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Bi-monthly Economic & Business Update

CBN takes Market by Surprise

The monetary policy committee in its meeting on March 20 &21 resumed its tightening cycle after a period of accommodative monetary policy. The CBN Governor cited an increase in inflationary pressures as a major factor behind the decision. He emphasized that the factors affecting inflation were more structural than transient. The consensus view amongst analysts was for retention of the status quo. The CBN has placed emphasis on stimulating growth through increased lending to the private sector. However, the MPC decided to go along with conventional economic logic, which suggests an increase in interest rates during periods of surging prices.

This is an emphatic step taken by the MPC and is a signal of the CBN's determination to complement fiscal policy in spurring growth. The failure to adopt a market oriented forex policy will still leave the currency vulnerable to speculative attacks in the near term. So politically volatile is the forex debate that even the president yesterday said that he believes that Nigeria's external imbalances were temporary.

The CBN is expecting an increase in portfolio investment inflows in response to the increase in policy rate. However, a 1% p.a increase in MPR does not mitigate the possible devaluation risk to portfolio investors. Capital outflows were recorded even when the MPR was 13% p.a and the US Fed rate was 0%. Investors are still uncertain of the country's exchange rate policy, the big elephant in the room.

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The Decisions

- Raise MPR by 100 bps to 12% p.a.
- Narrow the asymmetric corridor of MPR to +200/-500bps from +200/- 700bps
- Increase CRR by 250 bps to 22.5%
- Maintain liquidity ratio at 30%

Silent on exchange rate policy

Key Considerations

- Intense inflationary pressures: The committee stated that the factors stoking inflation were structural. The MPC highlighted increased costs of imports, exchange rate pressures, security challenges and seasonality as some of the structural factors influencing the increase in consumer prices
- Slowing economic growth
- Oil price dynamics

Impact of 100bps increase in MPR and 250bps increase in CRR

The upward adjustment in the MPR will reduce liquidity in the system. Lower liquidity will reduce the demand for dollars in the short term. However, there will be a renewed demand for dollars now that the budget is passed. The price of fixed income instruments will decline. For instance, the coupon rates of bond issues priced to the MPR will change just as federal government debt cost also changes. With inflation presently at 11.4%, the policy rate return in real terms changes to positive (0.6%) from a negative value (-0.4%).

The decisions made by the MPC will increase interbank interest rates. In addition, borrowing costs will increase while banking sector profitability takes a hit, as net interest margins diminish.

Impact of decision on markets

Forex market

The pressure on the naira is expected to persist but at a reduced level. With oil prices rebounding, the effect of defending the naira on the reserves will not be as severe. The stronger cash flow will help reduce the pipeline between application for forex and allocation.

Commodity market

Given that a significant amount of commodities are imported, the exchange rate issues facing the country are also being reflected in the commodity market. Key imported commodities include wheat, raw sugar, rice and palm oil. Even commodities that are locally produced have had their prices increased as producers try to make up for lost income in other items.

Stock market

The stock market has been fluctuating and mainly driven by earnings announcements. The lack of clarity pertaining to Nigeria's exchange rate regime is making companies uncertain about making key investment decisions. At a recent conference in Abidjan, Unilever emphasised the pains that the current exchange rate quagmire is causing manufacturing companies.

Regional context

Other African countries have also made changes in its monetary policy stance. South Africa, Egypt and Namibia increased their benchmark rates. Kenya and Ghana, on the other hand maintained the status quo on their policy stance.

Outlook

There is an increasing probability that the price level will remain stubbornly high in the short run. This is because of the possibility of wage pressure from labour. The countervailing factor is consumer resistance. An increase in aggregate output because of budgetary spending will help douse inflationary pressures. Hence, the inflation outlook for March is that prices will remain at the 11-12% range.

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The Path to Nigeria's Economic Recovery

"Anytime you find someone more successful than you are, especially when you're both engaged in the same business - you know they're doing something that you aren't." – Malcolm X

While these words were in the context of individuals, the same can be said for nations that strive to prosper amidst the various challenges that confront the world economy. Just like other oil-dependent economies, Nigeria has been badly hit by lower oil prices. Nigerians do not blame the current government for the tenuous situation. Even countries with strong financial buffers like Saudi Arabia are struggling to keep their economies stable. What Nigerians question, however, is the approach the government has adopted to manage the situation.

President Buhari has been praised for the progress he has made in tackling corruption and insecurity. However, he has received wide criticism for his perceived lack of understanding on economic matters, particularly for his support of the current fixed exchange rate. The major complaint against the forex regime is that it is stifling trade and investment at a time when Nigeria needs to promote both the most. The truth is that it is not only the exchange rate that is hindering trade and investment in Nigeria. There are other fundamental issues affecting the Nigerian business environment including poor infrastructure, the high cost of doing business, and tight government regulation. We believe that Nigeria can attract foreign direct investment and promote trade, despite its economic challenges, if the government makes an effort to create an enabling business environment.

Background: Nigeria's Trade and Investment Climate

There are several indicators that investors and traders look at when making decisions about doing business with a country: growth, population and market size, infrastructure quality, economic and trade policies, security, political climate, etc. These indicators give them an idea of the business environment and potential return on their investments. A market that has a conducive business environment and attractive returns would be a hotspot for trade and investment.

The Good Side

Nigeria does well in terms of its market size and growth potentials. Nigeria is the largest economy in Sub-Saharan Africa with an estimated GDP of $500bn and an average growth rate of 6.72% in the past five years before 2015. The high growth rate coupled with high interest rates has helped to attract investors during the past few years of slow growth and low interest rates witnessed in most developed economies. In addition, Nigeria's large and growing population in excess of 170 million indicates a significant consumer market, which is attractive for investors.

Another indicator worth noting is Nigeria's 853km of coastline, which provides access to a larger market and makes it more accessible to trade.[1,2]

The Ugly Side

In spite of the above growth prospects, Nigeria's environment has not been conducive for businesses. The 'Doing Business' (DB) 2016 report by the World Bank shows that Nigeria ranked 169th out of 189 countries. Although Nigeria was commended for making some improvements in terms of reducing fees for property registration and strengthening minority investor protection, the DB report shows that there is much work to be done in terms of making it easier to deal with construction permits, getting electricity, and enforcing contracts.[3] Currently, it takes approximately 3.5 months to deal with construction permits in Nigeria and enforcing contracts through the courts takes about 17 months. The country also lacks an approved building code that sets the standards for construction. Since regulatory procedures are too complicated and there is no standard for construction, builders tend to proceed without a permit, which leads to numerous structural incidents and building collapses.[4] In addition, frequent power outages in Nigeria mean that companies have to turn to alternative sources, which increase their production costs and reduce profit. [5]

[1] Adam Smith. 1776. The Wealth of Nations, Book 1, Chapter 3.

