run non-core elements of back-end infrastructure	Banking-as-a-service (accounts, savings, credit scoring, card issuing, virtual accounts)

Kenya – Fintech

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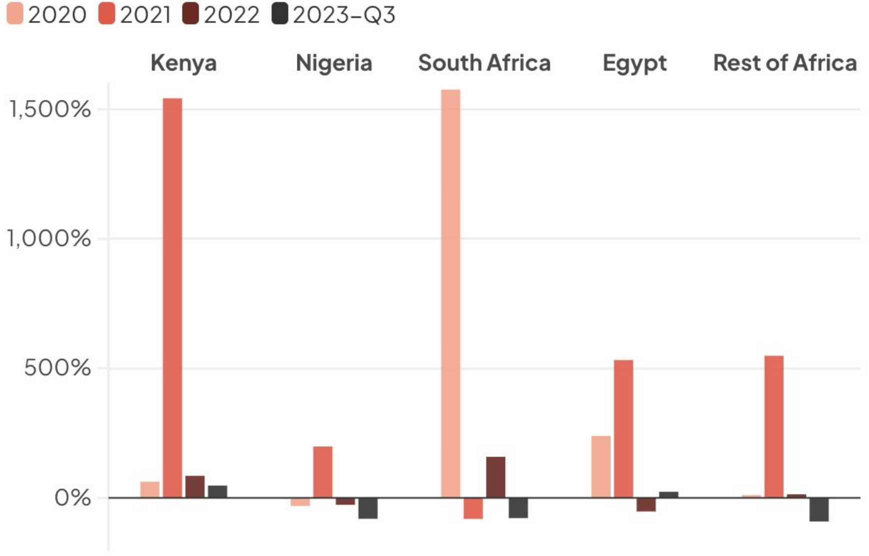
Kenya receives less priority from fintech investors

Through Kenya is the least funded Big 4 market, funding flow has been the least volatile

Y-o-y % growth in fintech funding between 2020-2023(Q3)



Source: Big Deal Database, Stears

- Kenya claimed on average, **8%** of fintech investments on the continent between 2019-2023, compared to Nigeria's (**39%**). Egypt's (**16%**) and South Africa's (**20%**)
- Kenya could be considered a lower priority destination for fintech investments due to:
  - Kenya's booming clean-tech sector may be clawing funds away from fintech. Kenya has claimed **45% of Africa's clean-tech** investment since 2019.
  - The consumer financial landscape may be less attractive given **Safaricom's** monopoly (**97% market share**)

Stears

Safaricom's retail monopoly leaves fintechs focused on business-users

96.5%

Safaricom has a near monopoly of mobile money wallets in Kenya. Most fintechs would struggle to compete for the consumer market

Safaricom

7.4 million

49% of Kenyan MSMEs face barriers accessing finance. This is higher than the African average of **40%**

digiduka WASOKO Bamba

22,053+

Kenya has **22,053** financial institutions:
39 commercial banks,
14 microfinance institutions,
22,000 SACCOs

kwara

Fintechs and banks **won't displace** Safaricom's well-defended consumer payment empire anytime soon. Thus, fintechs are focusing on another critical user-segment: **merchants, large enterprises and legacy financial institutions.**

Safaricom's future relevance will rest on its ability to partner with other financial institutions to deliver other sophisticated financial services beyond basic payments i.e **insurance, pensions, asset management etc**.

Stears

Key events that shaped Kenya's fintech market in 2023

Consumers feel the burn of Ruto's taxes

- Newly introduced taxes in July 2023 is squeezing consumer spending
- Petrol VAT doubled (from 8% to 16%) + a 1.5% housing levy
- Kenyans staged protests in Nairobi to express dissatisfaction with rising living costs
- Lower income consumers have borne the brunt more than higher income consumers

Small merchants junk M-Pesa:

- Kenya's tax authority (KRA) is using M-PESA records to aggressively enforce tax compliance
- Some smaller merchants have reacted by junking M-PESA and reverting back to Cash
- The impact on Safaricom is expected to be minimal given these merchants tend to drive smaller volumes

Digitizing Kenya's broken B2B supply chains is costly

- Digitizing B2B supply chains requires capital intensive business models and capital injections is tougher during a funding drought.
- Twiga foods, an agri-supply platform recently raised an undisclosed amount in November 2023 to settle outstanding supplier debt
- These cash flow issues, complicated by dependency on volatile VC flows may prolong the path to profitability for Kenya's B2B supply chain players i.e Twiga Foods, Marketforce, Copia Global, Wasoko etc

Silicon savannah is open to business

- President Ruto made landmark decisions to position Kenya as an attractive startup ecosystem:
  - Startup Act is scheduled to go live in May 2024
  - Ruto has repealed visa requirements for foreign nationals (takes effect in January 2024

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2024: Building deeper layers of the financial stack

Fintechs will extend into adjacent financial use cases i.e SMEs, enterprise-scale payments, remittances, and climate tech etc.

