

Monthly Economic News and Views

Lagos Business School
Executive Breakfast Meeting

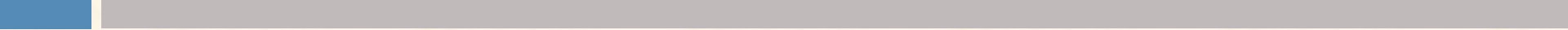
Naira Weakness Undermines Economic Stability

Presented by **B.J. Rewane**
Financial Derivatives Company Limited

March 2, 2016

Outline

- February in Retrospect
- Global & Regional Economics -
- Commodities Market & the Domestic Economy
- Major Policy Changes & the IMF Article IV Review
- Markets & Proxies
- Political Risk Analysis
- Outlook for March



February in Retrospect

St. Valentine's Day Massacre

February 2016 – Most Volatile Month in a Decade

- February in leap years is 3.57% longer than normal
- Last month the naira took the brunt of a St.Valentines day massacre
- Losing as much as N80 (23.7%) against the U.S.\$ in 7 days
- After a choreographed sequence of steps by the anti-devaluation lobby

February in Retrospect

- Including a circus styled devaluation debate
- The market punished the naira and the CBN, shredding it to N405/\$
- Forcing the CBN to make an explicit announcement on the eligibility of school fees and medical bills in the IFEM
- President Buhari has since insisted that school fees should not be eligible

February in Retrospect

- The good news is that the External Reserves only haemorrhaged in February by \$290m
- Compared to \$2.7bn squandered in February 2015
- The month of the big Dasukigate disbursements, ostensibly for Boko Haram arms
- The naira has since recovered significant lost ground almost 26.56% to N320/\$

February in Retrospect

- The British pound is trading at N450/\$ after testing N520 earlier
- Headline inflation rose to 9.6%, the highest level in 37 months
- Nigeria is now among the 10 highest inflation countries in SSA
- Consumer prices spiked arbitrarily across the food and non-food baskets

February in Retrospect

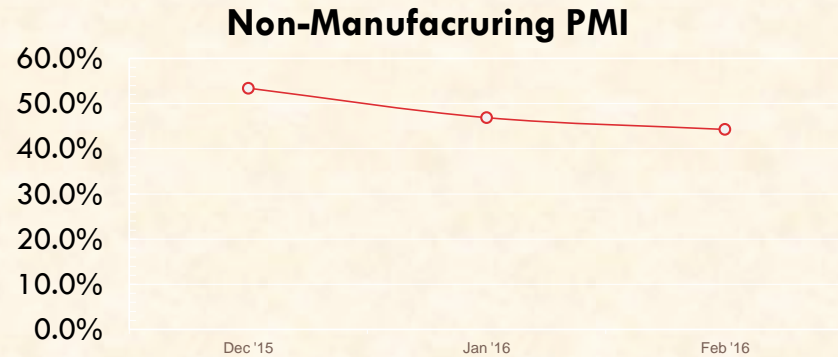
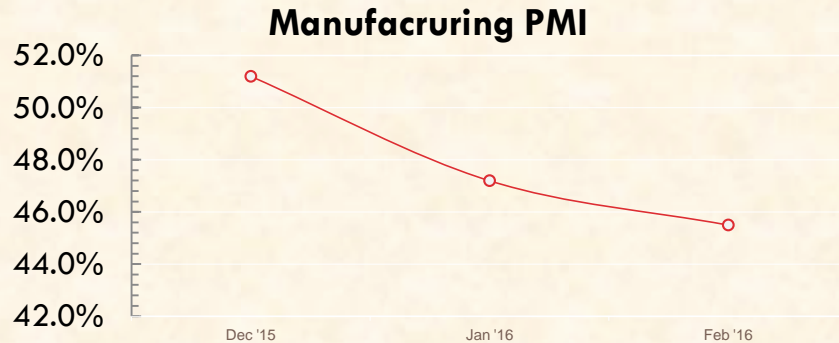
- Spurred by a cocktail of shortages, currency, cost and speculative factors
- Consumer resistance to price hikes is leading to substituting to alternatives and outright boycotts
- Beer market growth has declined to 0.7% in 2016
- Malt market suffered a more severe contraction of 12%
- Driven by the consumer anti-obesity and wellness craze

February in Retrospect

- Power output from the national grid fell 37.6% to 2,665MW
- Higher average temperature of 32°C and humidity
- Increased air-conditioning use and low water levels at the Kainji dam
- Power outage now up to 55% of the time in Lagos
- The price of diesel is now up to N134 from a low of N107 in January
- Brent oil price average in February was \$33.66pb up from \$30pb in January

February in Retrospect

- The production shortfall relative to the budget of 2.2mbp is a revenue drag
- The CBN Purchasing Managers Index declined in February to 45.5
- Of the 16 manufacturing subsectors surveyed, 13 reported declines



February in Retrospect

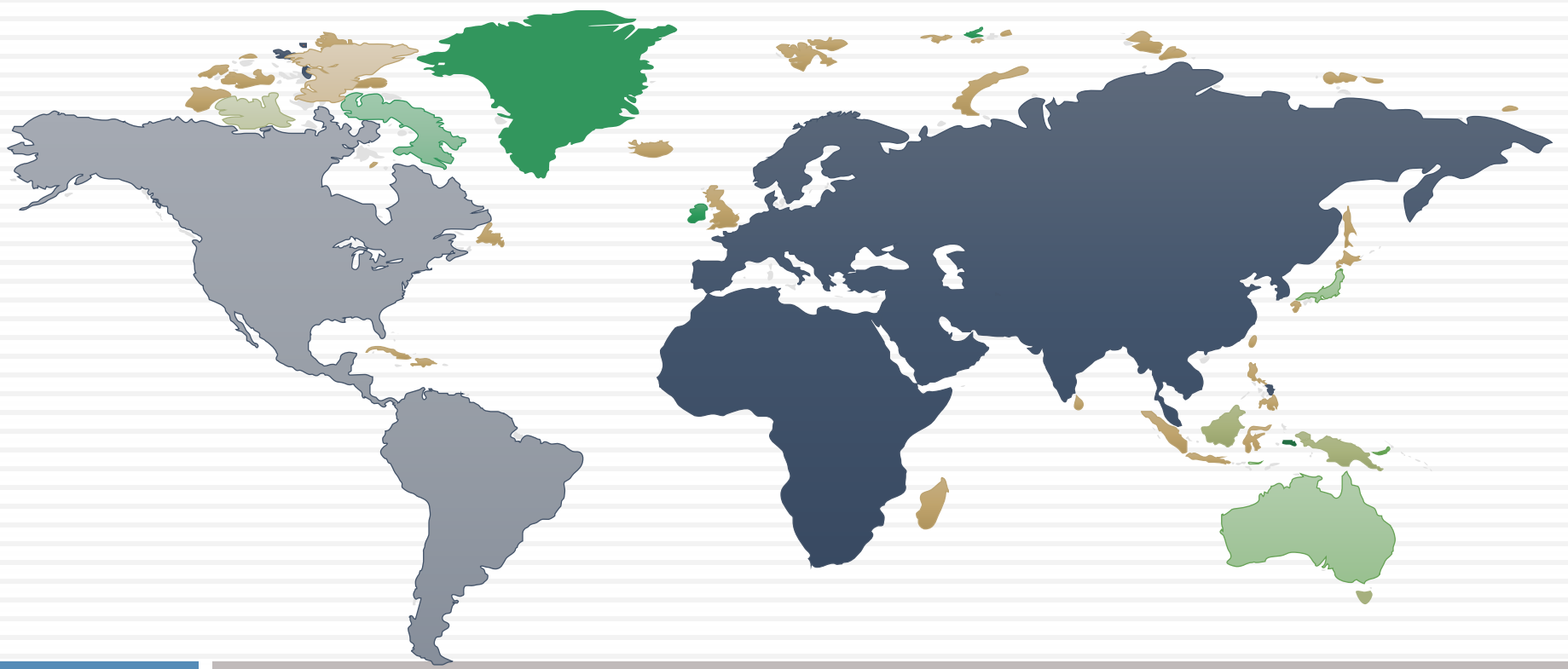
- Fears of an imminent devaluation forced corporates into the blended funds forex market
- M2 expanded by 5.9% to N20trn
- Overnight rates averaged 2.73%
- 90 days T/Bill primary auction averaged 4.9% with a yield of 5.07%

February in Retrospect

- Revenue shared by all tiers of govt fell to N370bn
- At least 6 states have accumulated salary arrears
- MOFIN reduces payroll in excess of \$11m per month
- Hiving off ghost workers from the payroll
- The All Share Index gained 2.74% as against a 14% fall in January

February in Retrospect

- Corporate results show weaker earnings – NB, Guinness & Forte Oil
- Profit warnings at FBNH & FCMB group
- Average P/E 7.75x



GLOBAL & REGIONAL ECONOMICS

US: Fed Warns of Increased Risks

- U.S. Fed concerned about global growth slowdown
- Balance of risks to growth and inflation tilting to the downside
- Continuous turmoil in the markets would trigger a more significant downgrade to the outlook
- Growing fears that doggedly low inflation could become entrenched in investors and consumers outlook
- Fed increasingly wary of following with another rate hike too quickly

US: Fed Warns of Increased Risks

- Preferring to wait and assess what damage may be caused by:
 - Tightening of financial conditions
 - Slowdown in China
- Low energy prices and a strong dollar continue to depress the chances of a return to the Fed's 2% target
- The Fed next meets from March 15-16 and its statement on the risk factors will be key

US Economy

- Fed forecasts Q1'16 GDP at 1.2%
- 151,000 jobs added in January
- But wage growth has stagnated - impeding purchasing power
- Stronger dollar making US exports less competitive
- Conversation has shifted squarely to the November elections
- A rise in inflation would encourage further rate hikes by the Fed