[2] Wikipedia. "Africa :: Nigeria". 2016. The World Factbook. Central Intelligence Agency. https://en.wikipedia.org/wiki/Nigeria#Geography

[3] World Bank. 2016. Doing Business 2016: Measuring Regulatory Quality and Efficiency. Washington, DC

[4] World Bank. 2016. Doing Business 2016: Measuring Regulatory Quality and Efficiency. Washington, DC

[5] World Bank. 2016. Doing Business 2016: Measuring Regulatory Quality and Efficiency. Washington, DC

Table 1 : Doing Business 2016: Peer Comparison

	Nigeria	Ghana	South Africa	Singapore
Starting a business (days)	30.8	14	46	2.5
Dealing with construction permits (days)	106.3	216	141	26
Registering Property (days)	69.6	46	23	4.5
Enforcing contracts (days)	509.8	710	600	150
Time to Export:				
Documentary Compliance (Hours)	131.4	89	68	4
Border Compliance (Hours)	159.4	108	100	12
Time to Import:				
Documentary Compliance (Hours)	172.7	282	36	1
Border Compliance (Hours)	297.7	282	144	35
Resolving Insolvency (Years)	2	1.9	2	0.8
Getting electricity (Rank out of 189)	182	121	168	6

Source : World Bank [6]

The Global Competitiveness Index (GCI) by the World Economic Forum (WEF) also provides insight into factors that affect doing business. Nigeria ranked 124th out of 140 countries analyzed on the GCI for 2015/2016. It was reported that inadequate supply of infrastructure was the most problematic factor for doing business. In addition, low investment in human capital, poor health of the workforce, and inefficient higher education hinders the country from achieving its potential in attracting investment.[7]

Table 2 : Nigeria's ranking in the GCI

	Rank (out of 140)	Score (1–7)
GCI 2015–2016	**124**	**3.5**
GCI 2014–2015 (out of 144)	127	3.4
GCI 2013–2014 (out of 148)	120	3.6
GCI 2012–2013 (out of 144)	115	3.7
Basic requirements (54.1%)	**136**	**3.2**
1st pillar: Institutions	124	3.2
2nd pillar: Infrastructure	133	2.1
3rd pillar: Macroeconomic environment	81	4.6
4th pillar: Health and primary education	140	2.9
Efficiency enhancers (39.5%)	**81**	**3.9**
5th pillar: Higher education and training	128	2.8
6th pillar: Goods market efficiency	100	4.1
7th pillar: Labor market efficiency	35	4.5
8th pillar: Financial market development	79	3.8
9th pillar: Technological readiness	106	3.0
10th pillar: Market size	25	5.1
Innovation and sophistication factors (6.5%)	**114**	**3.2**
11th pillar: Business sophistication	94	3.7
12th pillar: Innovation	117	2.8

The most problematic factors for doing business

	Score*
Inadequate supply of infrastructure	26.5
Corruption	19.7
Access to financing	12.7
Policy instability	8.7
Inefficient government bureaucracy	8.4
Foreign currency regulations	4.8
Inadequately educated workforce	4.4
Inflation	3.4
Poor work ethic in labor force	2.6
Tax rates	2.0
Complexity of tax regulations	1.9
Insufficient capacity to innovate	1.8
Crime and theft	1.6
Restrictive labor regulations	0.6
Poor public health	0.5
Government instability/coups	0.3

Source : World Economic Forum [8]

[6] World Bank. 2016. Doing Business 2016: Measuring Regulatory Quality and Efficiency. Washington, DC

[7] World Economic Forum. The Global Competitiveness Report 2015-2016

[8] World Economic Forum. The Global Competitiveness Report 2015-2016

To top it off, Nigeria was ranked as one of the least favorable markets for retailers to operate in 2015.[9] Surely, the forex scarcity and restrictions that have recently hampered trade will also worsen Nigeria's position.

Table 3 : The Most and Least Favorable Markets for Retailers to Operate

Overall Ranking (Out of 50)	Country	Overall quality of Infrastructure	Ease of getting up and running	Market demand	Economic environment	Business environment & ease of operating
1	Hong Kong	1	3	15	4	2
2	Singapore	2	10	10	1	1
43	India	36	37	33	47	37
49	Nigeria	49	48	50	46	45
50	Egypt	46	46	47	49	46

Source : The Arcadis Retail Operations Index 2015 [10]

Lessons from Singapore

The above-mentioned reports have clearly shown how the lack of business enablers deters trade and investment in countries. To help Nigeria improve its business environment, it makes sense to study countries that have excelled in that area. One such country is Singapore, where it takes less than a month (26 days) to get a construction permit and five months to enforce contracts. With statistics like these its no wonder that they have consistently ranked 1st for easing the process of doing business in their country.

Singapore started out as an underdeveloped country that had no natural resources to support growth and development. However, its location at the mouth of the Malacca strait, where about 40% of world maritime trade passed through, was an opportunity waiting to be leveraged.[11] The leadership of Lee Kuan Yew took advantage of Singapore's strategic location and led Singapore to economic success by attracting foreign trade and investment as it simplified the process of doing business. How?

[9] The Arcadis Retail Operations Index 2015. https://www.arcadis.com/en/europe/our-perspectives/hong-kong-leads-the-way-as-most-attractive-location-for-retailers-to-operate/

[10] The Arcadis Retail Operations Index 2015. https://www.arcadis.com/en/europe/our-perspectives/hong-kong-leads-the-way-as-most-attractive-location-for-retailers-to-operate/

[11] The Economist. http://www.economist.com/blogs/economist-explains/2015/03/economist-explains-23

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1. *Small government size*: Lee Kuan Yew, the first Prime Minister of Singapore emphasised a small and honest government, which helped to promote efficiency, reduce bureaucracy and minimize corruption.[12] Hence, it is easy to start businesses without many regulatory barriers.

2. *Investment in Infrastructure:* The Singaporean government invested in basic infrastructure to attract multinational corporations from advanced economies.[13]

3. *Sound Policies:* Lee's government boosted investor confidence in their economy by pursuing policies that led to a stable environment. For example, there were few capital restrictions, low tax rates and little interference by government in sectors where the private sector performed more efficiently. The government managed its finances by prioritizing its economic planning and implemented reforms in stages to avoid debt problems, risks of higher inflation and currency devaluation. [14]

4. *Skilled Workforce:* Singapore has one of the highest number of skilled workers as a percentage of the population, as the government made huge investments in human capital. The education system was strengthened, and incentives were put in place to retain and attract talented individuals within and outside the country. This helped to assure investors that they would be working with the best of hands. In addition, the government established orderliness in labor-corporate relations so that investors do not fear uprisings from their employees. [15]

In sum, Nigeria could learn from Singapore by cutting down the size of government, investing in infrastructure and education, and pursuing policies that foster economic stability.

It is important to note that there was a lot of trial and error before the Singaporean government got it right.[16] Additionally, some critics say that Singapore's achievements were possible partly because of

[12] The Economist. http://www.economist.com/blogs/economist-explains/2015/03/economist-explains-23; https://en.wikipedia.org/wiki/Economy_of_Singapore#

[13] Wikipedia. https://en.wikipedia.org/wiki/Lee_Kuan_Yew#Economy

[14] Taymaz Rastin. 2003. "Model for Development: A Case Study of Singapore's Economic Growth". https://about.illinoisstate.edu/critique/Documents/Fall%202003/TaymazFinal.pdf; https://en.wikipedia.org/wiki/Lee_Kuan_Yew#Economy

[15] Taymaz Rastin. 2003. "Model for Development: A Case Study of Singapore's Economic Growth". https://about.illinoisstate.edu/critique/Documents/Fall%202003/TaymazFinal.pdf;

[16] https://en.wikipedia.org/wiki/Lee_Kuan_Yew#Economy

the additional powers granted to the government in the constitution, which they used to enforce certain policies.[17] In adopting these recommendations, the Nigerian government would have to remain within its democratic boundaries, which may limit its abilities to swiftly implement reforms. However, it does not make it impossible.

