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CORPORATE DIGEST

The Nigerian Pharmaceutical Industry:
The hinge for a healthy population

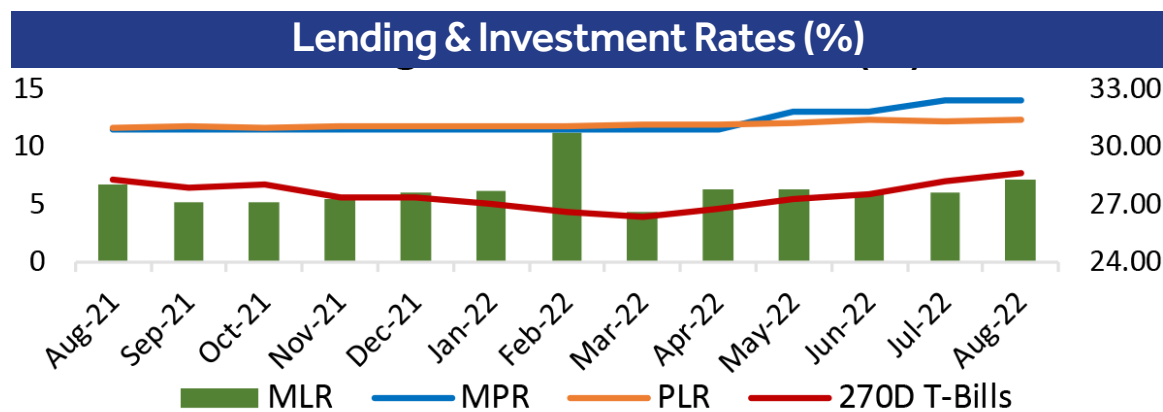
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more than banking

Macroeconomic Updates

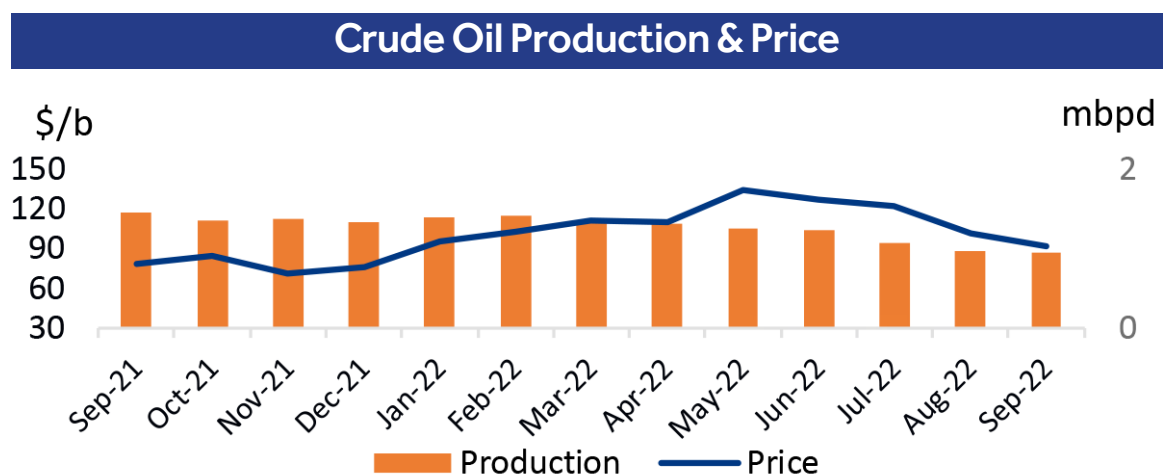


The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) held its fifth meeting for 2022 in September, raising the Monetary Policy Rate to 15.5% to curb rising inflation.

Rate uptick to 28.30% from 27.61% within the same period

The 270-Day Treasury Bills (T-Bills) rose in September 2022 to 8.93% from 7.66% posted in the previous month.

