10 SNAPSHOTS IN ONE

2017… FROM THE EYES OF THE EXPERTS

January 2017

The official rate of exchange is N305. Is this a realistic rate and when can we expect uninterrupted supply of forex in the market?

B. J. Rewane

The exchange rate of N305/$ is neither a realistic nor an effective price of the currency at this time. This is because you cannot get dollars at this price unconditionally. In the parallel market, the naira is trading at N495/$, whilst transfers are going at N505/$.

Any market structure where the same product is selling at different prices at the same time is described in economics as a price discriminating monopoly market structure. Typically this market is characterized by barriers to entry that allow those with influence or connections to buy in the cheaper market, e.g. N305/$ and sell in the more lucrative market, e.g. N500/$. This is what is probably happening right now (round tripping).

However, before we look at the outlook for the naira in 2017, we need to examine the fundamentals that determine exchange rates. We also have to understand why Nigeria's attempt at unifying its exchange rates has proved abortive so far.

The forex market is a product of policy-making regulatory and market player interaction. Many fundamentals go into the determination of an exchange rate. These include balance of trade, the terms of trade, investment flows and the international competitiveness of the economy. There is also the interest rate/ inflation differential, which impacts the purchasing power parity of the currency.

When a currency is appropriately priced, it will be in equilibrium and will have minimum deviation from the real equilibrium exchange rate path. When you test the Nigerian case against a number of these indicators, it is not far-fetched to see why the Nigerian currency value is misaligned from its monetary policy anchors. It is also clear why there has been a slow but consistent erosion of confidence in the naira.

Rational investors and domestic economic agents always make decisions in their own enlightened self-interest and not because of emotional and irrational considerations. Historically the Nigerian economy, and by implication the naira, has been a beneficiary of oil windfalls and a victim of oil shortfalls. History shows that after a windfall, the naira remains relatively stable for an average of 5-6 years before the next oil shock. Immediately after every shock, the government embarks on adjustment measures including a devaluation. However, since 2008 the shocks have become more frequent and shattering. The time frame of the shortfalls has also been much longer and the impact more devastating.

Outlook for the naira in 2017

The naira under the current market regulatory framework will remain unstable until the market is allowed to operate efficiently. I wish to draw from a paper delivered many years ago by Charles Enoch at a seminar in Abuja. He said that investors were then excited that Nigeria was now willing to establish a unified flexible foreign exchange system that will foster financial market development and global integration. He goes further to point out that the adoption of multiple exchange rates involves the use of different exchange rates for different transactions (as is the practice today, my words).

It usually forms an important component of an interventionist or state led economic development model. The consequences include pervasive state intervention in the economy, financial repression, restrictive trade regimes and closed capital accounts. According to Charles, the benefits of multiple exchange rates are largely illusionary (as can be seen in Nigeria today, again my words). The costs are high in terms of

- Distortionary trade regimes, exchange controls leading to the stunting of the export sector and reduced forex earnings
- Misallocation of resources
- Lower fiscal revenues and a smuggling boom
- Rent seeking activities driven by a complex set of administrative controls e.g. Travelex, BDCs, etc

What next and outlook

For Nigeria to escape from this forex trap, the authorities need to understand that there is a need for a properly functioning market. A well functioning forex market allows the exchange rate to respond to market forces and reduce market distortions. Russia and Kazakhstan recently did this and their currencies sank for a short period and then recovered sharply. On the other hand, Venezuela fell into the trap and has become a basket case. The CBN will need to

- Eliminate or phase out regulations that stifle market activity
- Create a sense of two-way risk in the market
- Reduce its market making role and stop indirect or overt rate determination
- Increase market information on the sources and uses of foreign exchange
- There must be liquidity, transparency and openness
- The CBN as a regulator must be firm in dealing with market infractions