Outlook

The Nigerian government has already begun working towards creating an enabling environment for trade and investment. Buhari's commitment to tackling corruption is beginning to bear fruit, and he has made significant progress in tackling insecurity in the North East. He also attempted to scale down the size of government, and the 2016 budget has a reasonable allocation for infrastructure development. Just like Singapore, the Nigerian Government must do more to make its environment more conducive for businesses. Now that the budget has been passed, spending should commence immediately to fast-track the development of infrastructure projects . The government should also consider liberalization in areas such as the railway, pipelines, refineries and transmission in power. This would pave the way for private participation, and reduce the burden on government. Furthermore, policies formulated must be those that encourage trade and investment, the exchange rate policy inclusive. In addition, more should be done to reduce bureaucracy. Buhari enjoys goodwill both home and abroad, and we believe that this is a good opportunity and the right time to make the necessary changes that will speed up Nigeria's economic recovery.

[17] Taymaz Rastin. 2003. "Model for Development: A Case Study of Singapore's Economic Growth". https://about.illinoisstate.edu/critique/Documents/Fall%202003/TaymazFinal.pdf;

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3. Equipped kitchen with electrical cooker/oven, fridge, deep freezer and washing/drying machine.

Other Facilities:

1. Gym, squash court, steam bath, sauna, swimming pool with bar and barbeque stand
2. 24hrs power supply
3. 24hrs security/CCTV/Alarm system
4. 24hrs Technician on duty
5. Fully equipped play area for children

Nigeria's Road to Competitiveness

Introduction

The theme of the World Economic Forum is "Mastering the Fourth Industrial Revolution". This revolution differs from previous ones in its scope, scale and complexity. It is taking place at break-neck speed and causing disruptions to every industry in every country. As an increasingly knowledge based global economy continues its quest for greater energy efficiency, the accelerated pace of innovation causes disruption and leads to rapid obsolescence. The oil end game may be here sooner than we think.

Nigeria is a country hugely reliant on crude oil. It earns more than 90% of its foreign exchange earnings and two-thirds of its tax revenue from oil exports. As if to emphasize that reliance, the military high command was recently re-stationed from Maiduguri – the heart of the battle against Boko Haram – to the Niger-Delta following a spate of attacks on oil installations. The security and availability of oil is critical to the Nigerian economy, even more so at a time when prices have plunged.

World leaders recently gathered in Paris with an unequivocal resolve to accelerate the transition from fossil fuels to cleaner, renewable and more efficient energy sources. It is no longer about if the huge rents from oil will one day stop, it is about when. Survival will mean to compete, and to compete will mean to innovate.

How competitive is Nigeria?

The World Bank defines competitiveness as the set of institutions, policies, and factors that determine the level of productivity of an economy, which in turn sets the level of prosperity that the country can earn. The World Economic Forums Global Competitiveness Index (GCI) for 2015-2016 ranks Nigeria 124th out of 140 countries it surveyed with a score of 3.5 on a scale of 1 – 7 (with 7 being the highest score). Nigeria's score was 3.7 in 2012-2013 and 3.6 in 2013-2014.

The GCI lists effective institutions, infrastructure, a strong macroeconomic environment, health, and primary education as the basic requirements for competitiveness. According to the GCI, Nigeria is dragged down by "an inefficient use of talent and a comparatively low female participation rate. Priorities include investment in infrastructure (ranking 133rd and singled out as the most problematic factor for doing business) and human capital, where poor health in the workforce (134th) and inefficient higher education (128th) hold the country back from fulfilling its potential".

The top 5 countries on the index – Switzerland, Singapore, United States, Germany and the Netherlands all score the highest in the basic requirements of institutions, infrastructure, macroeconomic environment, and health and primary education. Nigeria would need to tick all these boxes above. If and when it does, its road to competitiveness will be clearer but it will also require that certain factor prices be at equilibrium, and sectors debottlenecked.

Nigeria is currently in a transition from the factor-driven stage of development to the efficiency-driven stage. It is essentially moving from competing based on factor endowments – primarily natural resources – to competing by developing more efficient production processes and increased product quality.

A blueprint on how to fast track the path to economic super performance and competitiveness, to achieve double digit growth rates for a sustained period like the Tiger nations of Asia, Nigeria will need:

Significant Investment in Rail & Transport Infrastructure

In view of the limited and declining revenues and resources from oil, there is a need to prioritize spending and investment in infrastructure. We have to decide more efficiently on what to give up and what to do. The tradeoffs include the standard Phillips Curve dilemma: accepting higher inflation for more growth. Businesses simply need adequate transportation systems (roads, railways and ports) to receive supplies and access markets for their goods. Nigeria currently has 190,000km of paved roads and about 3,505km of single track lines. Nigeria needs to free up the financial resources to massively invest in the expansion of this road and rail network.

Equilibrium Determined Exchange Rate

At 0.63, Nigeria's marginal propensity to import is huge. An overvalued exchange rate has created a culture of import dependency and has destroyed Nigeria's manufacturing base. An appropriately priced exchange rate of approximately N220 – 250/$, a shift to a more flexible exchange rate regime and lower interest rates will be strategic tools for improving the terms of trade which is now 33.0 with 2005 = 100 (down approximately 67%).

Perhaps the greatest advantage of a shift to a more flexible exchange rate is efficient control of monetary aggregates and their influence on domestic interest rates and inflation. A realistic exchange rate would achieve both internal and external balances and facilitate efficient allocation of scarce resources. The exchange rate should be used as a strategic tool to make exports more competitive.

A more expansionary monetary policy to boost lending and increase production in key growth sectors of the economy – agriculture, telecoms & manufacturing – is equally needed.

Debottlenecking key sectors of the economy would remove constraints that have stifled production and lead to the efficient channeling of savings and investment to output. For example, in agriculture approximately 40% of output is lost to poor storage, logistical problems, poor market structure and inefficient payment systems.

Subsidy Removal & Petroleum Industry Bill

There should be a complete removal of petroleum subsidy and the complete deregulation of the downstream sector of the petroleum industry. Subsidy removal will encourage local refining.

The uncertainty from the non-passage of the Petroleum Industry Bill (PIB) has triggered a slowdown in investments and attrition in production. An estimated $15bn in oil & gas investments has been missed due to this delay. External reserves are down to $27.82 – down 4% year-to-date.

Efficient Deployment of National Savings

In the last 10 years, with the exception of 2009, the Gross Domestic Savings rate has been consistently higher than the rate of Capital Formation. In 2014, the Gross Domestic Savings and Capital Formation rates were 21.7% and 16% respectively. Nigeria currently has about N5trn (5.61% of GDP) tied up in pension funds. This highlights the suboptimal deployment of national savings to investment. This has been most evident in the gross underinvestment in infrastructure. Nigeria's infrastructure gap is estimated at over $300bn. It spent 1.96% of GDP on infrastructure in 2014. This pales in comparison to China's 15% of GDP.

Widening the tax base and lowering the tax rate would lead to greater compliance and strengthen the efficiency of tax collection, boosting national savings. Increased national savings and its efficient deployment to infrastructural development should be a national priority.

Conclusion

The consequences of oil dependence have been adverse. Nigeria's path to sustained and inclusive growth must be hinged on its competitiveness. The transition from oil dependence to competitiveness is one that will require complete structural transformation. The current economic environment is itself a silver lining. But good governance will be at the center of this. All definitions of governance rest on a few key dimensions: authority, institutions, processes and accountability

Like other emerging markets, the transition from slow to "accelerated" is usually preceded by the liberalization of markets, opening businesses to competition and unlocking value from the demolition of crony-capitalist, rent-seeking and influence-peddling structures. Nigeria's road to competitiveness cannot be any different.

