



# STANBIC IBTC INFRASTRUCTURE FUND NEWSLETTER

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## **Introduction**

Dear Readers,  
The Q1 2022 edition of the Stanbic IBTC Infrastructure Fund (“the Fund”) newsletter seeks to explore opportunities that exist within Nigeria’s gas sector, how investors can take advantage of these opportunities as well as recent infrastructure developments in the transport and logistics sector.



# **Harnessing opportunities in Nigeria’s Gas sector**

## **General Overview of the Gas Sector**

Nigeria’s gas sector is split between upstream, midstream, and downstream sub-sectors. According to The Nigerian Midstream and Downstream Petroleum Regulatory Authority (“NMDPRA”), Nigeria holds the largest natural gas reserves in Africa with 209.5 trillion cubic feet as of January 2022. This provides Nigeria with a strategic advantage as a source of cleaner, cheaper, and more efficient source of energy for domestic and international markets.

## **Changes in the Regulatory Landscape**

Following the recent enactment of the Petroleum Industry Act (“PIA”), the following guidelines were issued to drive a more effective and efficient gas sector:

- Guidelines for Flare Gas Measurement Data Management and Reporting Obligations
- Guidelines for Establishment of Natural Gas Plant Facility in Nigeria
- Establishment and Operations of Downstream Gas facilities in Nigeria
- Grant of Permit for Bulk LPG Off-take

Also, policies like Declaration of the Decade of Gas as well as National Gas Expansion Programme have further strengthened the proposition for investment in the gas sector as well as the use of gas as an alternative source of energy in Nigeria.

## **Emerging Opportunities in the Gas Sector**

Recently, the Minister of State for Petroleum noted that in the last ten years over

\$70bn have been invested in gas in Africa with only about 5% (\$3.5bn) invested in Nigeria’s gas sector. Despite the large gas reserves and strategic location of the country to distribute gas to regional and global markets, the current production and supply of gas falls short of the aggregate potential demand. Furthermore, various research reports suggest that the growth rate in gas consumption would continue to exceed the growth rate in production in the years ahead. Hence, there is a critical need to prioritise new investments in gas infrastructure to give Nigeria the competitive advantage.

It is also worthy to mention that utilisation of gas for power in the country is currently being limited to Compressed Natural Gas (“CNG”) but the use of CNG also has its challenges given the low compression point and the need for frequent trucking over several kilometres of poor road networks. This then makes a case for investment in Liquefied Natural Gas (“LNG”) and pipeline gas as gas can be delivered to longer distance, cheaper and more efficiently. The use of pipeline will also result in more upstream developments, proliferation of Independent Power Plants (“IPPs”) especially given the enabling Nigeria Electricity Regulatory Commission (“NERC”) policies, less reliance on diesel and other fuels with negative environmental impacts as well as other positive industrial and macroeconomic outcomes.

Furthermore, given the epileptic power supply condition in Nigeria, an increasing number of large manufacturers, industrial clusters, offices, and residential estates amongst others are resorting to self-help measures to guarantee steady and reliable.

power. Consequently, the demand for processed gas by private users have witnessed an increase in recent years. Major manufacturing companies are now investing in gas-fired power plants, generators, and turbines to guarantee reliable and cheaper energy compared to alternative energy sources such as diesel and Premium Motor Spirit (“PMS”) which are more expensive and whose supply are affected by numerous exogenous factors. This trend is also beginning to trickle down to the transport sector with the modest but rising use of gas-powered articulated trucks and coaches.

The gas infrastructure development plans which ultimately seeks to improve gas infrastructure such as storage, transportation and distribution networks between the supply and demand centres across the country are steps in the right direction. These have led to new project developments such as the Ajaokuta-Kaduna-Kano (“AKK”) pipeline project, investments in Liquefied Petroleum Gas (“LPG”) terminals as well as developments of LNG production plants.

The real sector, including industrial clusters are also expected to drive consumption as Nigeria aims to achieve industrialisation targets as set out in the Nigerian Industrial Revolution Plan (“NIRP”).

The following emerging opportunities within the gas sector would be explored in more detail:



**Gas for Power:** The key consumers of power can be bifurcated into three clusters: Residential, Commercial, and Industrial clusters. It is estimated that unavailability of gas due to uneconomical gas prices, pipeline vandalism and insufficient gas infrastructure reduces power generation capacity significantly. Thus, required power is generated through private generators and renewable sources such as Solar.