US: Impact of the Oil Price Plunge

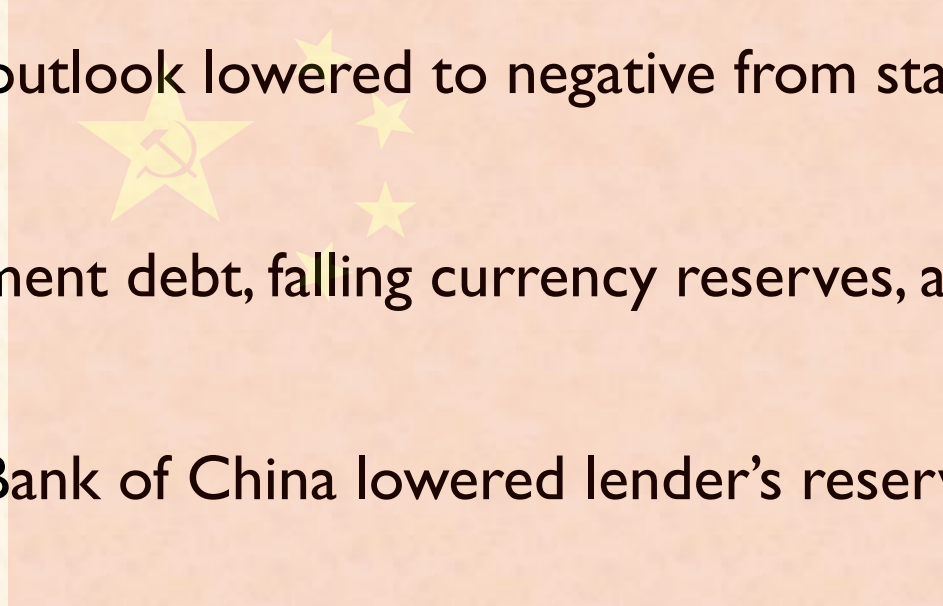
- Cheaper fuel brings big savings for consumers and businesses
- Gasoline, diesel and heating oil make up about 66% of the roughly 20mn barrels of oil consumed daily
- Operating costs for shippers and other transportation companies have been lowered
- Lower oil prices have cut the U.S. trade deficit by slashing the cost of imported oil
- Sustained drop in crude prices should add roughly half a percent to U.S. GDP

Global Update – The Eurozone

- Outlook for the Eurozone to be driven by consumption
- This is because of cheap oil, fiscal support, lower interest rates and lower euro exchange rate
- Growth in the European union projected at 1.9% and 2% in 2016 and 2017 respectively
- However, consumer confidence for the Eurozone in February is at -8.80 compared to a previous rate of -6.70
- PMI fell to 52.7 in February from 53.6 in January

China

- Nigeria's leading trading partner under the search light again
- Credit rating outlook lowered to negative from stable by Moody's
- Rising government debt, falling currency reserves, and reform ambivalence
- The People's Bank of China lowered lender's reserve requirement
- Lowest point in 5 years



China

- Nigeria expects to benefit from export-credit finance to support budget deficit
- To refinance short-term debt arrears to the London Club of banks
- China expected to finance the Nigerian railway restoration and airport facelifts

China: Transition in Trouble

- World's 3rd largest economy continuing to slow
- Manufacturing contracted at the fastest pace seen since November 2011
 - ▣ Manufacturing PMI slid to 49.0 from 49.4 level in January
 - ▣ 7th consecutive month below 50 – longest stretch on record



China: Transition in Trouble

- Non-manufacturing PMI also fell by 0.8 points to 52.7 – the lowest in the history of the survey
 - ▣ More alarming because non-manufacturing now accounts for over 50% of Chinese economic growth
 - ▣ Chinese govt. hinging transition away from heavy industry, investment and trade on consumption and non-manufacturing

China: Transition in Trouble

- Central bank stepping up action to bolster cooling economy
- Has cut the Reserve Requirement Ratio by 0.5% to 17.0% - the 5th drop in a year
- Effectively injecting \$100bn of long term cash into the economy
 - Designed to spur on lending and lower money market interest rates
 - Hopes to boost liquidity in the financial sector
 - To partly offset the effects of capital outflows from China

China's Billionaires

- China has surpassed America as the country with the most dollar billionaires
- It is home to 568 billionaires compared to America's 535
- The figures in china were based on share prices in January

Country	Number of Billionaires
China	568
United States	535
India	111
Britain	82
Germany	82
Russia	80

SSA

- SSA's 3 biggest economies – Nigeria, South Africa & Angola – expected to experience a deceleration of growth in 2016
- This will further depress regional growth
- SSA currently at 2.6% - 2nd slowest pace of expansion since 1999
- Angola and Nigeria's growth forecasts have been cut to 1% and 2.7% from 2.9% and 3.3% respectively
 - Low oil price environment to weigh on economic activity

SSA

- A less supportive external environment will continue to expose structural flaws that plague most African economies
 - Tighter global financial conditions
 - Less aid & investment from China
 - Weaker commodity prices



SSA

- It highlights the need to reinforce the fundamentals of competitiveness to achieve productivity gains to power growth
 - Improvements in infrastructure
 - Address skills shortages
 - Improve policy stability



SSA: South Africa

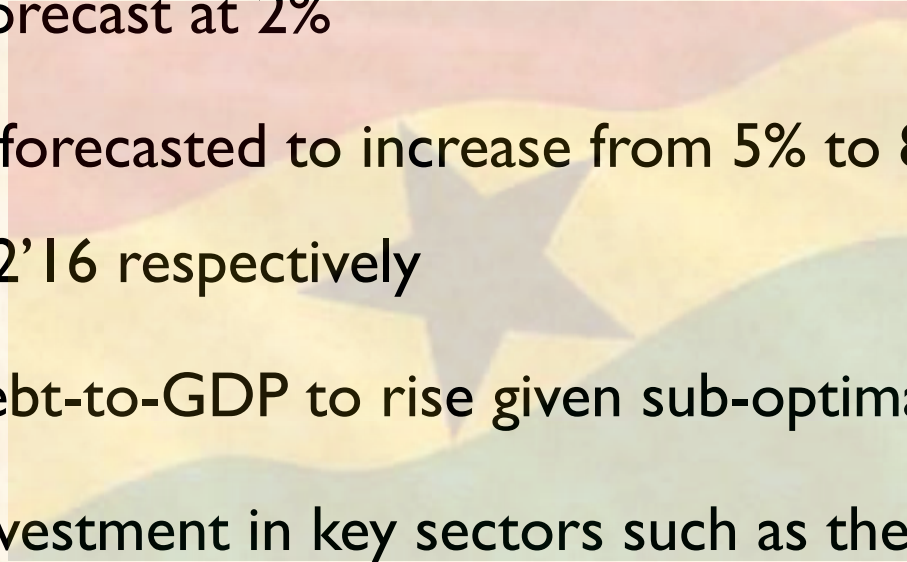
- Q1 and Q2 2016 growth forecasts at 0.3% and 0.5% respectively
- Continued contraction of the mining sector due to falling commodity prices could lead to a downward revision
- Job loss of 50,000 expected in the coming months
- Rising unemployment and political tensions may act as catalyst for social unrest

SSA: South Africa

- Q1'16 unemployment forecast at 25.73%
- Disappointing 2015 GDP growth numbers may lead to credit rating cut to “junk”
- Barclays bank intends to divest its 62.3% stake (R73million) in Barclays Africa

SSA: Ghana

- Q1'16 growth forecast at 2%
- Unemployment forecasted to increase from 5% to 8% and 8.6% in Q1'16 and Q2'16 respectively
- Government Debt-to-GDP to rise given sub-optimal policies
- To help ignite investment in key sectors such as the agriculture

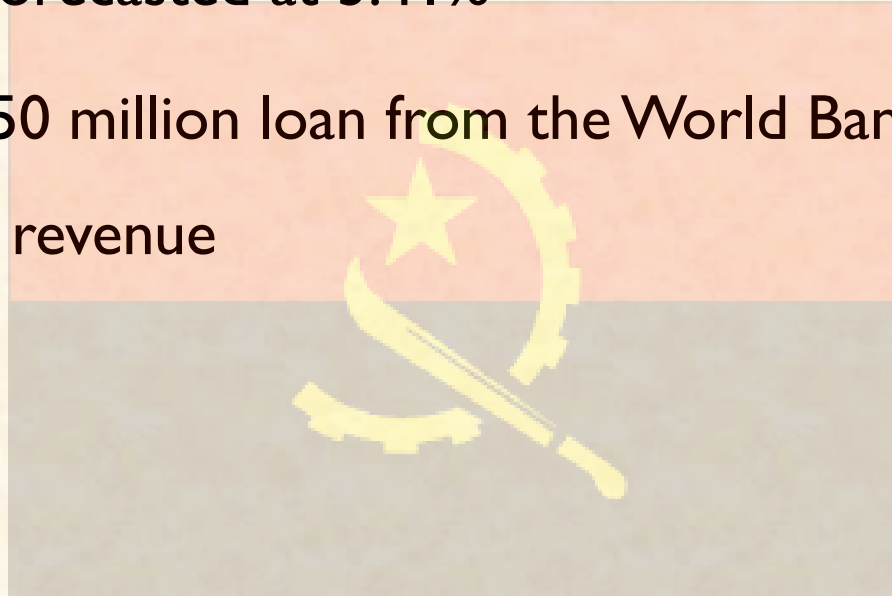


SSA: Angola

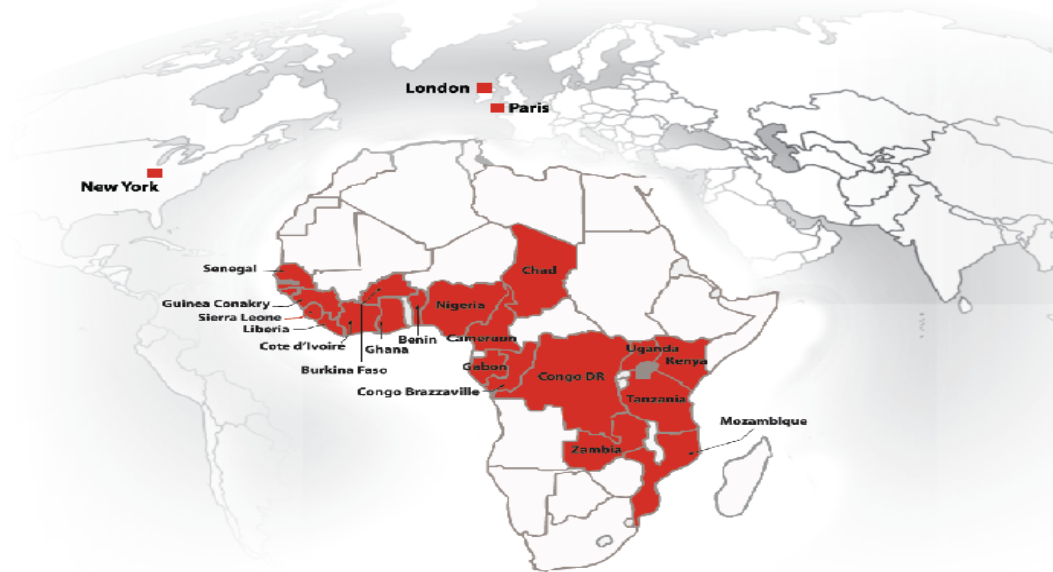
- Moody's has downgraded Angola to Ba2
- Central Bank governor fired and a lawyer appointed
- Need for external financing could increase to \$31bn in the coming months
- If low oil prices persist Q2'16 then FY 2016 growth prospects would have to be revised downwards