The Prime Lending Rate printed at 12.23% in August, slightly higher than 12.1% posted in July. The Maximum Lending

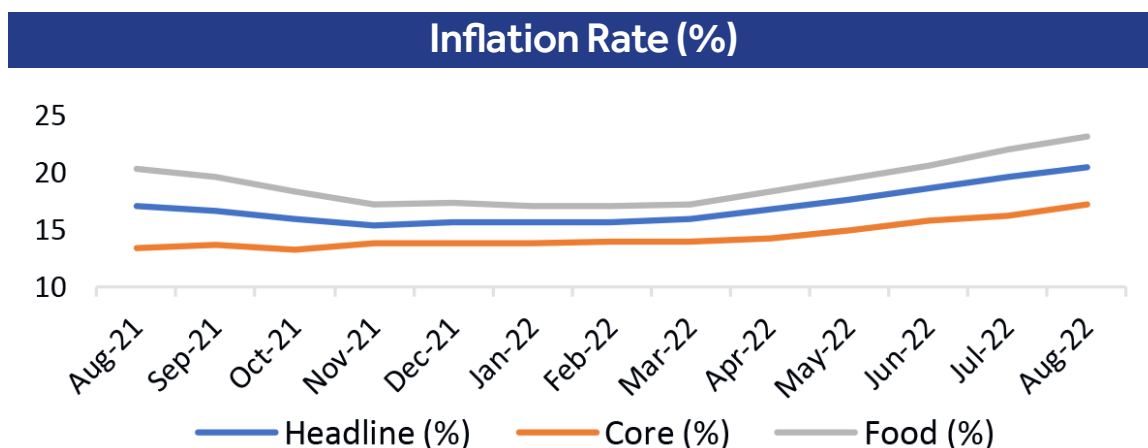


Oil price declined in September 2022 due to renewed pressure from a weakening demand outlook resulting from surging inflation, tightening financial conditions and mounting risks of a global recession.

August 2022

Nigeria's crude oil production dropped drastically, hitting 0.94 million barrels per day (mbpd) from 0.97mbpd recorded in August owing to the massive oil theft amongst other structural challenges.

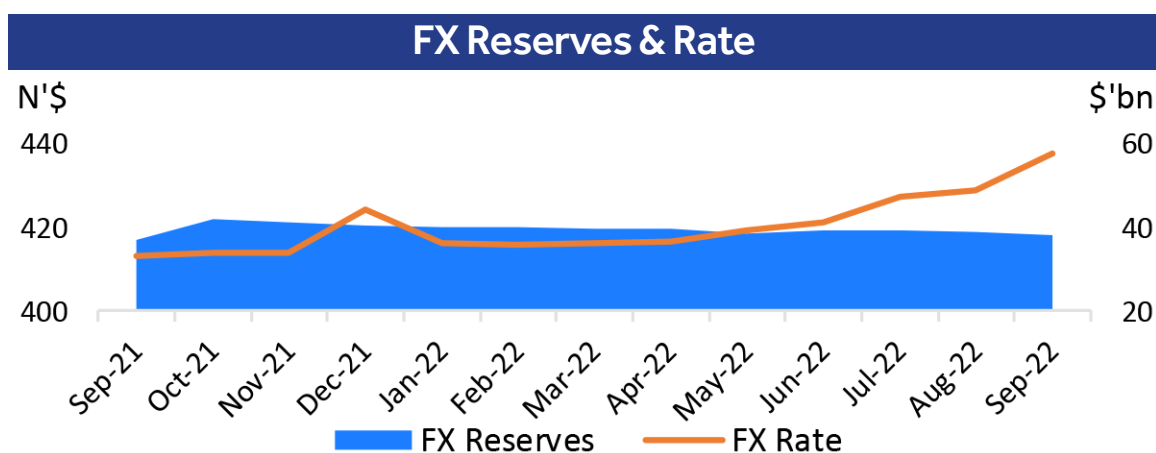
Bonny light crude oil, Nigeria's crude oil benchmark, declined to \$92.34/b in September 2022 from \$101.14/b posted in



The inflation rate pushed higher to settle at 20.52% in August 2022 from 19.64% recorded in the preceding month. This is the 7th consecutive increase in 2022.

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

The food and core inflation rate surged to 23.12% and 17.20% in August 2022 from 22.02% and 16.26% recorded in the previous month.



External reserves declined further in September 2022 to settle at \$38.25 billion relatively to \$39.02 billion posted in the preceding month, reflecting a \$0.77 billion decline.

The Naira weakened further in September 2022, closing at N428.91/\$ from N437.74/\$ recorded in the previous month at the NAFEX window.