The Manufacturing sector recorded a GDP growth of 2.28% in Q4 2021 with a contribution of 14.28% to the Nominal GDP. However, the power challenges have been a key impediment to the development of the manufacturing sector in Nigeria, and access to power is expected to drive development -

within the sector. Growth in power generation will be driven by increased domestic gas supply while consumption will be driven by attainment of industrial targets and urbanisation among other factors

**Gas for Cooking:** About 55% of LPG consumption is imported thus creating a need for increased domestic production. (NLNG Train 7 and Dangote refinery are also expected to boost local volumes). In addition, growing demand for gas will translate to increased need for storage facilities as current storage capacity across the country is less than 100,000mt with annual demand in excess of 1 million mt as of 2020.

**Gas for Transportation:** The use of road transport is predominant in Nigeria and it is expected that this trend will not change materially even with the improvement in alternative transport infrastructure such as rail and airports. The Federal Government also has an automotive gas policy that seeks to get motorists to switch from PMS or diesel to gas, this is relatively cleaner and cheaper.

To unlock the highlighted opportunities above, we need investments in cylinder manufacturing, gas refilling stations as well as gas processing plants for LNG, CNG and LPG to prevent supply or availability constraints.

## How can discerning investors take advantage of these opportunities

From the foregoing, it is obvious that Nigeria’s gas sector has not been fully harnessed by investors. A lot of opportunities abound in this sector also considering the regulatory policies of the government in support of gas as a cleaner source of energy. Discerning investors can therefore take advantage of this by taking a deeper look at gas infrastructure related opportunities.

We observe that some key constraints in unlocking the potential are:

- a) Huge capital requirement as investment in gas is highly capital intensive.
- b) Poor distribution network.
- c) Huge technological requirement

## Investment Opportunities in Transport & Logistics: Are we beginning to see renewed interest in this space?

### a. The Federal Government to concession Onitsha River Port to generate N50 billion

Recently, the Federal Government announced it has agreed to a 30-year concession for the Onitsha River Port, adding that this move will generate N50 billion and create jobs. This was disclosed in a statement by Infrastructure Concession Regulatory Commission (“ICRC”) after the Federal Executive Council (“FEC”) approved the decision, according to The News Agency of Nigeria (“NAN”). The ICRC also added that the concession was approved under a Rehabilitate-Operate and Transfer (“ROT”) arrangement. The port will serve as an alternative source of transporting goods to the South East from Lagos, Port-Harcourt, and other areas with adequate water connectivity. It is worthy to note that this is one of Nigeria’s four river ports which also include Lokoja, Kogi State, Baro in Niger State and Oguta in Imo State.

This concession is part of the bigger Federal Government’s plan to concession the remaining river ports and enhance inland waterways transportation in the country. The concession is expected to facilitate efficient trade within the country through cheaper and easier means of transporting goods and services.

### b. Lekki FTZ Seaport construction nears completion

It was recently announced that the Lekki FTZ seaport, which is expected to become the deepest seaport in Sub-Saharan Africa is on course for completion in September 2022 as it successfully reached 85 percent completion in February 2022. Upon completion, the multi-purpose Deep Sea Port at the heart of the Lagos Free Trade Zone will be one of the most modern ports in West Africa offering enormous support to commercial operations across Nigeria and the entire West African region. The Governor of Lagos state, Mr. Babajide Sanwo-Olu recently announced that construction of the Badagry seaport project would commence in earnest, making it the third seaport in Lagos state upon completion of the Lekki FTZ seaport.

The governor noted that with the inclusion of these two proposed deep seaports, the state would experience significant relief from the difficult challenges being experienced in the Apapa axis, due to the activities at the Tin-Can port, which had been overstretched beyond its installed capacity.

### c. Airport concessions to be completed in Q2 2022

The Minister of Aviation, Mr. Hadi Sirika recently hinted that the process for the concession of Nigeria’s four major international airports in Lagos, Abuja, Port-Harcourt, and Kano will be completed in the second quarter of 2022. The planned concessions are part of the government’s aviation sector roadmap, which is aimed at improving service delivery at the airports and growing the sector’s contribution to GDP from the current 0.12% (Q4 2021) to 5%.

As you may be aware, President Muhammadu Buhari recently commissioned the newly built international terminal of the Muritala Muhammed Airport, Lagos on 22 March 2022

## Did you Know?

Stanbic IBTC Infrastructure Fund has paid a total distribution of N3.24 based on its earnings for the 2021 financial year. This represents an annualised yield of c13% since the fund became operational in October. The fund plans to make semi-annual distribution to unitholders per year. The Fund would also be launching its Series II offer in Q2 2022 upon receipt of regulatory clearance.

Kindly send your comments or questions to [SIIFinvestor-relations@stanbicibtc.com](mailto:SIIFinvestor-relations@stanbicibtc.com)

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