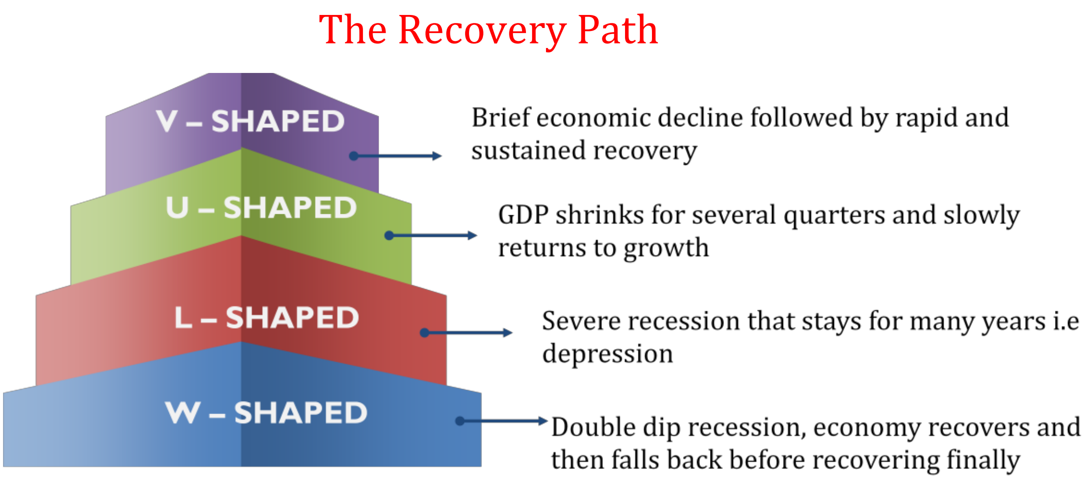
Forex policies usually complement trade and investment policies. The Nigerian government will in 2017 strive towards greater coordination of these policies, and will move from its current bias for a command economy monetary policy towards a mixed economy. I believe that with oil prices at $55pb and production back up to 2mbpd, the naira will slip in the interbank markets to N350-N380/$. It will fall in the parallel market to N520/$ before recovering sharply to N425/$. These projections are based in the assumption that the market will be reformed and that sanity will return to what is now essentially a foreign exchange asylum.

We are in a recession. When do you think the economy will recover and why should I not relocate?

Damilola Akinbami

First, it is important to note that an economic recovery is a process and not an event. Like a patient recuperating from malaria, the symptoms of recovery start to manifest when you are able to tolerate little quantities of food at first before a return to normal consumption.

The arduous journey to recovery may take another 18 months. However, the signs of recovery will start to manifest in 2017. The anticipated recovery will be slow and painful, more of a u-shaped pattern. This implies that we would witness several quarters of contraction in output before slowly returning to positive growth.



The government needs to have some specific steps, address low hanging fruits that will yield quick returns whilst adopting a strategy to achieve medium term goals. The government needs to adopt policies that will directly target consumption and increase spending, whilst attracting new investment to boost growth.

Timing is of the essence because of the lag between implementation and when impact is felt on the economy. Some key policies the government needs to consider/ already in place but yet to be implemented include:

i) Robust government spending financed through debt and concessioning of redundant assets to raise more dollars. ii) Full liberalization of the forex market to resolve the currency misalignment and create liquidity in the forex market by sending the right signal. iii) Lower interest rates to stimulate growth and debt sustainability and iv) Create a more enabling environment that will boost real sector activity and investor confidence in the Nigerian market. Investors are looking for policy direction and consistency.

Concerning relocation, it is easy to understand why this might be the consideration of many Nigerians, after all when the going gets tough, the tough get going. People relocate primarily because they believe the standard of living in other countries is better and there are more opportunities. They consider factors such as the Human Development Index (HDI), income per capita, when determining which cities to relocate to. Some of the most desired countries to relocate to include Canada (HDI: 0.91; income per capita: $50,000), Switzerland (HDI: 0.93; income per capita: $75,550), Singapore (HDI: 0.91; income per capita: $51,855). [1]Nigeria has a HDI of 0.51 and an income per capita of $2,283[2]. Lagos and Abuja are also considered as some of the World's most expensive cities.

The grass is not always greener on the other side; China was not the way it is now 20 years ago. It is also expensive to relocate. So you could decide to relocate and wait for others to do all the work and then return to benefit from the growth or be part of the recovery process.

[1] Source: UN, Trading Economics
[2] Source: EIU December 2016 Report

I invested $100k in the Nigerian stock market in 2015. I exchanged the dollars at N197/$. My portfolio in dollar terms is now less than $40,000. What should or can I do?
Augustine Onwunali

With a current portfolio value of $40,000, a return of 150% is required for the portfolio to return to its original value. This does not take into account the time value of money and inflation. Investing with a portfolio that is 60% under water would require making a decision between losing only 60%, 80% or more. An investor's risk appetite is paramount.