Global Perspective – *Culled from the Economist*

Nigeria’s currency crisis

Can you spare a dollar?

How to make a hard-currency shortage worse

THE mutterings of discontent are growing louder in Nigeria’s street markets. The price of a bag of rice has surged by 12.5% in the past month. Supplies of bread have dwindled after bakers turned off their ovens to protest about the rising cost of flour. The rich lament that milk is missing from supermarket shelves. The poor complain about the price of *garri* (cassava flour). A fish importer estimates that 70m Nigerians can no longer afford his wares.

Such are the symptoms of Nigeria’s foreign-exchange crisis. Africa’s most populous nation exports oil and imports nearly everything else. As oil prices have collapsed, Nigeria’s foreign earnings have tumbled with them, putting huge pressure on the naira, the local currency. Yet President Muhammadu Buhari refuses to allow the naira to devalue, fretting that this would fuel inflation. Economists point out that a weaker currency would simply reflect that Nigeria is poorer now than it was when oil was above $100 a barrel. He ignores them.

Since Mr Buhari came to power in May, the central bank has kept the official exchange rate artificially strong and restricted the supply of dollars. It refuses to release any for imports of a range of goods including meat, margarine and toothpicks.

The policy is not working: inflation hit 11.4% in February and growth has fallen to 2.1%. Factories are closing down for lack of supplies and the managers of those still running spend much of their time trying to find things to sell abroad to raise dollars, such as gold jewellery or gum Arabic. Most have been pushed into the black market, where they pay about 60% above the official rate unless they are lucky enough to get some of the $200m or so released each week by the central bank. That the bank has the power to hand out subsidized greenbacks naturally invites corruption. An executive at a big importer says its budgets now include a 30% "premium" to be paid to central bank officials to get dollars.

Yet President Buhari seems unlikely to change his mind. So senior members of his party are now pushing for some form of dual exchange rate. This would leave the naira's official value unchanged, satisfying the president, while legitimizing a parallel market that would supposedly be used for non-essential imports. In practice most currency flows would soon be made at this new market rate. This solution is far from optimal—the central bank window would be a continued source of corruption and patronage—but better than the status quo.

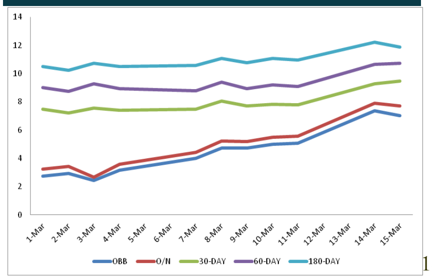
Without some flexibility on the currency, expect food shortages to worsen.

Macroeconomic Indicators

Money Market

The opening liquidity position in the money markets for the first half of March was much lower than that of the consecutive period in February. Markets opened on the 1st of March with a liquidity position of N390.50bn long. This is a 60.6% decrease from the corresponding period in February, with a rate of N991.40bn. On the 15th of March, markets opened at N201.07bn long, a 47.07% decrease, compared to February 15th's opening rate of N379.95bn long. The average opening position within the review period was N367.61bn. A factor to consider is that liquidity had decreased significantly towards the end of February; monthly statutory funds shared in February declined 4.39% to N370bn compared to N387bn shared in January. The impact of the decline in FAAC allocation trickled down into March. In addition, the CBN issued N163bn in OMO bills and N329.93bn in PMA treasury bills in the first half of March while it did not carry out any OMO auctions but sold N136.25bn in PMA treasury bills in the corresponding period in February. Forex funding in the period by the CBN for commercial bank customers also contributed to liquidity decline.

Chart 1: NIBOR % p.a.



[18]

Short-term interbank rates (OBB, O/N, 30-DAY) averaged 5.78% p.a. between March 1st to 15th, which is 148bps higher than the corresponding period in February with an average of 4.30% p.a. As at March 15th, the OBB and O/N rates closed at 7.04% p.a. and 7.71% p.a., 654bps and 677bps higher than their respective figures in the previous month.

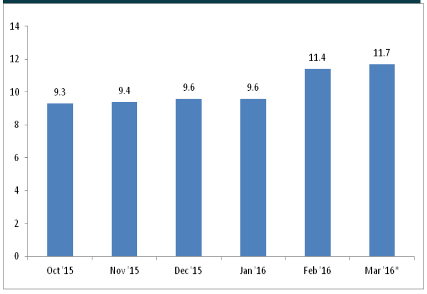
Outlook

The norm is for interbank rates to move in tandem with the MPR which has been raised to 12% p.a. However, once the government starts disbursement, the resultant increase in liquidity is expected to curb any spike in rates.

[18] Source : FMDQ

Inflation

Chart 2: Headline Inflation (%)



[19]

In February, the headline inflation increased by 180 bps to 11.4% from January's rate of 9.6%, much higher than market expectation of 10%. This is the highest level since December 2012. It also puts Nigeria among the top 10 countries in Africa with the highest inflation rate. Housing, water, electricity and gas, and education had the highest surge in price compared to the relatively slower pace of other major divisions such as food cost and alcoholic beverages, tobacco and kola. Annual core inflation increased by 220bps to 11% in February.

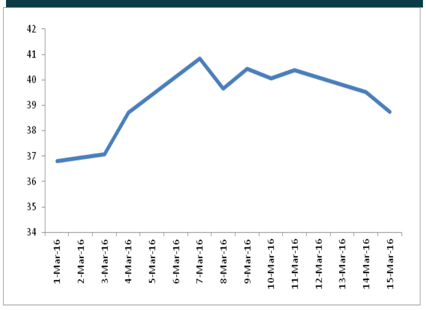
Outlook

Recurring fuel queues are estimated to persist till May, stoking inflation. The multiplier effect of fuel and forex shortages on the consumer price basket would be significant. Hence, inflation is likely to remain within 11-12% in March/April.

Oil Market

Oil Prices

Chart 3: Brent Crude Oil ($/b)



[20]

Global oil prices (Brent crude) averaged $39.02pb within the first 15 days in March, 18.9% higher than the average of $32.85pb in the corresponding period in February. During the review period, Brent crude traded at a year to date high of $41pb, the first time that oil prices would trade above Nigeria's budget benchmark of $38pb. The upward oil price trend has been spurred by anticipations of an output freeze. A meeting between some OPEC and non OPEC members is scheduled for April 17, where the decision to hold production at January levels would be made. At least 15 countries have agreed to participate at the meeting.

Outlook

Although the April 17 meeting is to discuss how to keep oil prices

[19] Source : NBS, *:FDC Forecast
[20] Source : Bloomberg

elevated through an output freeze, countries like Qatar have expressed their unwillingness to the proposed deal without the cooperation Iran. The latter aspires to go back to pre-sanction production levels and hence an output freeze is a remote possibility. If there is no agreement, we expect oil prices to trend south.