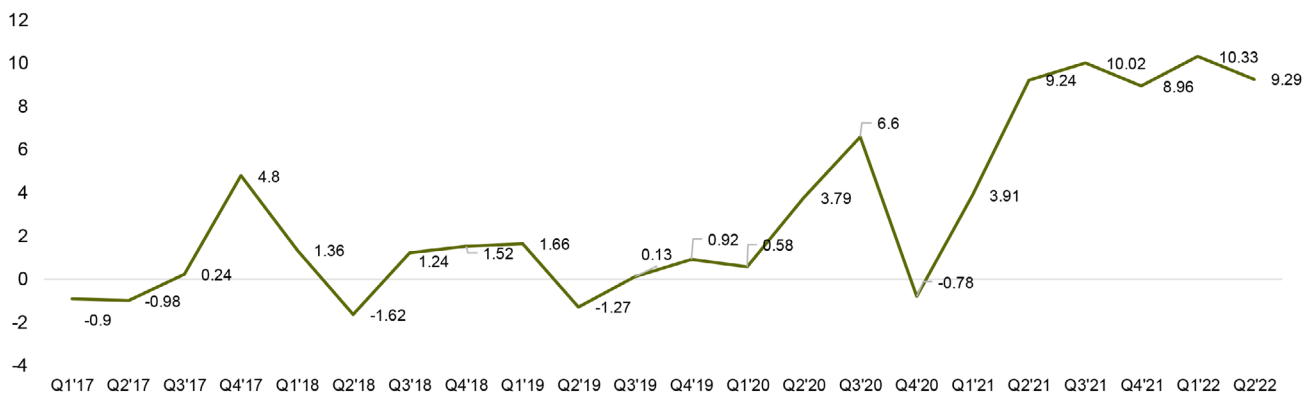
Rising demand for the Dollar amidst a weak inflow of the Dollar impacted the growth of the reserves.

Overview

- The Nigerian Pharmaceutical Industry has evolved moving away from the complete reliance on the sale of imported medicines to the production of generic products that trades within and outside the country.
- The indigenization policy of 1978 changed the course of the industry as foreign manufacturers were impelled into selling at least 60% of their ownership stakes to Nigerians, thus increasing domestic participation.
- Data from Agosto & Co. revealed that the pharmaceutical industry is highly fragmented with the top 10 local producers controlling less than 25% of the Industry revenue. The pharmaceutical market is the second largest market in Africa (after South Africa), supplying more than more than 60% of the drugs consumed in West Africa sub-region.
- The Industry is said to have over 130 drug manufacturers with majority of the indigenous drug manufacturers engaged in the production of generic drugs owing to the high research and development (R & D) costs.
- One of the major challenges faced in the industry is the influx of fake drugs. To curb this challenge, the federal government created the National Agency for Food and Drug Administration and Control (NAFDAC) in 1993. NAFDAC was charged with the responsibility of regulating the manufacturing, import & export, advertisement, distribution, sale and use of food, drugs, cosmetics, medical devices, chemicals and packaged water.
- The industry is faced with numerous challenges such as low-capacity utilization, a weak financial base, high cost of raw materials, weak infrastructure, difficulty in meeting WHO prequalification criteria, low level or obsolete technology, high-interest rate, unstable demand amongst others.

Industry Overview

Real GDP Growth (%) for Chemical & Pharmaceutical Industry



Source: NBS



Resilient

Sector Characteristics*



0.6

Nominal GDP Size (N'trn)**



0.35

Contribution to GDP (%)**

Interest Rate Sensitive	Exchange Rate Sensitive	Employment Sensitive
	✓	

The chemical & pharmaceutical industry remained in the positive space in Q2 2022

• Data as at full year 2021

SWOT Analysis



- Nigeria's large population provides a large market base for the pharmaceutical industry
- Nigeria has one of the most developed African-Anglophone pharmaceutical markets
- The pharmaceutical industry continues to enjoy growing government and international funding support
- The industry expands footprint in the ECOWAS sub-region

STRENGTHS



- The pharmaceutical market is vastly underdeveloped by Western standards
- The healthcare sector is inadequately funded
- Lack of meaningful patent legislation or pricing and reimbursement system.
- The industry lacks limited access to cheap long-term funds for expansion and adequate infrastructure

WEAKNESSES



- Import restrictions on certain drug items are encouraging the capacity utilization of local drug manufacturers
- Favourable market fundamentals owing to the high prevalence of infectious diseases
- The government's focus on self-sufficiency in the pharmaceutical sector will benefit local drugmakers.
- Potential export sales rising from AfCFTA