The performance of the stock market doesn't foster such confidence as the NSE All Share Index lost 6.17% in 2016[3]. Deciding on an investment action involves taking into account two kinds of

risk: market risk and currency value risk. Market risk involves the risk of loss in investment value due to price movements. Currency value risk involves foreign exchange risks. Only a highly optimistic investor would expect a quick rebound of the Nigerian bourse. The exit barrier is higher than the entry barrier in the Nigerian stock market. Those already in the stock market could stay and buy some bargain stocks with good fundamentals, thereby reducing their average cost. Such value stocks provide opportunity for an immense upside.

The performance of quoted companies and the stock market in 2017 will depend on several economic factors including inflation, forex volatility, government revenue, budget implementation, and monetary and fiscal policies. Trading pattern will be largely determined by the pace of the economic recovery and the implementation of the budget. Based on economic fundamentals and performances in the last few years, there are certain stocks that could provide significant upside potentials for companies. These stocks include Presco, Okomu, Forte Oil and

[3] NSE Weekly Report

Mobil. They are positioned to take advantage of opportunities in the agriculture, downstream and power sectors. For those not interested any longer in the Nigerian stock market, there are quite a few viable options. They could invest in the fixed income market or other alternative assets such as real estate that could appreciate in the future. This does not remove the foreign exchange risk.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I have a block of flats on Glover road and it has been vacant for over 9 months. When can I expect it to be occupied with an asking rent of $60,000 per annum?

Bolanle Olutosin

The real estate market is a function of the level of economic prosperity in a country. As a lagging economic indicator, it rises and falls after the business cycle. That is why it is not surprising that we have seen a huge leap in the vacancy factor in the upper end of the market. Since 2015, the vacancy factor index has increased by 74% with marginal increases quarter on quarter.

The excess supply of residential properties has created a glut and a supply gap. It is now a buyer's market whereby the bargaining power of buyers has increased significantly at the expense of sellers. Buyers and tenants are now searching for better quality in order to get more bang for the buck. Quality to a buyer means better location, property ambience and facilities.

Glover road, where your property is located, has one of the highest vacancy factors in Ikoyi with

an increasing supply of apartment and office blocks. Recently, the road has undergone a facelift with road repairs and positioning of streetlights. $60,000 asking price considering the devaluation is extremely unrealistic at a time when annual rate of inflation is 18% and the devaluation effect is about 45%. This makes it very difficult for tenants that are likely to occupy such luxury flats to pay.

However, if you can invest some more in making the property look more attractive, chances are that your property will be the first to become occupied. A property will only be occupied if:

- The location is attractive, close to the central business district, water front with an unobstructed view of 180 degrees
- Has outdoor amenities like swimming pool, gym, golf course, tennis lawns
- The is security coverage
- The finishing of the property is improved after the exit of previous tenants
- There is adequate car parks as cars cannot be parked on Glover road

The depreciation of a property is worse when the property is unoccupied therefore it is extremely important to reduce rents in order to increase occupancy.

Nigerian Breweries Plc profitability is declining and Guinness reported a loss. Is this a buying opportunity for brewing stocks or should I just cut my losses?
Nwannebuike Orjiude

Nigeria's total beer production is estimated at 24.57million hectoliters in 2016, a decline of 9% (2.43million liters) when compared with 2015 figure of 27million hectoliters. Nigeria's beer consumption per capita of 12.28 liters is still far off from global average per capita beer consumption of 44 liters per year. 2016's poor performance can be attributed to weak government spend, 66.67% fuel price hike to N145, and a 53.7% currency devaluation to N305.5.

Thus, industry players increased their product prices by an average of ~12% to factor in rising cost. All of these resulted in consumers down-trading to economy beers, changing the dynamics of other categories (Lager beer, Non/Low alcohol beer and Stout) as regards consumption habits, advert spend among others.

	Share Price (N)	YTD Return (%)	EPS	Dividend Gross Yield (%)	P/E	P/E Sales
NB Plc	142	14.74	4.05	3.24	35.06	3.72
Guinness Plc	78.9	-34.14	-3.09	0.63	-	1.15[4]

Given the macroeconomic turbulence, brewery companies such as Nigerian Brewery Plc (NB: NL) and Guinness Plc (Guinness: NL) recorded -65.5% (Q1'16) and -714.6% (Q3'16) decline in

[4] Source: Bloomberg, FDC Think Tank

profitability in their latest results. Consequently, investors have reacted differently to their financial results as evident with the share price of these brewers.