Oil Production

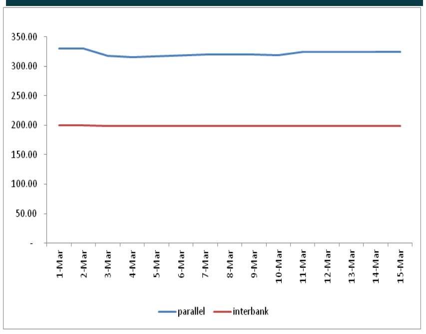
Nigeria's oil production level decreased by 94,000bpd to 1.754mbpd in February from 1.848mbpd in January, as reported in OPEC's monthly oil markets report for March. This is 20.3% below the 2015 budget benchmark of 2.2mbpd and 2.6% below Nigeria's OPEC quota of 1.8mbpd. This decline in oil production can be attributed to the force majeure on oil liftings from the Forcados export terminal in Delta State due to a leaking pipe on the 21st of February. This resulted in a shut-in of about 400,000bpd

Outlook

At the moment, Nigeria is in need of investment dollars channeled towards building the required infrastructure to boost production in the oil and gas sector.

Forex Market

Chart 4: Forex (N/$)



[21]

Volatility in the FOREX market has subsided marginally compared to the severe run on the currency in the latter part of February. As at March 15th, the naira traded at N325.00/$ at the parallel market, a 1.56% appreciation from N330.00/$ on March 1st. The interbank foreign exchange market (IFEM) also experienced a slight appreciation of 0.08% to N199.21/$ by March 15th, compared to N199.37/$ on March 1st. Nonetheless, the fundamentals remain the same: forex supply shortages and market uncertainty and until these change, the wide premium of N125.7 will remain between the two markets' rates. The IATA rate of exchange remained flat at N200/$ during the same period under review.

[21] Source : FMDQ, FDC Research

Outlook

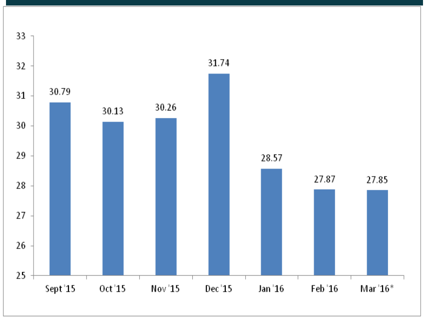
The stance of the government and the CBN is anti devaluation. However if the deal between oil producers does not scale through and oil prices fall, the CBN would be under pressure to adopt a flexible exchange rate that would be reflective of market realities.

External Reserves

External reserves increased by 0.02% to $27.88bn as at March 15th from $27.82bn at the start of the month. Year to date, the reserves level has declined by 4.27% ($1.19bn).

The external reserves level is 35.92% below 2014's peak of $43.51bn and 28.05% lower than 2014's average of $38.75bn. The level of import and payments cover is up to 4.52 months from 4.50 months on March 1st.

Chart 5: External Reserves($ 'bn)



[22]

Outlook

The current upturn in oil prices and the decline in forex outflows by the CBN have resulted in a marginal uptick in the reserves level. This trend is subject to a deal being made on April 17. If not, we are likely to see the external buffers resume the downward trend.

[22] Source : CBN, FDC Research

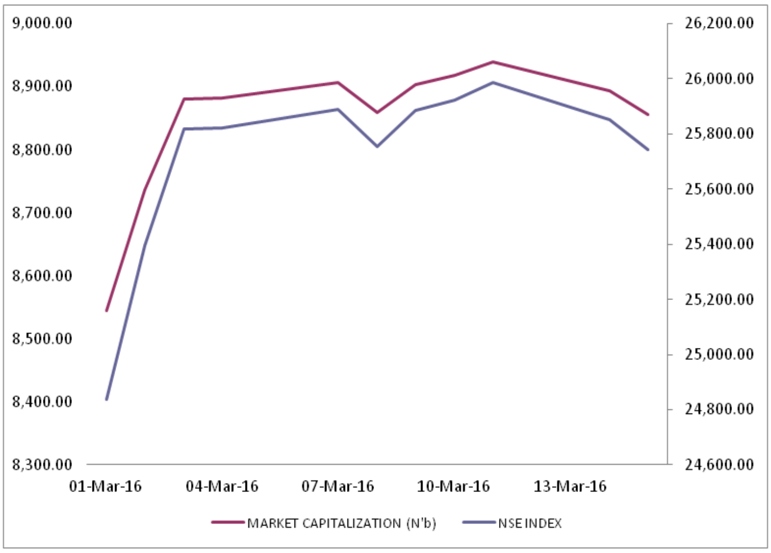
Stock Market Update

A mix of poor and impressive results hit the market in the first two weeks of March as several companies released FY 2015 results. As a result, the market traded sideways as profit warnings by several companies' triggered panic selling, subduing the positive results posted by a few companies.

Market apathy sustained during the period under review as rising inflation figures increased equity risk premium demanded by investors. Dividend yields as high as 12% failed to spike investor interest, as the market remained irrational. Foreign portfolio investors have remained on the sidelines as the CBN's exchange rate policy increases uncertainty in the outlook for the business and investment environment.

The Nigerian Stock Exchange (NSE) All Share Index (ASI closed at 25,745.13 up 4.78% from 24,570.73 at the end of last month. Market capitalization also increased by 4.77% in the first two weeks of March from N8.45trillion to N8.86trillion. Year to date (YTD) return of the market however remained in negative territory of -10.42%.

Chart 6 : NSE Performance



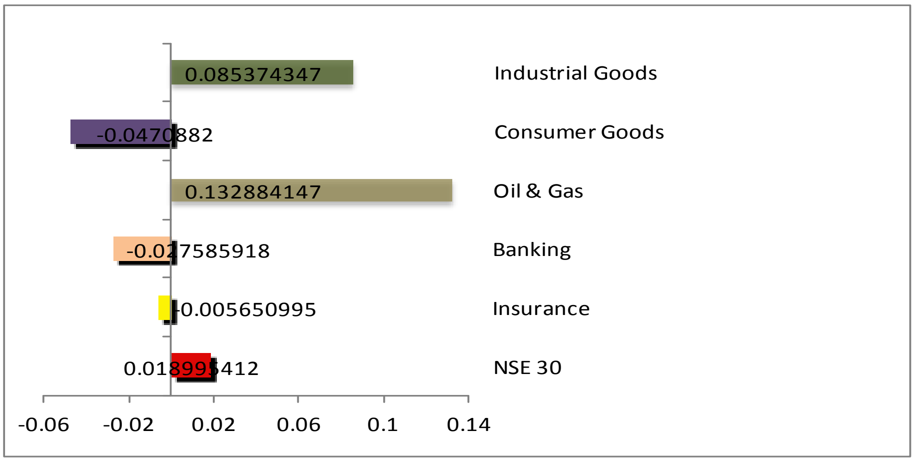
[23]

Sectors recorded mixed performance during the period under re-

[23] Source : NSE, FDC Research

view. The performance of the oil & gas and banking sector lagged behind the other sectors dragging the broader index down. The Industrial goods sector gained 6.86% driven by the strong gains in the share price of Dangote Cement, the most capitalised stock on the exchange. Gains in the share prices of Tiger Branded Consumer Goods and Honeywell Flourmills nudged the consumer goods sector up by 2.91%. The insurance sector too appreciated by 2.91% on the positive performance of AXA Mansard. A 14.26% drop in the share price of Forte Oil saw the Oil and Gas sector shed 4.135 in the first two weeks of March. The banking sector recorded the worst performance, shedding -3.75% as profit warnings from Diamond bank and ETI suppressed investor expectations. Dividends yields also failed to enthuse investors even as banks posted impressive FY 2015 results.