SSA: Angola

- Q1'16 growth forecasted at 3.41%
- Approval of \$450 million loan from the World Bank to ease strain on government revenue



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■ Africa

● New York

● London

● Paris



DOMESTIC ECONOMY

Inflation to Spike on Exchange Rate fears

LEIs

Source: FMDQ, CBN, * FDC Forecasts

INDICATORS	February'16	Mar'16*	Y-o-Y% change	February'15
OIL MARKET :				
➤ Spot price (avg \$'pb)	33.52	38.5	14.86	58.91
➤ Production (m'bpd)	1.9	1.8	(5.26)	1.9
MONEY MARKETS (END PERIOD):				
➤ Treasury Bills (%)	4.9	4	(90bps)	10.87
➤ Overnight (%)p.a	1.38	5	(362bps)	10.21
➤ MPR (%)p.a	11	11	-	13
➤ CPI (%)	9.6	9.7	0.1	8.4
➤ External Reserves (\$'bn)	27.8	27	(2.88)	31.36
EXCHANGE RATE (END PERIOD)				
➤ Inter-bank (N/\$)	199.37	199	0.19	202.72
➤ Parallel (N/\$)	325	310	4.62	225
OTHER				
➤ Market cap (N'trn)	8.45	8.4	(0.59)	10.15
➤ FAAC N'bn)	370.4	370	(0.12)	522.05
➤ M2 (N'trn)	20.03	21.50	7.34	16.55
➤ FBN PMI	50.6	53	2.4	56.2
➤ Vacancy Factor (Residential %)	45	43	(2)	24
➤ Vacancy Factor (Commercial %)	35	31	(4)	21

GDP Growth to Remain Flat in Q1'16

- ❑ Estimates for GDP growth in Q1 are approximately 2.6%
- ❑ Inventory depletion and financing constraints
- ❑ Power supply outage and downtime
- ❑ Forex shortages and unavailability of L/Cs
- ❑ Refined petroleum shortages



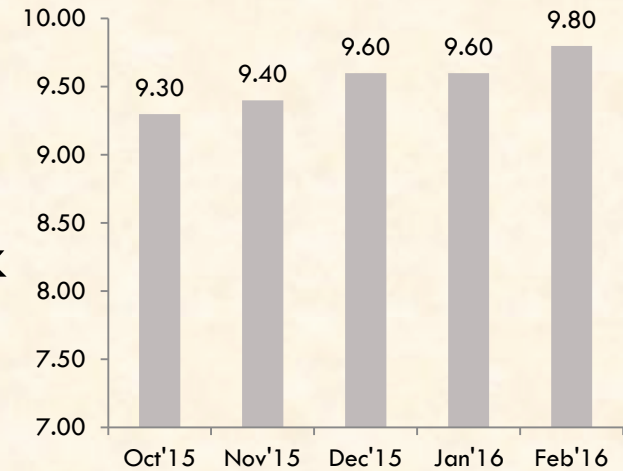
Monetary Conditions - Outlook

- M2 expected to grow by 7%
- Average lending rates anticipated to remain horizontal at approximately 21%
- CRR impact is neutral on M2
- Outstanding T/Bills now estimated at N300 billion

Inflation - Outlook

- Two scenarios
 - Conservative estimate at 9.8%
 - Aggressive forecast is up to 10.2%
- Food basket mostly in the conservative track
- Non-food is more aggressive
- In March, there will be a price correction based on consumer resistance

Headline Inflation(%)



Interest Rates - Outlook

- Average NIBOR to remain unchanged at 1-2% p.a.
- In line with the CBN's accommodative policy stance
- Budget passage in Q2 will boost liquidity
- CBN may adopt tightening measures to curb excess liquidity

External Reserves - Outlook

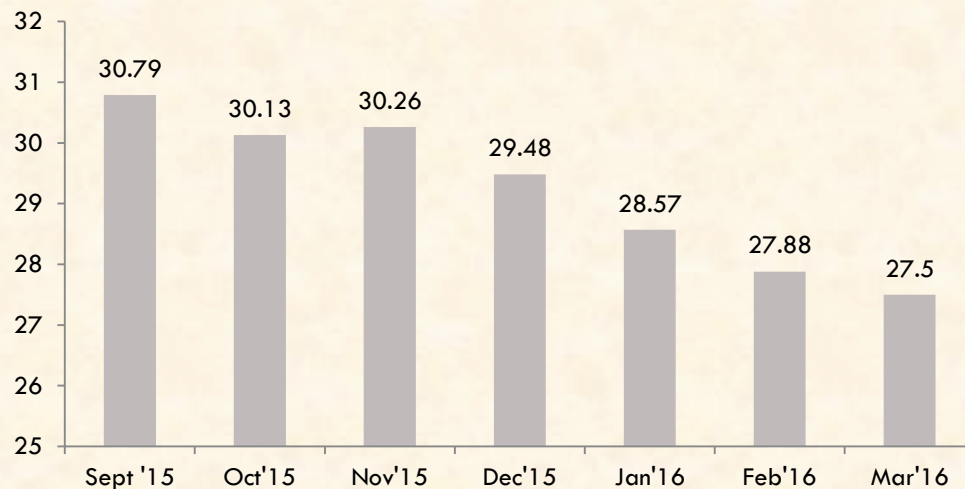
- Depletion not expected in

March

- Depletion this year will most

likely be flat

External Reserves (\$bn)

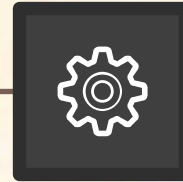


Budget 2016

- Budget mired in political and economic drama
- Senate President facing travails
- Budget padding
- Borrowing next issue after passage of budget
 - No deal road show
 - IMF

Some of the Key Assumptions are Flawed

Oil production of
2.2mbpd
Too ambitious



Benchmark price of
\$38pb
Realistic

Exchange rate of
N197
Will change



Debt service of
N1.36trn
Realistic

2016 Budget Assumptions & Analysis

Budgeted Capital Expenditure 2016: N1.602 trillion (2015: N556.995billion)

Works & Housing: N433.4 billion
(2015: N21.5 billion)

Transportation: N202.0 billion
(2015: N14.1 billion)

Defense: N134.6 billion (2015:
N36.7 billion)

**Key Capital
Expenditure**

Interior: N53.1 billion (2015: N2.8
billion)

Agriculture: N47.0 billion (2015:
N8.8 billion)

FCT: N37.8 billion (2015:
N13.5 billion)

Education: N37.0 billion (2015:
N23.5 billion)

CHANGE

Water Resources: N37.0 billion
(2015: N15.8billion)

Health: N35.6 billion (2015:
N22.7 billion)

NSA: N32.6 billion (2015:
N26.5 billion)

Source: KPMG

2016 Budget Assumptions & Analysis

Capital: Recurrent Expenditure Ratios
(2015: 20:80) (2016: 30:70)

Deficit Budget of N2.2 trillion.
Focused on Capital Projects to reflate the Economy

Reduce over-reliance on oil revenue and reduce the country's exposure to oil price volatility.

Key Budget Component for Revenues

Independent revenue and remittance of operating surpluses from ("MDAs") to TSA

Non-oil revenue (CIT, VAT, Customs & Excise Duties Federation Levies and major revenue drivers)

Diversification of the economy; Agriculture & Solid minerals. Supplement FX shortfall from crude oil earnings.

Source: KPMG



COMMODITIES MARKET

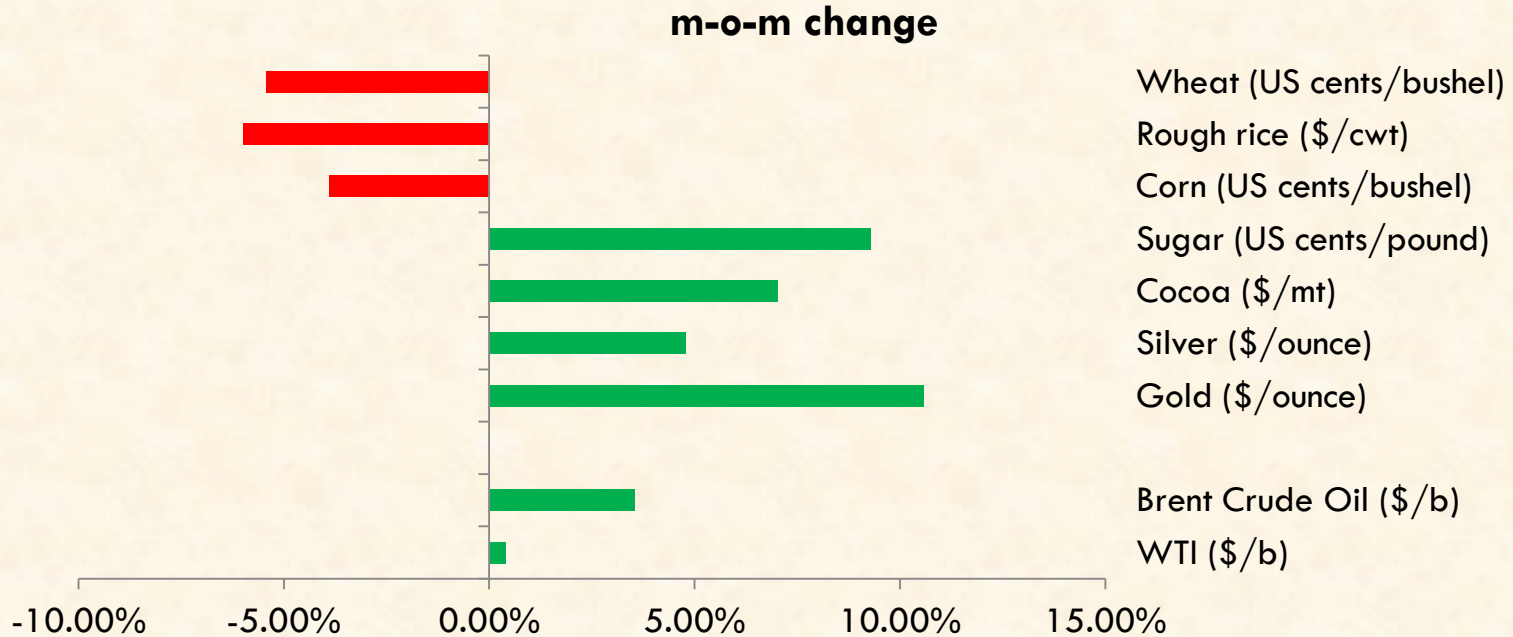
Commodity Prices in March

- Oil prices already higher than \$40pb
 - Production freeze by major oil producers
 - Increased demand for gasoline in the US
 - Increased budget spending in India will stimulate demand
- The rally may be sustained due to producer collaboration
- Higher oil prices may incentivize shale producers to return to market
- Iran unlikely to join the output cap