Is this a buying opportunity?

I would argue that it is depends on the class of investor. Nigerian equities market appears to indicate that the worst is behind us, as the market currently trades above its early January 2016 rock bottom of 22,456.32 by ~19.6%. For foreign investors, in the absence of capital controls that have deterred investment, earnings multiples suggest shares of these companies are attractive given while for local investors, an evaluation of the brewery players on a case by case basis will be preferred.

On a company basis, Guinness Plc's acquisition of spirit brand from Diageo will help curb the profitability hemorrhage, as the spirit market is expected to grow at 4% in 2017. While for Nigerian Breweries, the slow rate of profitability, industry dominance (market share of 62.4%) and strong sales will sustain the euphoria surrounding the stock. In spite of the shrinking beer industry, I am of the opinion that many investors will be comfortable adding the brewing stocks to their portfolio.

I hear the NBS saying that year-on-year inflation is 18%. All things I buy are up by more than 50%. Why should I believe the NBS? *Chiamaka Ajaegbu*

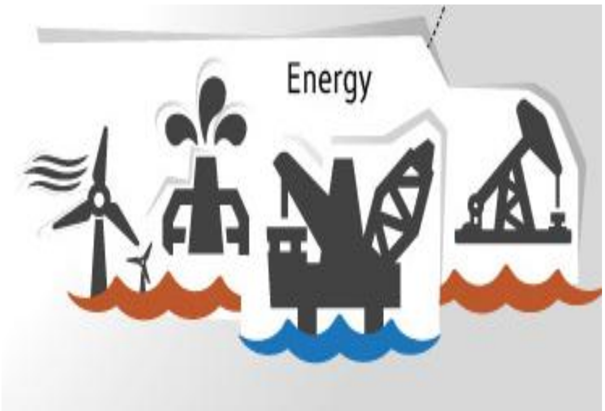
When you go to the markets or social hubs in Lagos, what resonates with all individuals you speak to is that 'everything is costly'. This is why the average Nigerian disputes data published by the NBS and analysts such as the FDC Think Tank. They cannot understand how reports are saying that headline inflation is currently at 18% when the prices of goods such as rice have gone up over 100% in the last year.

This is the divide between anecdotal and empirical evidence. Inflation is the persistent increase in the consumer price level and a varied range of factors such as higher money supply, lower output, high distribution and logistics costs drive it. The NBS, as do most national statistics agencies in the world, uses a methodology that attaches certain weights to goods based on assumptions about the needs and wants of an average Nigerian. Therefore although the prices of some goods in basket have increased by over 100%, their weights in the basket are not high enough to push the inflation rate beyond 18%.

Another aspect of the inflation rate decomposition is the dichotomy between the rural and urban rates of inflation. Urban inflation rate (usually will be rural inflation plus cost of transportation and logistics) outweighs rural inflation due to demand preference differentials between these areas. Urban areas tend to consume more goods with high import content and as such, the effects of the 40% currency devaluation are felt more in this area compared to the rural areas.

Nigeria is an import dependent economy. What is the outlook for commodities and what impact will it have on ordinary people? ***Adaobi Akonobi***

Nigeria is a commodity dependent economy and when there is a boom, the economy thrives, in a burst they suffer. According to the economic complexity index, Nigeria is the 52nd largest importer in the World and commodities like wheat, corn, rice, raw sugarcane, dairy products consume over $22bn of foreign exchange annually. In a critical time like this, the export commodities that are relevant to us are crude oil and cocoa.



Energy prices nearly bottomed out in the first half of 2016, driven by record production from OPEC, non-OPEC and U.S shale producers. The Chinese economy (the 2nd largest consumer of oil in the world) went through a rough path, thus denting oil demand amid supply glut. However, the outlook for oil appears brighter as OPEC and non-OPEC producers agree to stabilize the oil market by cutting output by 1.8mb for the first time in decades. As a result, industry experts predict oil prices will trade in a positive territory in the near term. However, concerns on the re-entry of U.S shale producers back to the oil fields will likely reverse gains.