Chart 7 : Bi-Monthly Sectoral Performance



[24]

The financial services sector dominated activities on the exchange during the period under review accounting for 57.13% of the total value traded. The consumer goods sector accounted for 19.32% whilst industrial goods, oil & gas and conglomerates sector accounted for 14.34%, 6.78% and 1.59% respectively. Total value of goods traded within the period was 18.03bn while market breadth increased to 1.32x as 41 stocks advanced against 31 stocks that declined. 118 stocks remained unchanged during the period under review.

The best performing stocks include Tiger Branded Consumer Goods

[24] Source : NSE, FDC Research

120.29%, Oando 62.29%, UBA Capital 31.58%, Honeywell Flour-mills 23.31% and African Prudential Registrars 20.30%.

TOP GAINERS			
COMPANY	29-Feb	15-Feb	% CHANGE
TIGER BRANDED CONSUMER GOODS PLC	1.38	3.04	120.29%
OANDO PLC	2.97	4.82	62.29%
UBA CAPITAL PLC	1.33	1.75	31.58%
U B A PLC	2.88	3.74	29.86%
HONEYWELL FLOUR MILL PLC	1.33	1.64	23.31%

[25]

Top losers during the period were; Forte Oil -14.26%, Ikeja Hotel -13.94%, 7-up Bottling Company -9.41%, Beta Glass Company -9.00%, Nigerian breweries -7.92%.

TOP LOSERS			
COMPANY	29-Feb	15-Mar	% CHANGE
FORTE OIL PLC.	342.00	293.23	-14.26%
IKEJA HOTEL PLC	2.87	2.47	-13.94%
7-UP BOTTLING COMP. PLC.	170.00	154	-9.41%
BETA GLASS CO PLC.	50.00	45.50	-9.00%
NIGERIAN BREW. PLC.	101.00	93.00	-7.92%

[26]

Corporate Disclosures

Dangote Cement released its full year 2015 results and managed to report appreciable gains in its top line and bottom-line figures. Revenue grew by 25.56% from N391.64bn to N491.73bn whilst profit after tax (PAT) also increased by 13.68% from N160.58bn to N184.99bn. This stellar result was despite a sharp hike in finance costs from N32.98bn to N54.35bn an increase of over 64%. Dividend of N8 per share was declared implying a dividend yield of 5.4%

African Prudential Registrars also reported growth of 7.42% in its gross earnings from N2.21bn in 2014 to N2.54bn in 2015. Rising impairments (up 1,673.53%) took a chunk off Profit after tax (up 18.84% from N1.22bn in 2014 to N1.45bn in 2015). Earnings per

[25] Source : NSE
[26] Source : NSE

share also increased by18.03% from 61 kobo to 71 kobo. N0.43 has been suggested as dividends implying a dividend yield of 13.1%

Wapic Insurance reported positive FY 2015 results with gross premium income up by 36% from N5.20trn in 2014 to N7.10trn in 2015. Profit after tax also rose from N236Mn in 2014 to N1.3bn in 2015. Earnings per Share (EPS) went up from 2 kobo to 10 kobo in 2015.

Guaranty Trust Bank reported an impressive outing in its FY 2015 results. Gross earnings were up 8.4% from N278.5bn in 2014 to N301.9bn in 2015. Net interest income rose to N159.59bn from N142.39bn reported in 2014; an increase of over 12.33%. Total year-end dividend of N1.77 was proposed (25k interim and N1.50 full year). Impairments were up by 74.81% reflecting a deteriorating economic environment.

UBA Plc grew gross earnings by 9.84% in 2015. In its recently released FY 2015 results, the bank reported an increase in net interest income from N106bn in 2014 to N137bn in 2015. Impairments also rose by 58.75% in 2015, which impacted negatively on profit after tax (up 21.80% from N56.2bn in 2014 to N68.45bn in 2015). Earnings per share stood at N1.79 whilst final dividends of N0.40 has been proposed representing a dividend yield of 11.73%

Zenith bank's FY 2015 result shows a 7.23% increase in gross earnings from N403bn in 2014 to N432bn in 2015. Net interest income also went up by 8.75% from N206Mn to N224Mn in 2015. Profit after tax was up 6.24% even as net interest margin was weaker by 3.6% year in year as yields of government securities crashed in the last quarter of the year. Earnings per share came to N3.36k whilst dividends of N1.55k have been proposed (total of N1.80k for the year) bringing dividend yield to approximately 12%

It wasn't all good news for banking stocks as Diamond bank plc and Ecobank Transnational Incorporated (ETI) sounded profit warnings. ETI have warned investors to expect FY 2015 profit (in dollar terms) to be lower than the nine-months to 2015 reported profit. Diamond bank also cited rising impairments charges in energy and commercial business loans as threats to asset quality and profits in 2015.

Computer warehouse group released a report on profit guidance. Foreign exchange losses, inventory write offs and bad debts were among factors listed to contribute to an overall loss for FY 2015

Outlook

We expect the market to trade flat with some level of volatility in the second half of the month. So far, investors have remained lethargic to impressive FY 2015 reports. Sell pressure is expected to increase as unimpressive results are released creating attractive entry prices for speculators.

Long term investors remain wary as foreign exchange control policies implemented by the CBN, delay in the implementation of the 2016 budget and reduced government income and expenditure are expected to impact negatively on the performance of listed companies in Q1 2016.

We urge investors to focus on companies with good fundamentals, with a track record of value preservation.

Corporate Focus: Flour Mills of Nigeria Plc

Analysts Recommendation: BUY

Recommendation Period: 365 days

Target Price: N32.40

Analyst's Note

As Nigeria continues to grapple with slowing economic growth, rising inflation, intense exchange rate pressures and declining oil revenues, Nigerian companies are bearing the brunt of the harsh economic realities. Consumer confidence is low as news of impending job cuts and further economic woes make headlines. Traders and manufacturers are recording reduced inventories and weaker demand as consumers purchase mainly necessities and eschew items that could be regarded as surplus. Flour Mills is one such company that is facing weaker sales due to prevailing macroeconomic headwinds and weak consumer discretionary spending. Its revenue for FY 2015 (March 2015) fell by 5% even though its nine months result for the period ending in December 2015 showed an improvement of 7% in revenue.

Flour Mills' earnings have been saddled with huge financing costs and its share price has fallen by 41% within a year as a result. However, the debt has financed significant growth through expansion projects in its refineries and agricultural value chains. In addition, the company is making all the right moves to manage its rising debt profile. Flour Mills has proposed a rights issue, which will help restructure its capital position and augment its working capital. It has also fully redeemed its bond, which matured in December 2015, thereby reducing pressure on its net income. Flour Mills also intends to curtail its operating costs and improve operating efficiencies by merging five of its subsidiaries. Thus, despite the constraints the company faces, Flour Mills has a huge upside as it has a clearly delineated and feasible approach to ensure sustainable growth and dominance in Nigeria's fast growing food and agricultural industries. Accordingly, we place a BUY recommendation on Flour Mills of Nigeria Plc**.**

Profile

Flour Mills of Nigeria Plc is a leading Nigerian food and agro allied company with an extensive product portfolio. The company was incorporated in 1960 and was listed on the Nigerian Stock Exchange in 1978. A truly diversified group, Flour Mills is engaged in:

- Flour milling
- Production of pasta, noodles, edible oils, refined sugars and livestock feed
- Farming and other agro allied downstream activities
- Distribution and sale of fertilizer
- Manufacturing and marketing of laminated woven polypropylene sacks and flexible packaging materials
- Logistics, terminal operations and support businesses

Flour Mills has grown through various strategic acquisitions and divestments in support of its long term business model, which has resulted in tremendous growth and strong financials. Between 2011 and 2015, its total assets more than doubled from approximately N163 billion to N343 billion. Non-current assets and current assets increased by a compound annual growth rate CAGR of 25.4% and 13.4%, respectively during the period. Furthermore, revenues increased by a CAGR of 6.63%.