Commodity Prices in March

- Bearish outlook for grain prices in March due to:
 - ▣ Large stockpiles and prospects of a bumper harvest
 - ▣ Increased production driven by lower costs and weaker currencies
- Cocoa prices will spike on adverse weather conditions in West Africa
- Expectation of a shortfall in production will support sugar prices

Commodity Prices in March



Implications for Nigeria

- Oil prices are still trading below budget benchmark of \$38pb
- Oil production of 1.8mbpd is 18% lower than budget estimate
- Negative revenue impact will be magnified by inability to sell Nigerian cargoes
- The reduction in volume of refined products will alleviate the deficit required

Domestic Commodities Outlook

- Commodity price volatility will be higher than normal
- Prices will swing with parallel market rate and availability
- Expect to see increased smuggling of goods from neighboring countries
- Expect consumer resistance due to lower disposable incomes

FOR LEASE

MARIYA COURT

Location: 2B, Probyn Close, Ikoyi, Lagos

Amenities:

1. All rooms fitted with new air conditioners
2. Intercom system
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



RHAMA GARDEN

Location: 28, Gerard Road, Ikoyi, Lagos

Amenities:

1. All rooms fitted with new air conditioners
2. Intercom system
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
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MAJOR POLICY CHANGES

IMF Tells Nigeria the Obvious

IMF Article IV – Understanding the Problem

Address near-term vulnerabilities to promote sustained inclusive growth and reduce poverty

Sharp decline in oil prices and dependence on oil revenues

Government deficit doubled to ~3.3% of GDP in 2015

Exports dropped ~40%, pushing the current account deficit to an estimated 2.4% of GDP

Foreign portfolio flows slow significantly, external reserves declined to \$28.3bn as at end-2015

Low banking system resilience

Inflation increased to 9.6% in December

Growth is estimated to have slowed to 2.8% in 2015

Increasing unemployment and poverty

IMF Article IV - Nigeria

The outlook remains challenging with oil prices expected to remain low for a sustained period

Authorities' policy response

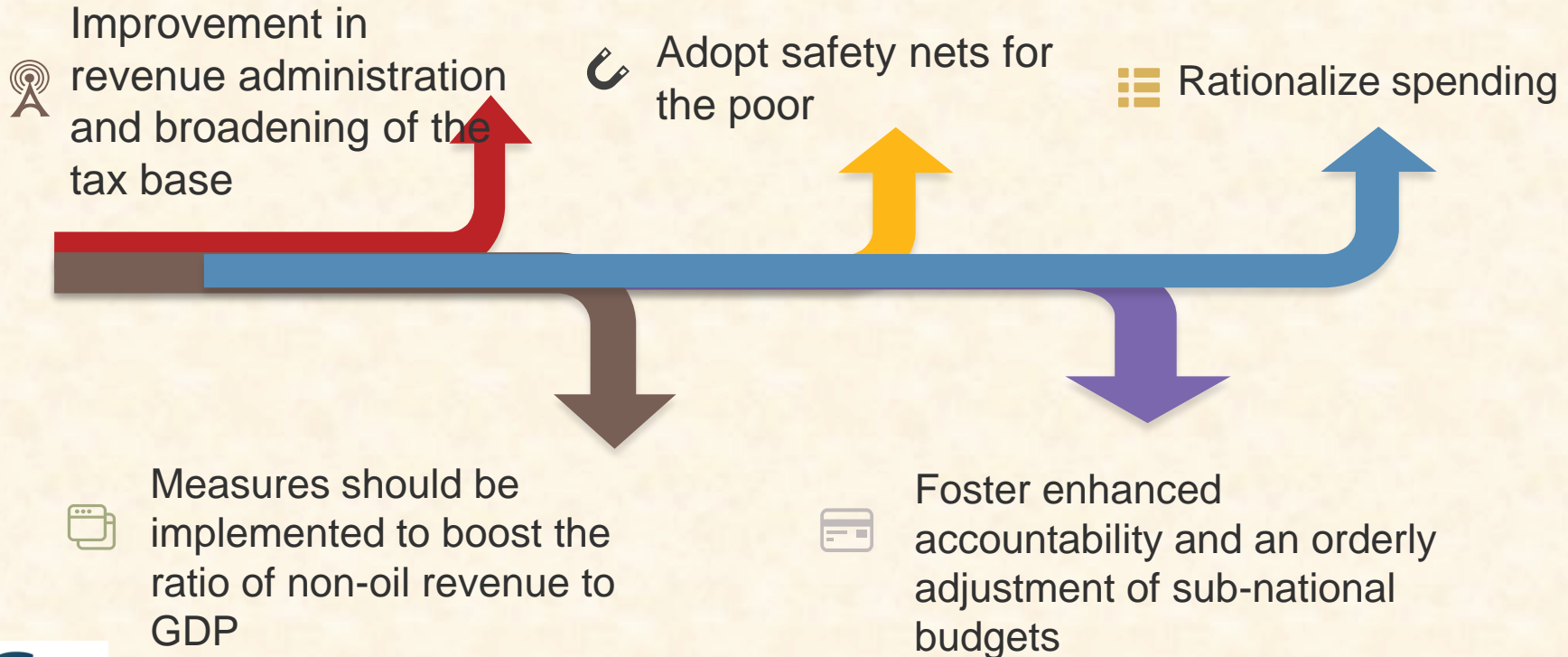
- Seeks to support growth, while preserving external reserves
- 2016 budget focuses more on capital investment while increasing the allocation for a social safety net
- CBN monetary conditions to ease

Cocktail of Policies

- Fiscal discipline
- Reduce external imbalances
- Further improve efficiency of the banking sector
- Strong implementation of structural reforms that will enhance competitiveness and foster inclusive growth

IMF Article IV - Options

Establishing medium-term policy goals that support fiscal sustainability is a priority



IMF Article IV - Options

Eliminating macroeconomic imbalances and achieving sustained private sector-led growth requires a renewed focus on ensuring the competitiveness of the economy



IMF Article IV - Options

Steadfast implementation of structural reforms



Adopt a sound Petroleum Industry Bill, including the application of the Anti-Money Laundering/Combating the Financing of Terrorism framework



Emphasis should be on doing “more with less” to improve the efficiency of public sector service delivery



Reduce business environment costs

IMF Article IV – Key Risks

- Lower-than-budgeted oil prices
- Further deterioration in finances of State and Local Governments
- Shortfalls in non-oil revenues
- Resurgence in security concerns

Government's Agenda- Focused on Ending Corruption

Explicit Personal Criminal Behavior

- Embezzlement, contract fraud, influence peddling and theft of public assets
- Government is focused on solving these using law enforcement organizations- EFCC, NPF, ICPC
- Growing inter-agency cooperation with external partners

Government's Agenda- Focused on Ending Corruption

Structurally Incentivized Poor Behavior

Manifests in 3 ways:

- ❑ Rent seeking structures and barriers to entry
- ❑ Flawed systems, institutions and processes
- ❑ Government yet to address structures that promote corrupt behavior
- ❑ Need to place strong emphasis on removing distortions to economic behavior or risk more crisis
- ❑ Extortion rackets and influence peddling
- ❑ Exchange rate abuse due to over valued currency

Policy Thrust To Curb Corruption: Identifying Bi-dimensional Corruption

- A – Financially and greed induced criminal behavior
- B – Structurally incentivized corruption
- The Buhari team has focused on A, and have failed to identify and isolate B
- Has spent N27.7bn on fighting corruption which has become an epidemic

Policy Thrust To Curb Corruption: Identifying Bi-dimensional Corruption

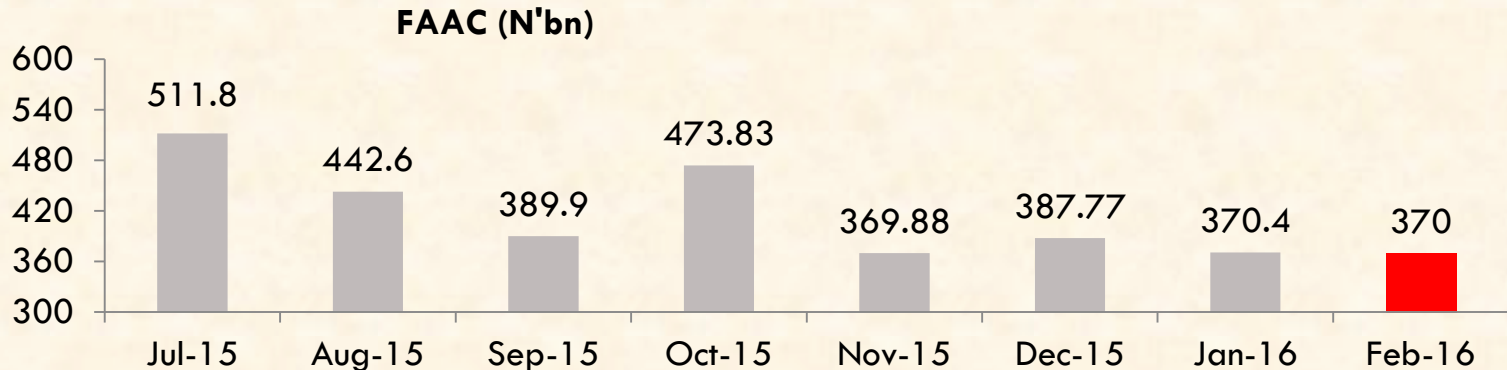
- A: explicit greed driven criminal behavior
 - Dasukigate
 - Pension scams
 - Outright theft
 - State government looting