Cocoa prices traded above $3,000mt in the global market before retreating to a 3 year low. The downward trend was largely attributed to favourable supply outlook in Ivory Coast and Ghana which accounts for two-thirds of global cocoa production. According to the latest EIU report, the global cocoa markets will remain in a deficit, but the production shortfall will narrow significantly. The supply deficit in 2015/16 will shrink to 128,000 tons from 144,000 tons and in 2017/18 will narrow to 12,000 tons.

Ample global supplies and rising inventories continue to weigh on wheat prices. Favourable weather condition in the U.S. Europe, Black Sea region have prompted bumper harvests. The cumulative world stocks ending 2016/17 is expected to rise, up 5% to 237m tons compared to previous year levels. This build up is also largely attributed to surging inventories in China.

Raw sugar prices reached a 4 year high in 2016 as El-Niño weather conditions hindered crop production in major growing countries. The EIU projects that world sugar production will rise by 1% to 168.2m tons in 2016/17 after declining by 3.2% in previous season. The expectation of a rise in sugar production is due to improved production in Brazil, the EU and Russia.

Forex scarcity, naira weakness, unfavorable trade policies such as: higher import tariffs, ban on certain commodities have weighed heavily on domestic commodity prices. We expect prices to remain sticky downwards if the prevailing factors persist.

The latest development on the increased import tariffs on essential commodities like sugar, salt, rice, alcohol, beverages, tobacco and cement will further hike already inflated prices. Traders and manufacturers of these commodities will have to transfer some of these costs to the end users.

Consumer Price Index (CPI) which measures the price change in consumer goods and services including food, energy related cost, clothing has maintained an upward trend, reaching the highest level in 11 years. Despite muted money supply, consumer resistance and declining disposal income, inflationary pressures still persists. This is can be mainly attributed to forex scarcity and currency depreciation

A high inflation environment hurts consumers' purchasing power, because rising prices means consumers will have to spend more the same goods and services. Mounting petrol and utility costs, job losses and low wage growth have left consumers unwilling to spend unless they really need to. Real wage inflation has yet to set in to compensate rising prices and as such consumers continue to adjust their spending habits in accordance to this reality. There has been no adjustment to income, and this has resulted in increased consumer resistance.

Consumers are most sensitive to any price increase, shifting to alternative lower cost products – consumers search for products with good affordable quality. They tend to delay or reduce the purchase of personal and household durable goods such as (clothing, electronics and cars), leisure, entertainment and indulgence or luxury goods e.g. premium products. Consumers also tend to purchase in fewer quantities or adjust to larger size items to avoid frequent trips to the store.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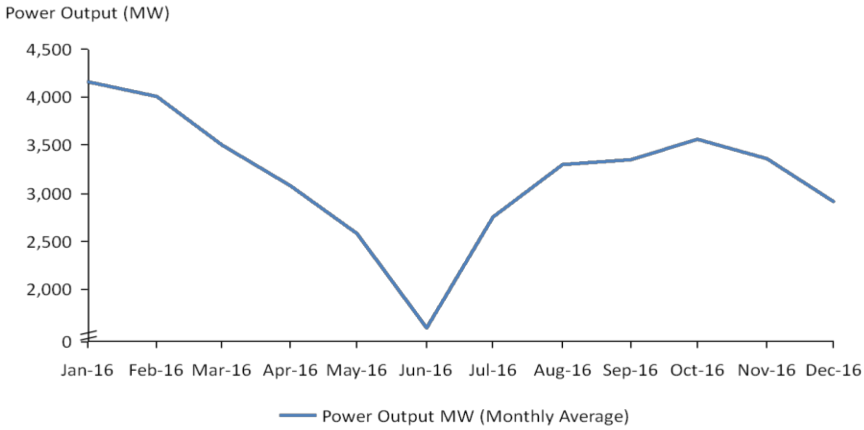
Am I to expect improved power supply in 2017?

Opeyemi Oguntade

The power grid currently has an installed generation capacity of about 12, 500MW of which 10, 500 is generated from gas and 2,000MW from hydro plants. Yet, the power grid currently produces about 2,000MW – 4,000MW and only peaked at 5, 074.7MW before the valentine day massacre in the creeks of the Niger Delta.

Barring the constraints on the generating capacity of the grid, the transmission networks are even worse in terms of transmission capacity. The existing transmission system can only deliver 5,300MW of the installed generating capacity (12,500MW) to the Discos.