The growth in assets and revenue, however, have not translated to improved profitability during the period, even though sales increased by 7.9% for the nine months ending in December 2015, because most of Flour Mills' expansion drive was financed through debt. Between 2011 and 2015, profit before tax and profit after tax declined by a CAGR of -17.2% and 2.7%, respectively. The gross profit margins declined from 16.8% in 2011 to 11.5% in 2015. During this same period, the operating margin declined from 10.4% to 3.3% while the net income margin declined from 4% to 2.7%.

Fortunately, the potential gains that are likely to accrue from these investments position the company as a dominant player in its industries. Additions to the "Golden Penny" product line will help further diversify the company in the face of economic downturn. New products include: multi-purpose flour, chin chin, powdered soft

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Henry Onukwuba
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For more information:

Bridget Chukwumah
bchukwumah@lbs.edu.ng
0701 990 0759/ 0708 007 0552

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This programme is designed to help experienced senior managers refine their management and leadership skills needed for continued career advancement.

March 14, 2016 | **Duration: 5 Months**

For more information:

Bridget Chukwumah
bchukwumah@lbs.edu.ng
0701 990 0759/ 0802 478 2466

Application Deadline: February 29, 2016

Senior Management Programme

For regional managers, unit heads and assistant general managers

This programme is designed for functional managers to enhance their strategic thinking capabilities and build their personal and leadership skills.

1st run: **February 15, 2016**
2nd run: **April 18, 2016** | **Duration: 6 Months**

For more information:

Henry Etok
hetok@lbs.edu.ng
0708 007 0551 / 0708 007 0552

Application Deadline: February 1, 2016
April 4, 2016

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This programme is focused on providing the skillset required to accelerate the positive impact young professionals can have on their organisation.

May 11, 2016 | **Duration: 4 Months**

For more information:

Olasunkanmi Adenuga
oadenuga@lbs.edu.ng
0802 478 2466 / 0701 990 0759

Application Deadline: April 27, 2016

Owner Manager Programme

For founders and business owners

This programme is designed to position your company for improved performance and consistent growth by mastering what it takes to build a successful and sustainable business.

March 7, 2016 | **Duration: 6 Months**

For more information:

Ebun Emelogu
eejirinde-emelogu@lbs.edu.ng
0708 007 0552 / 0708 007 0551

Application Deadline: February 22, 2016

Agribusiness Management Programme

For agric sector managers and value chain players

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For more information:

Ope Oteri
ooteri@lbs.edu.ng
070 800 0553 / 070 800 0548

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Financial Times, London.

drinks, bottled vegetable oils, premium soya oil, and margarines and spreads, with many more innovative products in its pipeline, according to statements from the company's management.

Other investments have led to an increase of 350,000 metric tonnes per annum (MTpa) to its existing pasta facilities, an upgrade to its palm oil milling facilities and an increase to the production capacity of its poultry and aqua feed businesses to 750,000 MTpa. There are also expansion plans lined up for both the food and agro allied segments such as the expansion of its milling capacity and animal feed business, and an increase in sugar production. This increased sugar production will position the company to benefit from the Nigerian Sugar Master Plan, which bans the importation of packaged refined sugar, and to export sugar to other African countries.

Just as the company expands existing capacity, it is further diversifying its revenue streams mainly through the growth of its agro allied unit. The company is investing further in the production of crops such as oil palm for its edible oils business, rice for its rice mills, cassava for its cassava flour, starch and glucose business, and sugar cane for its mills and sugar refinery. All of these investments are aligned to government import bans and tariffs on the resulting refined products.

FLOUR MILLS OF NIGERIA PLC	2015 N'000	2014 N'000	2013 N'000	2012 N'000	2011 N'000	CAGR %
ASSETS						
Non-current assets	219,245,233	195,717,504	171,278,979	135,877,631	88,617,498	25.42%
Current assets	123,604,166	103,468,176	108,968,231	96,700,423	74,644,365	13.44%
Total non-current liabilites	(76,224,800)	(84,342,937)	(81,827,221)	(72,347,272)	(57,027,961)	7.52%
Total current liabilites	(179,214,205)	(128,658,878)	(114,526,327)	(78,516,539)	(56,238,468)	33.61%
Net Assets	**87,410,394**	**86,183,865**	**83,893,662**	**81,714,243**	**49,995,434**	**14.99%**
CAPITAL AND RESERVES						
Share capital	1,312,126	1,192,842	1,192,842	1,167,388	939,605	8.71%
Share premium	36,812,540	36,812,540	36,812,540	33,526,369	5,866,676	58.27%
Fixed asset revaluation exercise	-	-	-	-	835,648	-100.00%
Capital reserve	281,201	281,201	6,838,833	8,730,525	4,405,525	-49.74%
Retained earnings	45,946,617	41,636,076	36,134,594	33,231,165	33,175,841	8.48%
Non-controlling interest	3,057,910	3,636,773	2,914,853	5,058,796	4,772,139	-10.53%
Total Equity	**87,410,394**	**83,559,432**	**83,893,662**	**81,714,243**	**49,995,434**	**14.99%**
COMPREHENSIVE INCOME						
Revenue	308,756,526	325,790,187	301,941,329	258,268,251	238,796,940	6.63%
Profit Before Taxation	7,724,770	8,227,983	11,165,431	11,803,161	16,445,415	-17.21%
Taxation	738,292	(2,860,108)	(3,438,760)	(4,041,532)	(6,995,211)	N/A
Profit After Taxation	8,463,062	5,367,875	7,726,671	7,761,629	9,450,204	-2.72% [27]

[27] Source : Company's Financial Reports

Management

The company's strong management team has shown its ability to grow the company and enhance shareholder value through strategic goals to streamline operations, reduce administrative costs and improve operating efficiency. Flour Mills' board of directors is led by Mr. John Coumantaros who has been with Flour Mills since 1984 and has been a director since 1993. He also serves as the chairman of the Nigerian Bag Manufacturing Company PLC and Northern Nigeria Flour Mills PLC, and sits on the board of the United Cement Company of Nigeria Ltd as a non-executive director. The veteran businessman is an alumnus of Yale University where he graduated with a BA in History. John Coumantaros took over from Mr. George Coumantaros, the founder of the company. George Coumantaros led the company through its operational inception in 1962 when it produced 600 metric tons per day to its current milling capacity of over 8,000 metric tons per day.

Other key members of the Flour Mills' management team include Paul Gbeadebo, Hugh Glyn-Jones and Mark Coakley. Mr. Paul Gbededo has been the Chief Executive Officer and Group Managing Director at Flour Mills of Nigeria Plc since April 2013. He previously served as Director of Golden Fertilizer & Golden Rice Company. Mr. Gbededo is a Loughborough alumnus with a graduate degree in Plastics and Polymer engineering technology.