Business Proxies

FAAC Allocation to Remain Low

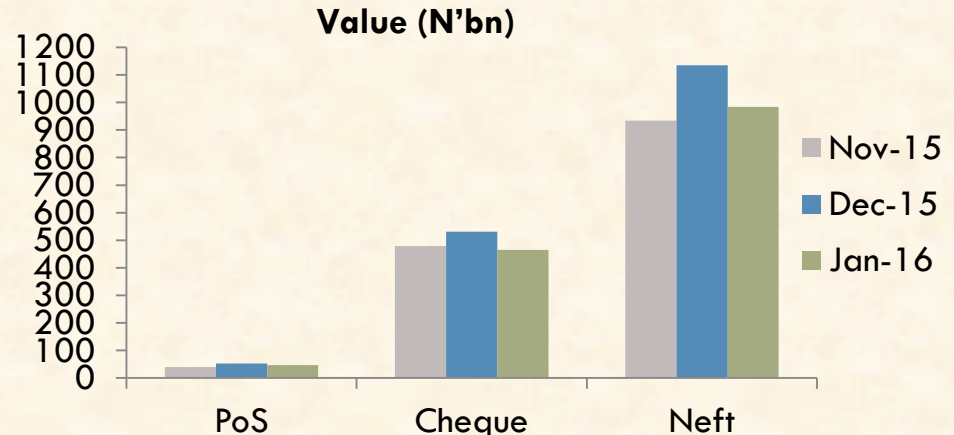
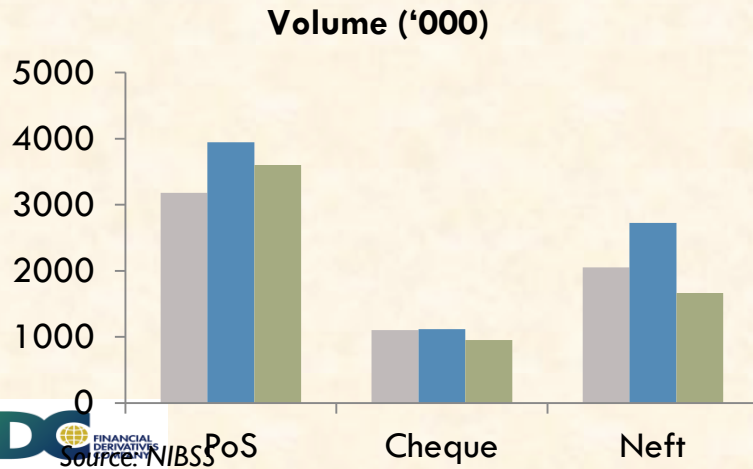
- FAAC allocation will likely remain the same in February at N370bn
- Depending on whether there will be an adoption of a two tier exchange rate system
- No significant improvement in oil production



Source: FME, FDC Research

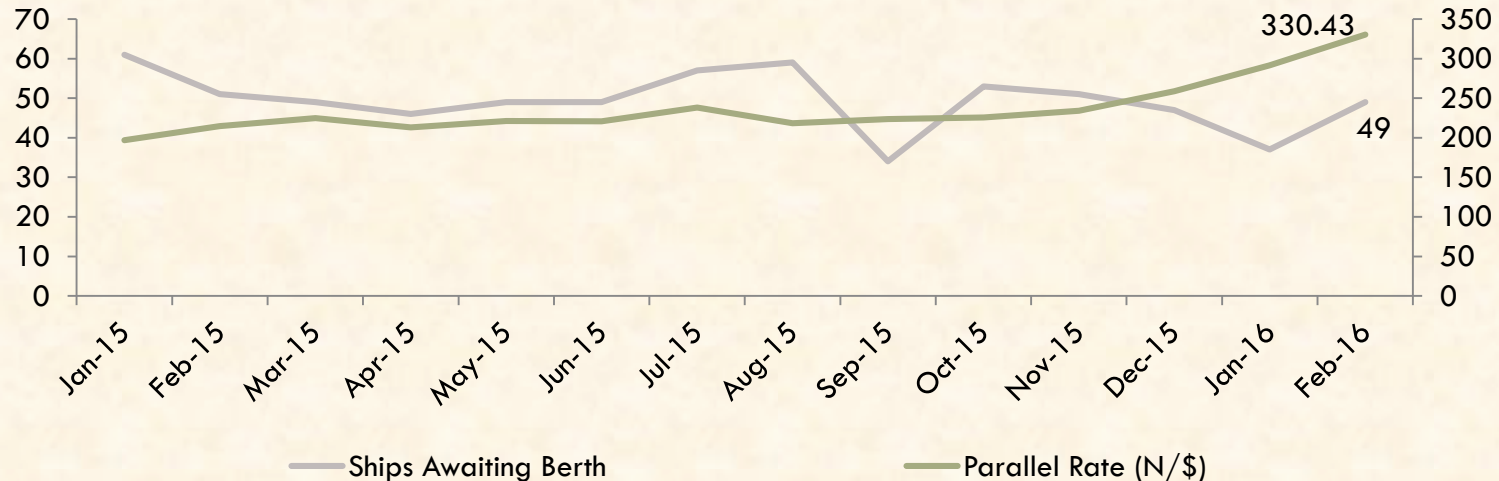
Volume and Value of Transactions Decline

- Transactions volume and value expected to decline further due to reduced trade activities
- Job cuts: 23, 846 ghost workers removed from payroll, BVN, forex restrictions, general economic slowdown



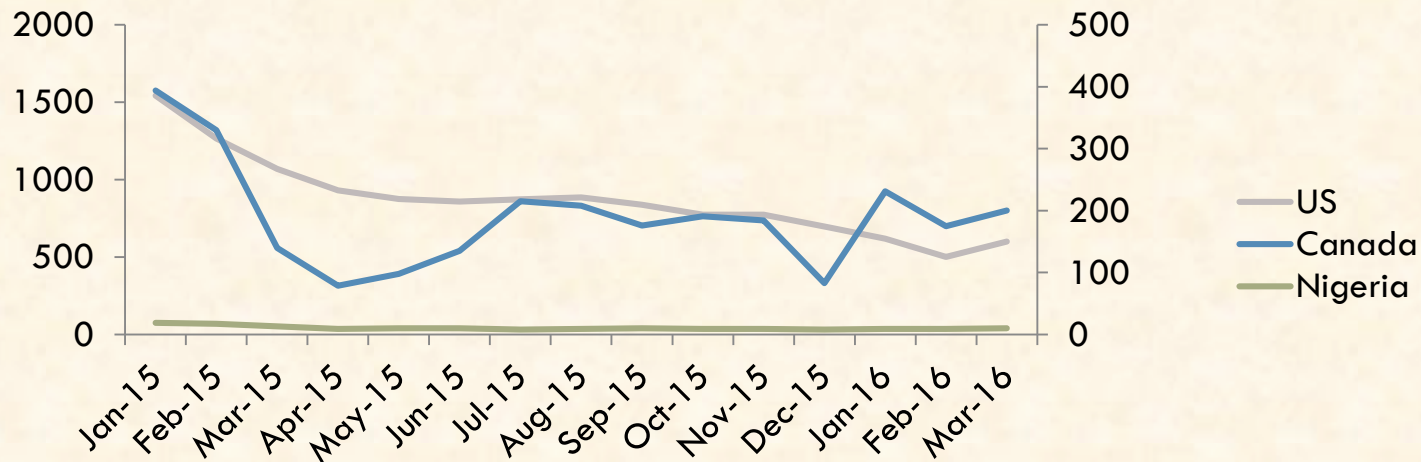
Ships Awaiting Berth Down

- Ships awaiting berth will hover around 45
 - ▣ Below 2014's average of 70 and 2013's average of 94
- Forex scarcity and naira depreciation will continue to hurt imports



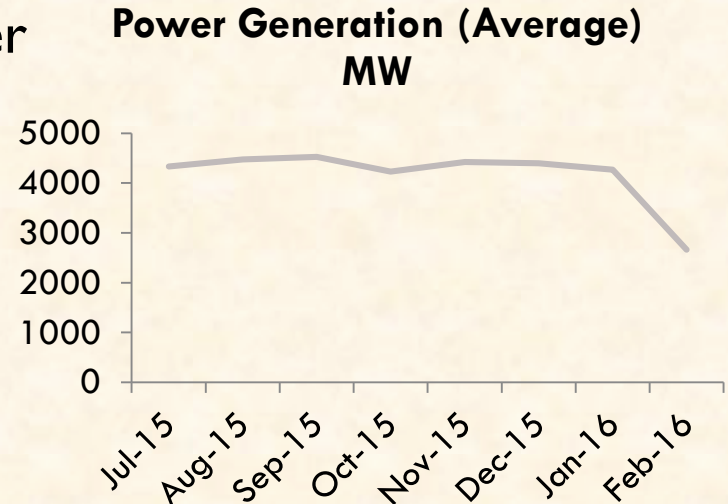
Rig Count Set to Increase

- Nigeria's rig count may spike slightly
 - If oil prices rise is sustained
 - Payment of cash calls arrears



Power Generation to Improve Slightly

- Power output from the national grid expected to bounce back to 4,000MW
 - From 2,665MW in February
- Improved rainfall will increase hydropower generation
- Consumption will fall with lower temperatures in April



Source: Nigeria Power Reform



Supporting The Economy In Tough Times?