OPPORTUNITIES

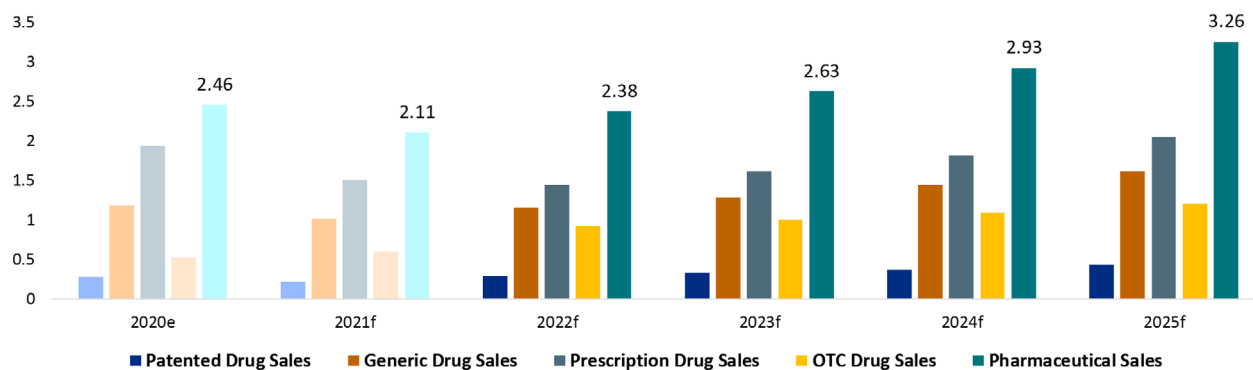


- Naira depreciation creates uncertainty for local drugmakers' ability to increase output and remain profitable.
- Proliferation of counterfeit drugs
- Slow uptake of health insurance schemes and a lack of government funds threatens long-term sustainability.
- Weakening purchasing power and high poverty levels

THREATS

Nigerian Pharmaceutical Industry Overview & Outlook

Pharmaceutical Sales Forecast



- Pharmaceutical sales revenue is a total of Prescription and OTC (Over-the-counter) drug sales. Furthermore, Prescription sales revenue is a combination of patented and generic drug sales.
- Pharmaceutical sales is forecast to increase by 12.8% in 2022, yielding a market size of N2.38 trillion. By 2025, the pharmaceutical market will be worth N3.26 trillion, reflecting a compounded annual growth rate of 11.5%.
- Prescription drug sales is forecast to reach N1.45 trillion by 2022 and contributing about 61% to the total pharmaceutical sales.
- Prescription drug sales will be supported by the rise of chronic conditions and the involvement of foreign drug manufacturers in Nigeria's pharmaceutical industry. Also, the continued expansion of universal healthcare bodes well for prescription spending. However, expenditure might be inhibited by low GDP per capita and an abundance of counterfeit drugs.
- Patented drug sales is forecast to reach N0.29 trillion, contributing about 20% to prescription drug sales in 2022. On the other hand, generic drug sale is forecast to reach N1.16 trillion by 2022, contributing about 80% to prescription drug sales.
- Nigeria remains a highly challenging market for pharmaceutical firms, and commercial opportunities are limited as weak patent enforcement and generic substitution remain prominent themes.
- OTC drug sale is forecast to reach N0.93 trillion in 2022, contributing about 39% to total pharmaceutical sales. Greater health awareness and willingness to self-medicate are key drivers for the growth of OTC sales.
- Ongoing efforts to curb counterfeit medicines in Nigeria will provide some modest tailwinds to pharmaceutical market growth. Also, local production is likely to remain stagnant despite government incentives to boost the sector.

Source: Fitch

Business advice for players in the Pharmaceutical Industry

- Obtain advice from financial and economic professionals. Through its relationship managers, Access Bank is still dedicated to providing customers with the resources they need to grow their businesses in the face of volatile macroeconomic climate.
- Pharmaceutical firms should leverage the existing CBN intervention funds to access cheaper business loans.
- The pharmaceutical market is a price-sensitive. Hence, businesses must ensure to put out competitive pricing, thus ensuring improved sales. Also, Manufacturers in the industry should ensure continuous product quality review to retain and grow market share.
- Given the relative lower income owing to the rising economic uncertainties, pharmaceutical businesses should avoid waste by reducing costs, thus maintaining a healthy bottom line. Also, Pharmaceutical product retailers can engage in the sale of personal care products to diversify income.
- Pharmaceutical companies should partner with various hospitals and digital healthcare platforms. This would help boost revenue and profit. Also, pharmaceutical companies should engage the use of technology i.e., blockchain technology to provide and promote efficient services.
- Pharmaceutical companies should join the government in combating counterfeit drug as these destroys lives and public confidence in the industry.