Mr. Hugh Glyn-Jones serves as the Managing Director of the Agro Allied Division at Flour Mills of Nigeria PLC and served as its Deputy Managing Director of Agro Allied. He is a Rhodes University alumnus with a BA in Commerce as well as an Executive Management Programme Certificate holder from the University of Cape Town Business School. He is a qualified charted accountant who has held positions at various food organizations such as Swaziland Fruit Canners, Swaziland Sugar Association, and South African Sugar Association. Another key management staff is Mark Coakley who serves as the Managing Director, Food Division, at Flour Mills of Nigeria PLC. He has international experience with PepsiCo, and worked at Brim Brother Ltd, the Smiths Snack Food Company and Nestle before joining FMN in December 2015. He is a University College Dublin alumnus with a BComm in Marketing and a Master of Business Studies in international Marketing.

The Bulls Say and the Bears Say

Bulls Say:

- Diversified industry and product range
- Solid brand value has established Flour Mills as a market leader in its industry space
- Highly skilled workforce with adept technical and marketing skills
- Dominance in the Nigerian flour mill industry
- Investments in backward integration could result in availability of cheaper raw materials sourced locally
- Favorable government policies towards firms invested across Nigeria's agricultural value chains

Bears Say:

- Fierce competition from recognized brands such as Dangote Flour Mills Plc and Honeywell Flour Mills Plc
- High leverage could erode profitability as the company struggles with mounting interest charges
- Foreign exchange pressures could further weaken the naira and result in higher operating costs given that the company imports most of its raw materials
- Persistent macroeconomic headwinds have reduced consumer demand for products such as pasta that are not staple food, and could therefore be regarded as superfluous
- Insecurity in northern Nigeria continues to dampen sales for many consumer goods companies

Investment Thesis

FDC places a BUY recommendation on Flour Mills of Nigeria Plc. Its relentless diversification into various segments of agriculture offers the company a distinct opportunity for substantial revenue growth. The success of its backward integration agro allied program would reduce costs and earn foreign exchange for the company. And the food segment of the company is a major revenue driver that contributes more than half of total sales and has divisions with huge growth potentials, especially the sugar business. In addition, Flour Mills is taking action towards reducing its finance and operational costs by restructuring its debt position and merging five of its subsidiaries in order lower transfer costs and streamline operations. We expect these business decisions to lower cost pressures on the company's net income in the coming years.

Given the untapped potential of Flour Mills' investments and its foresight to invest and divest where strategically relevant, Flour Mills is positioned to heap huge returns and maintain its position as a market leader.

Valuation

We derived our valuation for Flour Mills of Nigeria Plc by using the discounted cash flow. Our fair value estimate for Flour Mills of Nigeria Plc is **N32.40**, which is a 70.5% upside on the current price of its share (N19.00) as at 23 March, 2016. The company's fair value is the valuation derived from the discounted cash flow methodology. The discount rate (weighted average cost of capital) of 11.8% is derived using a 12.39% risk free rate (the yield for a 10-year FGN bond maturing in February 2026), a beta of 0.9502[28], a cost of equity of 18.1% (capital asset pricing model), an after-tax cost of debt of 8.9%, and a market risk premium of 6%. The long term cash flow growth rate to perpetuity used is calculated at 1.2% based on an analysis of the company's retention rate and return on invested capital.

Taking into account Flour Mills' current investment, its growth trajectory, diversified product portfolio, its wide market reach, culture of innovation and the prevailing economic condition, we forecast a five-year revenue growth CAGR of 12.5%. Furthermore, the company's operating profit is projected to have a five-year CAGR of 28.9%.

[28] Financial Times Data

FLOUR MILLS OF NIGERIA PLC	2016E N'000	2017E N'000	2018E N'000	2019E N'000	2020E N'000	Terminal Value N'000
Revenues	342,606,490	386,267,864	425,310,003	463,930,276	518,090,934	
Cost of Sales	(294,434,143)	(331,956,489)	(365,509,089)	(398,699,141)	(445,244,514)	
Gross Profits	**48,172,347**	**54,311,375**	**59,800,913**	**65,231,135**	**72,846,420**	
General & Administration Expenses	(43,012,448)	(48,792,908)	(54,278,060)	(60,248,393)	(68,075,103)	
EBITDA	**5,159,899**	**5,518,467**	**5,522,853**	**4,982,742**	**4,771,317**	
Depreciation & Amortisation	18,193,900	20,547,315	23,156,605	25,915,865	29,000,900	
EBIT	**23,353,799**	**26,065,782**	**28,679,459**	**30,898,607**	**33,772,216**	
Less: Taxes	(4,670,760)	(5,213,156)	(5,735,892)	(6,179,721)	(6,754,443)	
EBIAT (Unleveled Net Income)	**18,683,039**	**20,852,625**	**22,943,567**	**24,718,886**	**27,017,773**	
Plus: Depreciation & Amortization Expense	41,547,698	46,613,096	51,836,064	56,814,472	62,773,116	
Less: CAPEX	(45,928,420)	(51,781,485)	(57,015,314)	(62,192,589)	(69,453,144)	
Change in working capital (+/- Decrease/Increase)	5,009,384	5,429,675	6,171,102	5,313,157	8,562,530	
Unlevered Free Cash Flow (FCF)	**19,311,702**	**21,113,912**	**23,935,420**	**24,653,926**	**28,900,275**	**277,228,673**
Discounting Period	1	2	3	4	5	1.2% long term cash flow growth rate to perpetuity
Discount Rate (WACC)	11.8%	11.8%	11.8%	11.8%	11.8%	
Discounting Factor	0.89	0.80	0.72	0.64	0.57	
Present Value of Unlevered FCF	17,273,635	16,892,546	17,128,947	15,781,159	16,546,951	158,728,222
Enterprise Value	242,351,460					
Net Debt	(157,317,483)					
Equity Value	85,033,977					
Shares Outstanding ('000)	2,624,253					
Price per share (N)	32.40					

[29]

Risk

The major risks that could limit Flour Mills from achieving its strategic goals include market risks, high leverage, project completion and security challenges. Intense exchange rate pressures is a key risk the company faces as a devaluation of the naira means a significant rise in the prices of imported raw materials. Furthermore, the company is exposed to commodity price risks as it needs to purchase specific quantities and qualities of raw materials to meet its milling requirements. These raw materials include wheat, rice and cassava flour. Though prices of commodities have generally softened, the risk of a rise in commodity prices, though not imminent due to favourable weather conditions and ample stock, could increase costs and dampen margins.

The company has implemented various strategies to control market risks. Flour Mills' controls interest rate risks by negotiating long term loan facilities and obtaining subsidized government loans. Also, the company is controlling its exchange rate risks through its backward integration of agro allied products in order to reduce dependencies on imported raw materials. Flour Mills' debt burden is also a key risk. However, Flour Mills has effective capital risk man-

[29] Source : Company's Financial Report

agement and liquidity risk management frameworks in place to manage its debt and capital structure. Its proposed rights issue underscores its desire to reduce its dependence on debt.

Project completion is another risk if the expansion projects for which the loans were secured are not completed. With Flour Mills' excellent execution record, as witnessed in the completion of its sugar milling, flour milling and other key projects, the likelihood of an abandoned project is significantly reduced. Furthermore, though the spate of insurgency attacks in the northern region of the country has abated, there are still fears concerning running a marketing or advertising initiative in the region. This implies a loss of both market share and revenue.

Despite the gravity of the risks facing Flour Mills, the solid risk management in place, alongside its backward integration agricultural projects and its productive use of debt to fund expansion and growth shows that it is a company with a viable investment plan. As such, it is a company for the forward looking investor.