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Retail Industry

Domestic Retail Industry

- Retail activities, which slowed in Q1, will continue
- Retailers are pushing up prices towards resistance level
- Fast food chains are reporting 20% cuts in sales nationwide
- 30% in Abuja and 15% in Lagos
- Cost pressures will persist with forex scarcity and naira weakness

Domestic Retail Industry

- Retailers are split between the credit & forex rich and others
- Big difference between the inventory levels
- Restocking is a major problem
- There is a struggle to pay rent
- Retail industry will be split between:
 - Those who outsource purchasing

Least Favorable Markets for Retailers to Operate

- Nigeria is almost the least favored for retailers due to:
 - Poor infrastructure, restrictions on trade, lack of ease in doing business

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
41	Vietnam	44	35	39	41	35
42	Indonesia	34	39	43	34	43
43	India	36	37	33	47	37
44	Uruguay	37	43	41	50	16
45	Russia	39	49	32	43	47
46	Pakistan	47	38	42	45	48
47	Paraguay	50	47	49	35	49
48	Argentina	48	50	40	48	44
49	Nigeria	49	48	50	46	45
50	Egypt	46	46	47	49	46

Most Favorable Markets for Retailers to Operate

- Hong Kong and Singapore are the most favored for retailers
 - Fewer restrictions on trade, ease of doing business

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
3	USA	13	7	1	8	4
4	Japan	8	1	4	7	7
5	UK	18	6	2	6	6
6	Canada	10	9	9	10	3
7	Germany	5	2	6	13	11
8	UAE	3	11	11	3	9
9	Netherlands	6	5	19	14	8
10	Sweden	12	8	14	11	10

Domestic Retail Industry

- ❑ More restaurants will offer limited menus
- ❑ KFC has reportedly stopped selling French fries: cannot import potatoes
- ❑ Bleak outlook for consumer disposable income
- ❑ Lifestyle adjustment: consumers will focus on necessities (price inelastic)
- ❑ Panic buying: middle and high income consumers will stock up before stores run out of goods
- ❑ Shopping mall traffic to decline until Easter break
- ❑ Prices of goods will spike further due to shortage

Retail Industry in February

- Prices of imported goods spike due to naira depreciation

Item	Old Price	New Price	% Change
Rice (50kg)	₦12,000	₦13,500	12.5%
Titus Sardine (125g)	₦150	₦165	10%
Heinz Baked Beans (200g)	₦199	₦210	5.5%
Samsung Galaxy A5 (A500)	₦61,000	₦86,000	40.98%
Samsung Galaxy A8 (A800)	₦90,000	₦127,000	41.11%

Retail Industry in February

- Prices of some local goods have also increased

Item	Old Price	New Price	% Change
Carton of Indomie (Small)	₦1,300	₦1,800	38.5%
Garri (50kg)	₦3,500	₦9,000	157.1%
Maize (50kg)	₦3,500	₦8,200	134.3%
Peak Milk (900g)	₦2,000	₦2,140	7%
Loaf of Sliced Bread	₦220	₦270	22.7%
Bag of Sachet Water	₦70	₦150	114.3%



REAL ESTATE INDUSTRY

Real Estate



- Price of building materials spike due to Forex scarcity and restrictions
- Replacement cost would be higher
- Some landlords will continue to use interbank rate in order to retain tenants



- Rent can also be transferred between domiciliary accounts to avoid exchange rate conversion
- Lower disposable income means low demand

Real Estate

- Anti money laundering activity affecting the real estate market
 - Many of the suspects are returning properties to government
 - EFCC confiscating properties
 - Many properties are tagged as under investigation
 - There is now a flight to quality in Ikoyi and Victoria Island

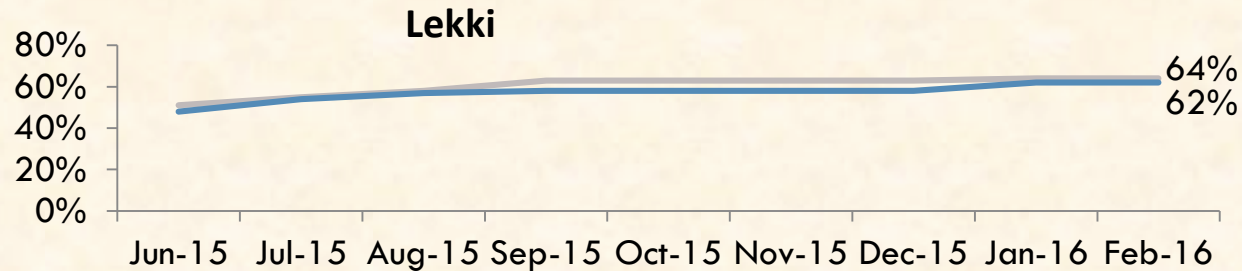
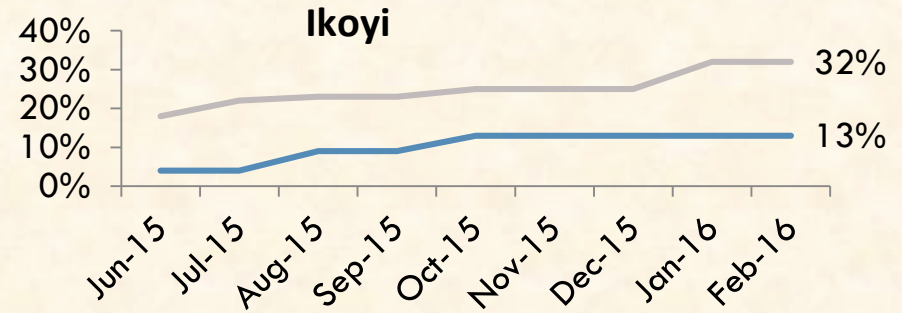
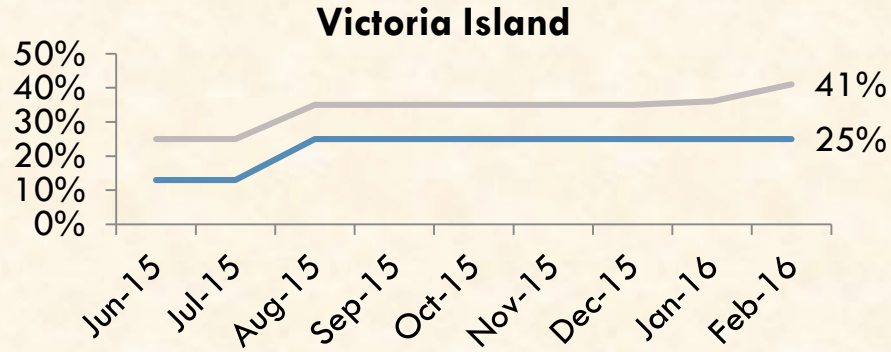
Real Estate

- Tenants are expressing preference for mixed use developments
 - ▣ Shops, offices and residential complexes
- A lot of abandoned projects and properties in Lagos and Abuja
- Large scale construction projects will remain at a standstill until budget is approved

Real Estate

- Vacancy factor up across V.Island, Ikoyi and Lekki
 - Especially in Agungi, Bourdillon, Oniru, Bishop Aboyade Cole
- Residential vacancy factor up in Ikoyi to 32%
 - From 25% in previous month
- Residential vacancy factor in Victoria Island up 41%
 - From 36% in previous month
- If headwinds persist, prices may decline

Vacancy Factor Up



— Residential Vacancy Factor

— Commercial Vacancy Factor



AVIATION UPDATE


Global Aviation Update




- ⊕ □ Global airline share prices fell by 10.4% in January
- ⊕ □ Global air passenger traffic grew by 6.5% in 2015
- ⊕ □ Crude oil price dropped to a 12 year low in January before picking up in February
 - The industry's jet fuel bill is projected to decline by \$12 billion in 2016
- ⊕ □ Global air fares down by 5% in 2015 due to lower oil price
 - However, air fares in Nigeria are on the increase due to FOREX shortages

Domestic Aviation update



 Nigeria and Qatar sign bilateral air service agreement

 National carrier

- ❑ Management contract with Qatar airways may be on the cards
- ❑ Consolidation amongst domestic airlines imperative
- ❑ Government and private equity partnership
- ❑ AMCON puts Aero contractors airline into receivership

Aviation Industry: Challenges



Nigeria is now classified as a blocked funds country according to IATA

Backlog of airline ticket sales in the last 8 months estimated at \$700 million



FOREX shortage leads airlines to make drastic decisions

- Change in airline tickets pricing rates (Currently at N200/\$)



Stakeholder Response: Airlines

- Airlines now buying blended funds (parallel and official) as a form of hedging against FOREX devaluation
 - A case where the airline buys FOREX from both the CBN and oil companies
 - This is not allowed
- Capacity and frequency reduction
- Price discrimination as the new pricing strategy
- Creating a new booking profile from April to Oct.

Stakeholder Response: Airlines

- B/A has phased out the Boeing 747 on the Lagos route
- It now uses a Boeing 777 effectively reducing capacity by 35%
- The reduction in the seat configuration is as follows:

Seats	747	777	Capacity Change
First Class	14	14	-
Club World	52	48	-7.69%
World Traveller Plus	36	40	+11.11%
World Traveller	243	122	-49.79%
Total	345	224	-35.07%

Stakeholder Response: Airlines

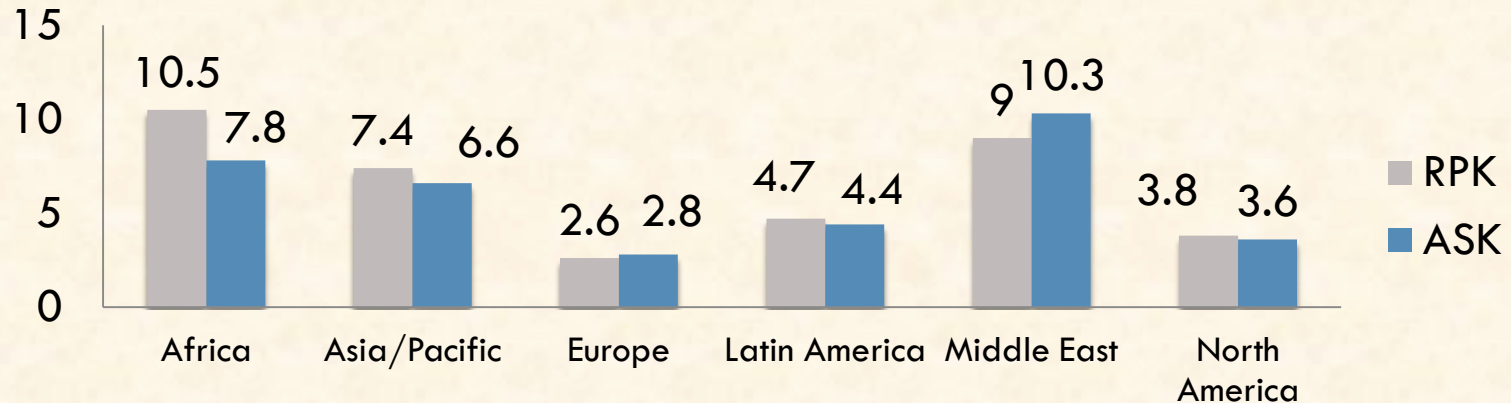
- Virgin Atlantic reduced airline capacity from mid-January
 - Aircraft changed from A340-600 to A330-300
 - Increased focus on premium economy class in terms of upgrades and promotions