Payments Processors

- Foreign brands like **VISA** and **MICROSOFT** recently set up shop in Kenya.
- These multinational enterprises will require local payment solutions to accept local payments (i.e M-PESA), creating opportunities for major payment gateways like **Flutterwave, dlocal, PayU**, **Pesapal, DPO Group, Tingg**

Cross Border Payments

- Kenya's **$4 billion cross-border payments market** is getting crowded
- Two new players entered the market in 2023: **Lemonade finance** and **Flutterwave. Safaricom** also launched its remittance service in 2022
- Heightened market competition may crash fees for consumers, but squeeze margins for providers

Crypto

- Kenyans had Africa's highest crypto usage with **8.5%** penetration, compared to Nigeria's **6.3%** and South Africa's **7.1%** in 2021
- Unlike Nigeria, Kenya's Central Bank has stopped short of an outright ban on crypto, though it announced unpopular plans to tax digital assets. Players say the CBK is taking a 'wait and learn' approach prior to formalizing regulations
- Crypto firms like Kotani Pay are betting on Kenya's current semi-open crypto climate to pilot and scale various use cases like remittances.

2024: Building deeper layers of the financial stack

Fintechs will extend into adjacent financial use cases i.e SMEs, enterprise-scale payments, remittances, and climate tech etc.

Climate Tech

- Kenya claimed on average **45%** of Africa's climate-tech investments since 2019
- Climate-based products aren't directly financial products but are enabled by fintech products (i.e payments, lending etc)
- New climate focused funds have been established i.e Equator's $40 million, Catalyst Fund's $30 million, Novastar's $300 million. More innovative climate startups will emerge in 2024 that fintechs can layer on financial services

BASIGO

SME Finance

- 49% of Kenyan MSMEs struggle to access necessary capital, above the SSA average (40%)
- M-PESA's microloan options are undeserving these groups because they are small-value (<Ksh 50,000) with very short tenures (i.e 30 days).
- Several Kenyan B2B lenders are financing informal retailers, wholesalers, farmers and micro-entrepreneurs. These B2B lenders will provide competing alternatives with higher working capital limits and more flexible loan tenures.

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4G CAPITAL

Financial infrastructure

- Building financial software is a complex, time-intensive process for fintechs, banks and other financial institutions (i.e SACCOs, microfinance institutions)
- This will create opportunities for back-office infrastructure providers who abstract the complexity of developing and scaling financial products for the Kenyan market

Quikk

kwara

Stears

Where will opportunities emerge in 2024?

Trend	What we are seeing	Likely fintech implications	Opportunities
Less restrictive flow of human capital	Kenya permits visa-free travel for foreign nationals	Influx of investors, founders, fund managers into Kenya for conferences, expos, fundraising etc would enrich Kenya's innovation ecosystem	Distributed teams Higher quality developer talent Robust founder-investor networks & hubs
Latent SME capital gap	SMEs struggle to access adequate credit due to limited collateral. Existing digital loans are suited for retail consumption, not businesses	B2B lenders will offer higher-value, flexible tenured loans to meet capital needs in select sectors i.e Agric, Healthcare etc	Lending infrastructure Credit data providers Credit bureaus Commercial banks (as lenders)
Funding drought	The funding slump is particularly detrimental for capital intensive startups digitizing B2B supply chains	B2B supply chain startups will seek alternative options to raise bridge financing to survive this long funding winter	Impact focused PE/VC Firms Crowdfunding Bank loans
Climate-focused funds	There's been an uptick in the number of climate- funds eager to back Africa's climate innovators	More climate startups will emerge, with a need to embed basic financial functionality in their products	Ecosystem partnerships Embedded finance Smart eco-friendly ag-tech solutions

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