

A green plant with several leaves is growing out of a single puzzle piece that is part of a larger, incomplete puzzle. The puzzle pieces are white with grey outlines, and the background is a light, textured surface.

# **ECONOMIC REFORM**

**Resist Now and Regret Later**

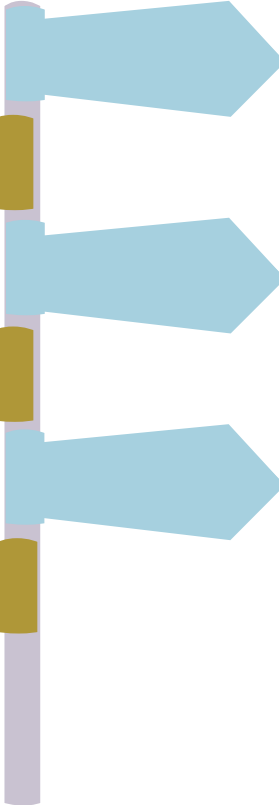
**By Bismarck Rewane**

**Financial Derivatives Company Ltd.**

**February 1<sup>st</sup> , 2017**

# OUTLINE

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Questions that need answers

Global & Regional Markets

Domestic Economy & Policies

Commodities & Business Proxies

Equity Markets

Summary and Risks



# December - January-Highlights

# IN NOVEMBER 2016 – WHAT WE ASKED

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- Will Nigeria accept and adopt an aggressive borrowing plan?
- Will the markets be allowed to be efficient?
- Will Nigeria adopt an accommodative monetary stance?
- Will Nigeria be able to contain and combat or constructively engage the Niger Delta militants?

# HIGHLIGHTS

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- CBN & FBN all report declines in PMI
- CBN PMI declined from 52 in December to 48.2 in January
  - 21 of the 34 sub-sectors surveyed recorded a decline
- Similarly, FBN PMI fell sharply from 60 in December to 46 in January
- Anything below 50 shows contraction in economic activity
- Might suggest that Q4 growth could be anaemic

# HIGHLIGHTS

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- Fitch revised outlook for Lagos to negative
- Had earlier revised Nigeria's outlook to negative
- CBN sells forward contracts of undisclosed amounts (2 to 5 months)
- MPC maintains status quo on all parameters
- Naira traded flat at N495/\$- N498/\$
- Senate accepts N305/\$ exchange rate for the MTEF/FSP
- Oil benchmark increased to \$44.5/barrel

# HIGHLIGHTS

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- N2.32 trillion borrowing plan was approved
- FG to issue \$300mn Diaspora bond in June
- Gross external reserves rises to \$28.9bn
- Primary & OMO T-bills stay above 17% for 180 day paper
- Inflation reaches 18.55%
- NLC is demanding minimum wage of N96,000
- Landing cost of PMS now to N165/litre

# HIGHLIGHTS

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- N150bn paid to oil marketers as bridging payments
- National grid output falls to 2,420MW
- Average opening position of banks in January N101.64bn
- Higher than Q4'16 average of N36.24bn
- The price of diesel nationwide was N260/litre
  - 32.5% above the December cost



# New Global Disorder

# KEY GLOBAL TRENDS IN 2017

Retail sales in commodity dependent countries to suffer

Increased geopolitical tensions and social unrest

China will be a box office

Surge in global arms race

Shale production rising on higher oil prospects and lower production costs

OPEC cuts production to rebalance market

Rising neo-nationalism and protectionist sentiments

Emerging market economic recovery

Greater financial market uncertainty

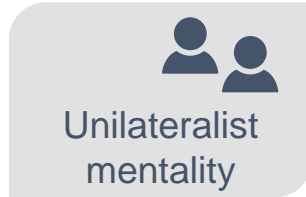
New growth momentum in advanced economies

Greater global connection, telephony and broadband

Commodity market recovery

# NEW GLOBAL DISORDER

Putin and Erdogan style leadership has  
a new friend in Trump



Assumptions of the  
adoption of liberal views  
are gone

Western elite system of globalization  
is being threatened

The rebirth of the **MONROE DOCTRINE**

- Not the first time that the US geopolitical ideology is inward looking
- Monroe in 1823