Seats	A340-600	A330-300	Capacity Change
Upper class	45	33	-27%
Premium economy	38	48	+26%
Economy	233	185	-21%
Total	316	266	-16%

Passenger Traffic Outweighs Capacity Growth

- In Africa, passenger traffic grew by 10.5% while capacity grew by 7.8% in Dec. 2015

Capacity volume VS passenger traffic (%)



RPK: Revenue-passenger-kilometers; ASK: Available-seats-kilometers

Source: IATA

Stakeholder Response: Airlines



- Ethiopian airlines reported a profit of \$165.4m
- The only profitable carrier in SSA
- Ethiopian airlines and Emirates maintain current load and passenger capacity
 - A tactic to maintain market share
- Delta airline engage in sporadic reduction of frequency
 - Reduced flights to 4 per week in March based on supply expectations
- British airways has commenced capacity cuts from 1st of March 2016

Stakeholder Response: Consumers

Passenger load factor has reduced



Leisure travel has reduced

- ✓ Opportunity cost of leisure routes rises
- ✓ Shift to more business-oriented routes

More corporate officials fly, as businesses bear the cost

- ✓ However, oil and gas companies cut travel by 30-50%
- ✓ Reconfiguration of class of business travel from business class down to premium class

Cheaper upgrade to business class at the airport

- ✓ More promos in business class

Domestic Outlook (1 / 2)

- Airlines will continue to be exposed to currency volatility if a devaluation does not occur
- Airlines to find new ways to adapt to the recent challenges
 - ▣ Ticket price to increase further with alternative FOREX sourcing
 - ▣ Further reduction in equipment capacity to break even
 - ▣ Change in the frequency and routes of travel

Domestic Outlook (2/2)

- Continued pressure on the exchange rate will reduce the aviation market in more ways than airline capacity
 - Likely reduce the profitability of the airline industry
 - Substitute airlines like Arik, Qatar, Etihad and Kenya Airways will benefit from capacity reduction

Steals and Deals

- Early bird Promo with Lufthansa from Lagos

Destination	Economy(\$)	Business (\$)	Premium Economy (\$)
New York	1217	4134	2352
Houston	1942	5715	2644
Atlanta	2012	5890	2733
Dublin	867	2866	1053
Birmingham	977	3074	1267
Geneva	920*	3084	1067
London	816	2997	1295

*- Flight from Abuja

A The Address Homes

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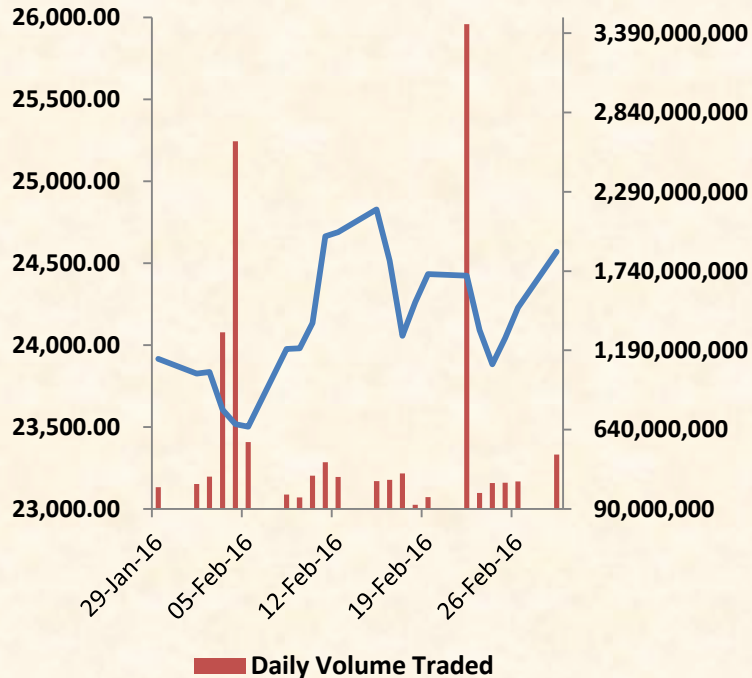
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STOCK MARKET

NSEASI February 2016 ... Is the Worst Over??

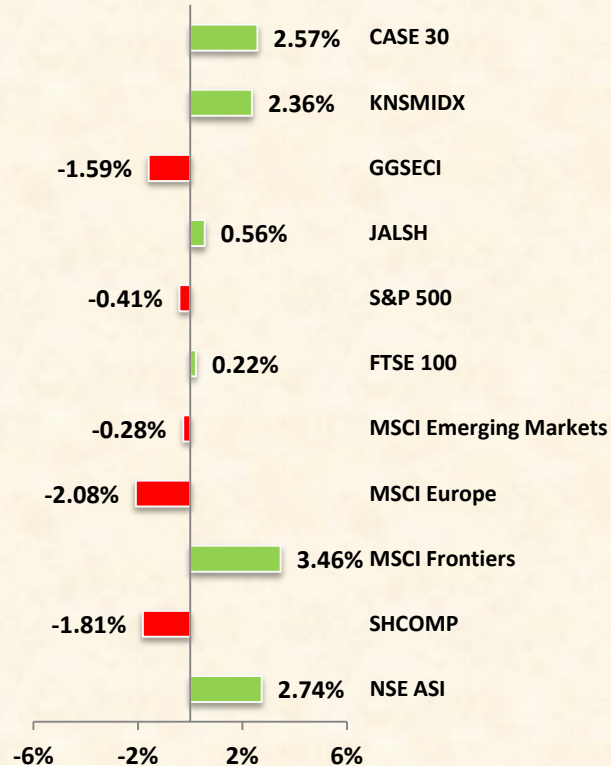
NSE ASI February 2016



- NSE ASI increased by 2.74% during the month
- Bringing YTD return of the index to (14.22%)
 - Translates to a loss of 37.33% in dollar terms
- Market capitalization increased by 3.17% to N8.45trn
- The average daily turnover increased by 32.86% from N2.79bn
- Average market P.E ratio decreased to 7.75x from 8x

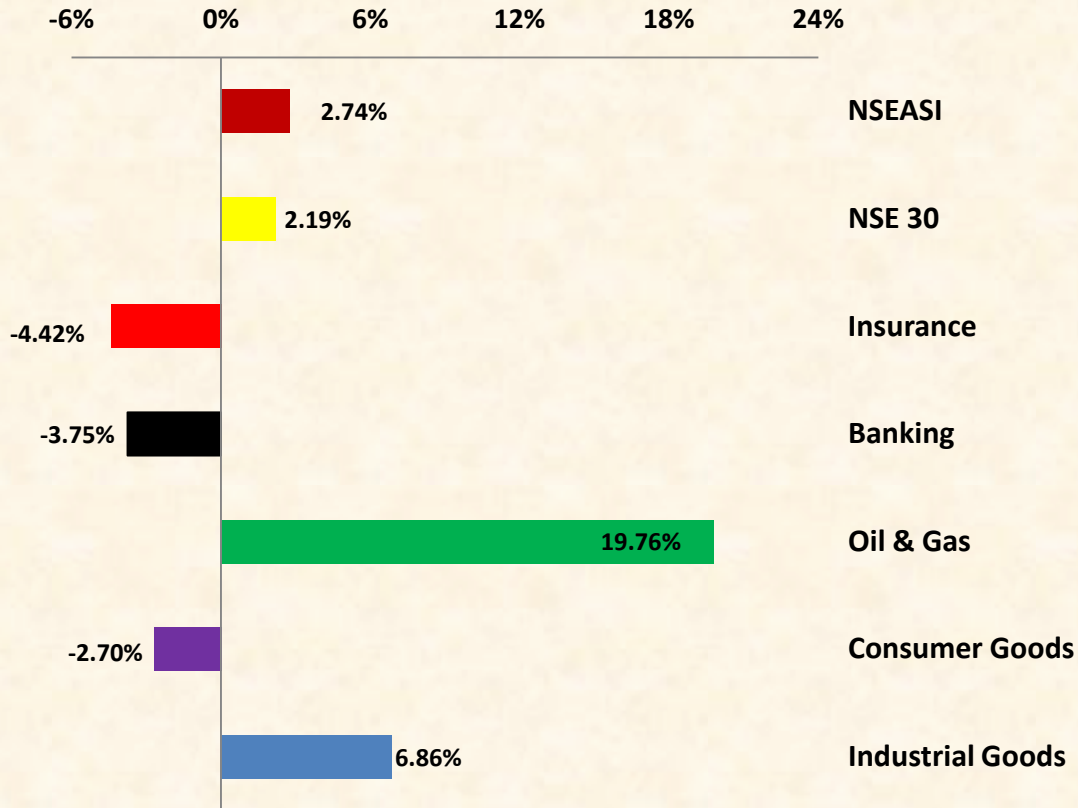
Global Market Outlook – Uncertainty Lingers

Global Indices Feb 2016



- The global equities index to continue in the downward trend
 - MSCI World Index declined by 0.96% m-o-m in February
- Weak earnings expectation and concerns about the slowing Chinese market
- Foreign exchange volatility may weigh on emerging markets
- MSCI emerging markets index likely to shed about 3% in March on weak earnings season

Sectoral Performance ... February 2016



Sectoral Performance ... February 2016

- The NSE banking index down by 3.75% to 229.92
 - FBNH and FCMB issued profit warning
- Consumer goods space under pressure amid concerns of weak macroeconomic environment, currency misalignment and disposal income pressure
 - Dangote Sugar Plc (13.6%), Northern Nigerian Flourmill (14%) and Unilever Plc (17.70%) amongst others took some significant beating from investors
- Renewed investor interest in oil and gas stocks, driven by the marginal recovery in oil price to \$36pb levels
 - Led by Seplat, Forte and Mobil that gained 79.7%, 14.8% and 11.7% respectively
 - Sharp recovery by Seplat was driven by the favorable ruling on the OML 53 and 55 fields
 - Impressive 2015 earnings reported by Forte oil

Outlook: Earnings Bell Rings

- Earnings season commences in March
- Unimpressive full year earnings anticipated across sectors
- Economic headwinds in 2015 to weigh on corporate performances
 - Sluggish growth and exchange rate uncertainty
- NSEASI to trade lower between 23,000 – 24,000

Outlook: Earnings Bell Rings

- More surprising results expected from Lag cap stocks, precisely banks
- Market activity is likely to pick up, albeit marginal
 - Investors to take position in dividend paying stocks
- Investors should certainly expect volatility, however, long term investors could see some value at current levels

Currency Adjustment....Game Changer?