[5]

The Discos on the other end of the spectrum are faced with financial constraints. The debt burden of dollar denominated loans used to pay for the acquisition of the distribution companies continues to grow as revenue generated (based on the MYTO) is denominated in naira. Furthermore, the revenue collection has proven difficult as unpaid electricity bills from the MDAs, commercial and residential users continue to mount up (approximately N1trn).

[5] Source: NERC

The trilemma in the power sector requires more than 365 days to be resolved. Investing in infrastructure needed to eliminate constraints and improve generating and transmitting capacity is a starting point. The ownership structure of some of the assets will have to be transferred to investors that are in a better position to manage operations more efficiently. A comprehensive bailout package will be required to stabilize the finances of the distribution companies. Other forms of generating power that are less susceptible to gas pipeline vandalism (such as hydro & solar) should also be explored.

Power supply could improve in 2017. A lion share of the 2017 budget (N529bn) has been allocated the Power, Work & Housing. While the amount is only sufficient enough to cover one of the three units, the Minister is more likely to focus on power, a sector which has a multiplier effect on the productivity (particularly labour productivity) of an economy. Hence, power supply may improve marginally in 2017 but not significantly. The constraints within the sector are too grand to resolve within a fiscal year.

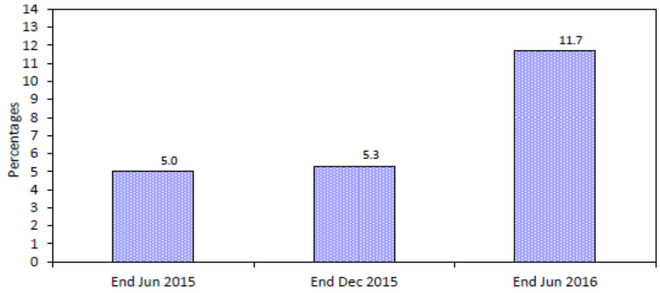
Could financial system stability be under threat? If it is, will AMCON be willing and able to re-enact its role as a stabilizer and toxic asset manager? ***Nosike Nwajide***

Historically, cross-border risks present the most potent threat to banking system stability in Nigeria. Oil price shocks and the ensuing revenue slumps culminate in economic crises which usually spiral into financial crises as cross-border risks begin to crystallize. In 2008, the plunge in oil prices led to a belated currency devaluation. Massive outflow of FPI triggered a capital market bust and many banks were hit by stock market margin calls. By 2009, there was a full-blown banking sector crisis and in 2010, the Asset Management Company of Nigeria (AMCON) was set up to acquire toxic assets and salvage the banking system.

June 2014 ushered in a new era of "lower oil prices". Government revenue has more than halved, the naira has lost over 50% of its value since 2014 while the forex scarcity induced by lower oil receipts has constrained economic activity. Corporate balance sheets have weakened and the asset quality in the banking system has been impacted negatively. Cost structures have remained largely the same while revenue profiles have dwindled. Fitch Ratings estimates that 45% of Nigerian bank loans are in US$. Loans to the oil and gas sector were given when oil prices were well above $100pb. Some banks now have to contend with the inability of their debtors to meet their obligations.

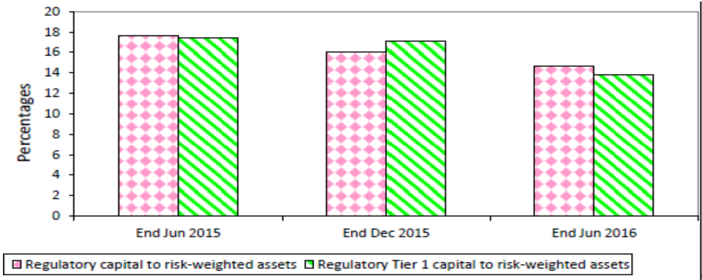
The CBNs has prioritized combating inflation before growth stimulation. It has used high interest rates as its primary tool to alter consumer preference towards savings and thus combating spiraling inflation. The high interest rates – especially Treasury Bills – have further exacerbated the number of Non-Performing Loans (NPLs) in the banking system. According to the CBN, NPLs increased in the first half of 2016 to 11.7% from 5.3% at the end of December 2015 – the CBN's prudential ceiling is 5.0%. Independent estimates reveal that this may be understated.