- Next MPC meeting is slated for March 21 -22
 - Currency adjustment is unlikely
 - Denial and political consideration to drive decision
- Foreign portfolio investors remain on the side-lines
 - Exchange controls and volatility paint hazy outlook

Currency Adjustment....Game Changer?

- FPI down to N17.04bn in December lower than N31.87bn in November 2015
 - ▣ Below N71.14bn in the same period of 2014
- Fixing the exchange rate issue will turn the tide
 - ▣ Low prices of stocks are good entry points for FPI

Brewing

- Beer market continues to be negatively affected by economic slowdown
- Disposable income decline will lead to brand switching
- Price elasticity of demand higher at the premium segment
- Total beer market growth has slowed to 0.20% in December 2015
 - Down from 8% in the previous year

Brewing

- We are expecting further down trading in March and Q2
- The value segment is growing at the expense of premium beers +5%
- The key beneficiaries are Hero, Dubic and Trophy brands
 - ▣ All at the low price point of N100
- The beer market for 2016 will be driven mainly by value and low price products

Brewing

- Also growing will be the low sugar/fat content products
- Anti-obesity sentiment is growing in the market
- In the malt market, there will be another sharp decline (-12%)
- Volume is mainly affected by public servants' salary arrears

Brewing

- The situation will be worse in states where arrears are chronic
- More serious down trading in malt than beer
- Carbonated drinks are facing a major hit
- Decline in mainstream high, limited pick up in the low sugar brands

Oil and Gas Downstream

- Oil and gas sector index to trade in the negative territory
 - FX scarcity to impact negatively on revenue
 - Unimpressive FY'15 corporate earnings to dampen investor sentiment
- Profit taking most likely on Seplat which gained 79.9% in February
- Sector PE to decline from 19.05x to 17x

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2016 OPEN SEMINARS (February to July)



ACCOUNTING, FINANCE & ECONOMICS

Accounting & Finance for Non-Finance Executives	May 16 - 20
Financial Modeling	July 18 - 22



GENERAL MANAGEMENT

Managing Compliance and Legal Risk	May 23 - 25
Stepping up to Management	June 28 - 29
Managing People for Strategic Advantage	July 4 - 6



MARKETING AND SALES MANAGEMENT

Digital Marketing	April 11 - 13
Outstanding Customer Relationship	May 3 - 4
Essentials of Sales and Marketing	July 4 - 6
Strategic Account Management	July 26 - 28



OPERATIONS & MANAGEMENT INFORMATION SYSTEMS

Smart Business Decisions: The power of data analysis	April 18 - 22
Strategic Procurement/Contract Management	May 3 - 5
Developing Analytical Competencies for Managing Operations	June 20 - 24



PERSONAL LEADERSHIP & HUMAN RESOURCES MANAGEMENT

Building and Leading the 21st Century Team	March 21-23
Negotiation Skills & Tools	April 26 - 28
Leading with Cultural Intelligence	May 3 - 4
Mastering Human Resource Management	June 20 - 24
Improving your Personal Effectiveness	June 28 - 29
Legal Issues in HRM	June 28 - 30
Advanced HR Management	July 22 - Aug 26



STRATEGY, INNOVATION & GOVERNANCE

Sustainability Workshop for NGOs	February 23 - 24
Sustainability Reporting	March 21 - 22
Mastering Competitive Strategy and Blue Ocean Strategy	May 9 - 13
Leading a Sustainable Business	May 16 - 17 (Lagos) June 15 - 17 (Edinburgh)
Driving Strategic Innovation and Business Development	July 4 - 6

GENERAL INFO

PROGRAMME VENUE:	TIME:
Km 22, Lekki-Epe Expressway, Ajah, Lagos	9.00 a.m. - 5.00 p.m.

PRIOR REGISTRATION is mandatory to secure a place on the seminar.

RESERVATIONS / ADDITIONAL INFORMATION	Ope Oteri 0708 007 0553 / 0802 478 3267 ooteri@lbs.edu.ng
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POLITICAL RISK ANALYSIS

Political Risk - Eurasia Group

- Buhari admin. will maintain ad-hoc approach in tackling oil price shock
- Central bank is expected to adopt a new currency band in H1'16
- Senate will pass Budget 2016 by April/May, despite partisan acrimony

Political Risk – Eurasia Group

- Overvalued naira is aligned with the FG's plans to undertake countercyclical fiscal policy
 - Via borrowing & a mooted two-tier exchange rate system
- Buhari admin. will not raise taxes in 2016
 - (VAT at 5% will remain among the lowest in the world)
 - Focus on rigorous tax and regulatory enforcement

Political Risk – Eurasia Group

Key indicators to look out for:

- Scope and timing of a devaluation
- Possible introduction of a two-tier exchange rate system and/or further capital controls
- Passing of budget amid partisan rancor
- Renewed demand for another state bailout package

Political Risk – Eurasia Group

- Passage of the Petroleum Industry Bill (PIB)
- Continued rollout of the Treasury Single Account (TSA)
- Breach of 10% inflation and breach of the 3% deficit target
- The evolution of the security threat from Boko Haram & Niger Delta militants

Consolidating Power ahead of a Backlash

- APC will struggle with consolidating its hold on its members
- The delay in sharing appointments is playing into the hands of the many fifth columnists
- Party leaders' objectives are misaligned with Buhari's ideals and pace
- Internal squabbles and lack of coordination is becoming strategically expensive

Consolidating Power ahead of a Backlash

- The Presidency must differentiate between what is politically important and what is URGENT
- The economic agenda at this point looks disjointed
- Control Risk projects the political costs of economic delays and likely outcomes

Economic Agenda: Most likely scenario

- Average 2016 oil prices achieve the \$38pb budget benchmark
- Government begins promised reforms in oil industry and broader economy
- Amid economic strains, CBN devalues the naira by around 15% in 2016
- Easing pressure on the budget deficit, but increasing popular frustration as prices increase for many basic goods

Economic Agenda: Most likely scenario

- High-level corruption declines as government pursues high profile officials
- The army consolidates gains against Boko Haram in the North, but attacks continue
- Former Niger delta militants & Biafran separatists stages protests and attacks

Economic Agenda: Credible alternative Scenario

- Backlash against Buhari as economic policies fail to adapt to oil prices below the budget benchmark
- Buhari intensifies his anti-graft campaign
- Slow progress in rejuvenating the north hampers fight against Boko Haram
- In the Niger Delta, the militant amnesty ends and is not replaced, driving increased volatility

Economic Agenda: Outlier Scenario

- Oil prices surpass the benchmark by up to \$20pb
- Allowing the government to ramp up infrastructure investment
- Buhari solidifies support in his ruling APC
- Legislation enabling reforms pass swiftly through parliament
- A restructured state oil company begins to increase production and eliminate theft
- Refinery building projects advance
- Spending on public services and job creation dampens simmering discontent in Niger Delta

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A woman in a dark business suit stands in a vast, flat desert landscape, looking through a telescope. She has a shoulder bag and is standing on a small wooden crate. In the background, there are low mountains under a clear sky.

OUTLOOK FOR MARCH

March 2016 Outlook

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- Inflation could come in much higher than consensus at 10.2%
- Q4 GDP will be approximately 2.3%, bringing the 2015 average to 2.86%
- Officially putting Nigeria into stagflation
- The price spike will be temporary because of consumer resistance
- CBN will attempt a multiple exchange rate regime

March 2016 Outlook

128

- But will abandon it very quickly because of widespread abuse
- A new exchange rate band will be adopted
- Supported with additional exchange rate controls
- External reserves depletion will commence as CBN meets L\C arrears
- Budget 2016 will be passed with changed assumptions on the exchange rate

March 2016 Outlook

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- The Nigerian economic team will proceed on a no-deal road show
- Start the process of tapping the Euro bond market
- Bank earnings will be released with anaemic to average performance
- Dividend payouts will disappoint, sending stock prices lower

March 2016 Outlook

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- There will be no new issues during the month because of low stock prices
- Interest rates will spike as the CBN begins to release Forex to banks
- Airline load factors will stay low
- Airlines will cut more frequencies from the Nigerian market

March 2016 Outlook

131

- There will be additional promotional fares while normal fares will increase
- Buhari will make many board appointments to placate political loyalists
- There will be an attempt to outline an economic agenda and strategy

Corporate Humour



132

Television has proved that people will look at anything rather than at each other

Ann Landers

Conversation is when three women stand on the corner talking; Gossip is when one of them leaves

Herb Shriner

Corporate Humour



133

The word duck is 75% obscene

- *Lenny Bruce*

The expression, its a small world is euphemism
for I keep running into people I can't stand

Brock Cohen

Corporate Humour



134

Writing is not a profession, but a vocation of unhappiness

George Simenon

Anything you buy will be on sale next week

Erma Bombeck

Corporate Humour



135

The easier way to find something you have lost is to buy a replacement

Rosenboums Law

An incompetent lawyer can delay a trial for years. A competent lawyer can delay it even longer

Unknown Author

Corporate Humour



136

The slowest drivers in the world are those people who are getting out of a parking space you want to get into

Miles Kinglon

Finding a parking space is like going for a hooker: why pay for one, when if you apply yourself you can get it for free

George Costanza

*Thank
you*



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