Non Performing Loans



[6]

Fitch has also raised concerns about weakening capital adequacy ratios for banks. The ratio of regulatory capital to risk weighted assets fell to 15.6% as at June 2016 from 16.1% at December 2015 – a slight decline but still above the regulatory minimum (15% for Tier 1 banks & 10% for Tier 2 banks).



[7]

In the event of a crisis, could the Asset Management Company of Nigeria (AMCON) be called upon again to take on more debts and prevent systemic risks? The answer is NO. AMCON simply lacks the resources neither is it pre-disposed towards an asset detoxification exercise. AMCON's mandate and sunset clause mean it is solely focused on disposing its existing assets at a profit.

Could another Bad Bank – AMCON 2.0 – be set up to carry out another round of toxic asset acquisition? This, according to banking sector sources, would cost the taxpayer between N1.7trn and N2.2trn. Considering this huge cost outlay, it would appear that crisis prevention is far cheaper than crisis resolution.

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[6] Source: CBN
[7] Source: CBN

Advertising and promotion spend is spiking when revenues are under pressure. What can I do to reduce my ad costs and make it more cost effective? *Damilare Adesola*

Trends in the global advertising industry show a steady shift from traditional modes of promotion (e.g. TV and Print Media) to digital advertising. Digital advertising is expected to reach 45% of total advertising share by 2020, compared to 28% in 2014.

Google, the largest online ad provider, earned $19.1 billion in advertising revenue. This accounts for 88% of Alphabet's total revenue in that quarter.

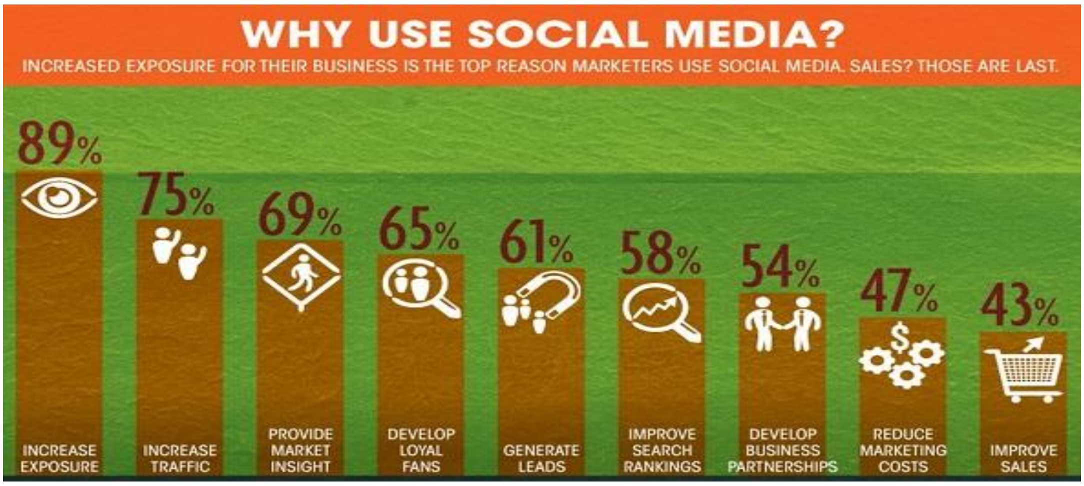
% of total

	2014	2015	2016	2017	2018	2019	2020
TV*	**39.1%**	**37.7%**	**36.8%**	**35.8%**	**34.8%**	**33.7%**	**32.9%**
Digital	**28.3%**	**32.6%**	**35.8%**	**38.4%**	**40.8%**	**43.1%**	**44.9%**
—Mobile	10.9%	17.3%	22.7%	26.2%	28.8%	31.0%	32.9%
Print	**17.4%**	**15.4%**	**13.9%**	**12.9%**	**12.2%**	**11.6%**	**11.1%**
—Newspapers**	9.1%	8.0%	7.2%	6.6%	6.1%	5.7%	5.5%
—Magazines**	8.3%	7.4%	6.8%	6.4%	6.1%	5.8%	5.6%
Radio***	**8.4%**	**7.8%**	**7.4%**	**7.0%**	**6.7%**	**6.4%**	**6.1%**
Out-of-home	**4.0%**	**4.0%**	**3.9%**	**3.8%**	**3.7%**	**3.5%**	**3.4%**
Directories**	**2.8%**	**2.5%**	**2.2%**	**2.0%**	**1.9%**	**1.7%**	**1.6%**

*Note: *excludes digital; **print only, excludes digital; ***excludes off-air radio & digital*
Source: eMarketer, March 2016

The Nigerian market is also reflecting this trend, as newspaper ads are being displaced by online advertising. Current trends show that the most cost-effective means of promoting products online is through programmatic advertising. This type of advertising, provided by YouTube, Google and Facebook, enables advertisers target the right audience of consumers who are most likely to be interested in the products on offer. You can buy ad spaces across multiple sites based on a single customer profile. However, you will be charged in dollars for the services. Given the current shortages, making payments could pose a challenge.

Additionally, you should work to build your social media presence. This is a perfect alternative for products targeted at millennials. Your social media profile is a virtual billboard that informs a large audience about your products, while playing into their subconscious to promote brand awareness and recognition. The most successful companies in the world, such as Apple and Coca Cola have a widespread social media [8]presence.



Demography matters

If you have a much older target market, the traditional modes of advertising remain an effective option. However, success of each mode of advertising varies with location. For example, radio ads are more effective in traffic-prone cities such as Lagos. Some radio stations charge as low as N9, 500 for a one off 30 second-long radio advertisement.

[8] Source: Creately.com

The Abuja airport is scheduled for closure in March. I do a lot of business with the Federal government of Nigeria and I understand I have to fly to Kaduna. Some international airlines have advised that they are closing all Abuja routes as a result. What is your view on this and how should I handle this situation? ***Bolanle Olutosin***

Abuja airport attracts about 25-30% of international traffic with about 8 airlines ranging from the 3 world airline alliances. The closure of the Abuja airport will have a catastrophic effect on the economy, as the airport is hub for government business. In Q3'16, the government contributed about N680 million to GDP. The federal government is extremely important and all the headquarters including the Central Bank, NNPC, and SEC are all in Abuja. Therefore, Abuja is a stop that has to be made if business is to be done in Nigeria. The closure will therefore be very disruptive to many businesses and government activity. The closure of the airport is to allow for the reconstruction of the runway however; a less disruptive decision could have been to build a second runway, as seen in the Lagos airport, before closing the damaged runway.

During the period of the proposed closure, passengers will be diverted to the Kaduna airport and transported 210km from Kaduna to Abuja. Abuja airport currently operates 45 international flights per week and a total of 270 flights in six weeks. Kaduna airport, primarily used for domestic flights, currently operates only 12 domestic flights compared to 812 from Abuja airport. Kaduna airport is expected to handle the traffic despite the fact that the airport does not have the full capacity including the facility and personnel to take on the new traffic load. International airlines, Lufthansa, KLM, British airways, have expressed reservations about flying to Kaduna due to security reasons.

Kaduna poses risks of kidnapping, boko haram, armed robbery and major road accidents. As a result, it is best to avoid travelling to Abuja during this period given the risks involved.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At least 5 companies have reported staggering losses due to exchange rate translation. What is your view on corporate earnings? ***Augustine Onwunali***

The companies that were affected by exchange rate translation losses were mostly multinational companies (MNCs). Nigeria is an import and commodity-dependent economy, and therefore vulnerable to exchange rate volatility. Nigerian corporates that conduct international trade depend on LCs and financing from parent company. Parent company credit is an integral part of financing for MNCs.

Prior to the current forex issue, these companies usually used their profit in netting against forex translation losses. But the significant depreciation of the naira has resulted in monumental forex translation losses that have wiped out earnings. In addition, making sales in naira and having to repay dollar-denominated losses has put margins under pressure. Some of these companies that have suffered from foreign exchange translation losses include Lafarge, Guinness, and Nestle. These losses are not peculiar to companies in the stock market as other companies such as airline have had to bear losses associated with foreign exchange translation.

The exchange rate vulnerability has resulted in an evolution of the cost structure of many Nigerian companies, and those that survive will be those with adequate strategy aimed at ensuring cost efficiency. Forex losses are one-off expenses that can be managed with adequate strategy. If Nigeria transitions into a flexible exchange rate regime, then MNCs will be able to hedge against both commodity and currency risks. MNCs have been able to hedge against commodity risk but the vagaries the Nigerian forex market makes hedging against currency risks intractable. Though dampened consumer demand has affect revenue growth for Nigerian corporate, effective management of forex risks will ensure their survival.