# TRUMPONOMICS –WHAT HAVE YOU DONE FOR ME LATELY?

- With Trump, you are only as good as your last deal
- Running a nation like the Apprentice reality TV show
- Growing support of protectionist agenda threatens globalization
- Trump cancels US participation in the Trans Pacific Partnership trade deal (TPP)
- White House alludes to the possibility of renegotiating the North American Free Trade Agreement (NAFTA)
- Threat to trade between Mexico, US and Canada
- Speculation of 35% and 45% tariff on Mexico and China

# HARD BREXIT

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- UK defies Brexit concerns and records fastest growth in G7
  - Q4'16 GDP growth of 0.6% and FY'16 of 2%
- 17% fall in the value of the GDP
- Weaker pound expected to increase inflation to 3.1% in 2017
- GDP growth to fall to 1.3% expected in 2017 from 2% last year

# ASIA

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- China economy grew by 6.7% in 2016 down 0.2%
- EIU projects growth of 6.2% in 2017
- Slowdown in China will affect commodity producers in Africa
- Japan's CPI expected to remain far from BOJ's 2% target

# AFRICA IN THE NEW GLOBAL DISORDER

## *AFRICA PRACTICE*

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- Plugging the estimated infrastructure gap of \$90bn will boost tech innovations and investments in South Africa, Kenya & Nigeria
- Signs of divergence evident across Africa's political-economies
- Rwanda, Ethiopia and Cote d'Ivoire all face structural risks in their political systems
- Kenya and Tanzania will place emphasis on industrialisation and diversification to support higher investment, employment and growth

# AFRICA IN THE NEW GLOBAL DISORDER

## *AFRICA PRACTICE*

- Oil-dependent economies like Gabon, Republic of Congo, Angola and Chad will struggle with adjustment policies
- Mozambique will continue to suffer from debt sustainability and vested interests
- Nigeria will be caught between the desire to reform and resistance to change
- Failure to liberalize foreign exchange system or to secure a lasting peace agreement with NDAs in H1'17 could be calamitous
- Growing cracks in the ruling party could form the foundation for fragmentation in the lead-up to the 2019 elections



# SUB-SAHARAN AFRICA: 2017 IN PERSPECTIVE, EIU

## GDP Growth

- Recovery in commodity prices to aid growth
- Projected to grow at 3.3% in 2017 from 1.4% in 2016

## Impact of Brexit

- Limited opportunity to improve trade deals
  - Tourism to suffer slightly
- Decline in overseas development assistance

## Inflation

- To moderate to 11% in 2017 from a 2016 average of 12.3%
  - Ease in local food prices from waning effects of El Nino crisis



## External Shocks Pose Limited Threat to Outlook

- Net oil exporters benefit from higher prices
- Net oil importers likely to feel the pinch
- Improved weather conditions – end to El Nino disruptions

## Trump Uncertainties

- Near term: modest impact on currency and financial markets
- Medium term: reduced focus on supporting civil rights and democracy, reduction in aid flows

## Other Indicators

- Trade balance (US\$bn) : (26.64)
- Current account balance (US\$bn) : (69.52)
- External debt (US\$bn) : 454.3
- Debt-service ratio (%) : 7.7

# IMPACT ON NIGERIA

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- Politically neutral and democratic
- Will not suffer Venezuela effect of a political adversary of the West
- Trump's deal by deal approach will put Nigeria under pressure
- Unappealing (anti-American) deals will be rejected
- Volatility in the oil market likely to weigh on fiscal revenue projections
- Threatening fiscal stimulus packages for economic recovery

## *Africa... United by One Bank*



### *We know our way around finance in Africa*

United Bank for Africa Plc is one of Africa's leading financial Institutions, offering banking services to more than 11 million customers through diverse global channels. With presence in 19 African countries and 3 global financial centres; London, New York and Paris, UBA is connecting people and businesses through retail and corporate banking, innovative cross-border payments and trade finance.



# The Economic Reality

*The Treacherous and Uneven Path towards  
Recovery*

# 2016 WAS A VERY TOUGH YEAR



Negative GDP growth  
(-1.7%)



Currency depreciation  
(IFEM: 305.9 Parallel: 490)



Oil production shortfall  
(1.59mbpd)



Industry ratio of NPL up 30.65%  
(H1 '16) from 5.9% (H2 '15)



40% wiped off All Share  
Index (one of the worst  
performing stock markets in  
2016)



High inflation (18.55%)

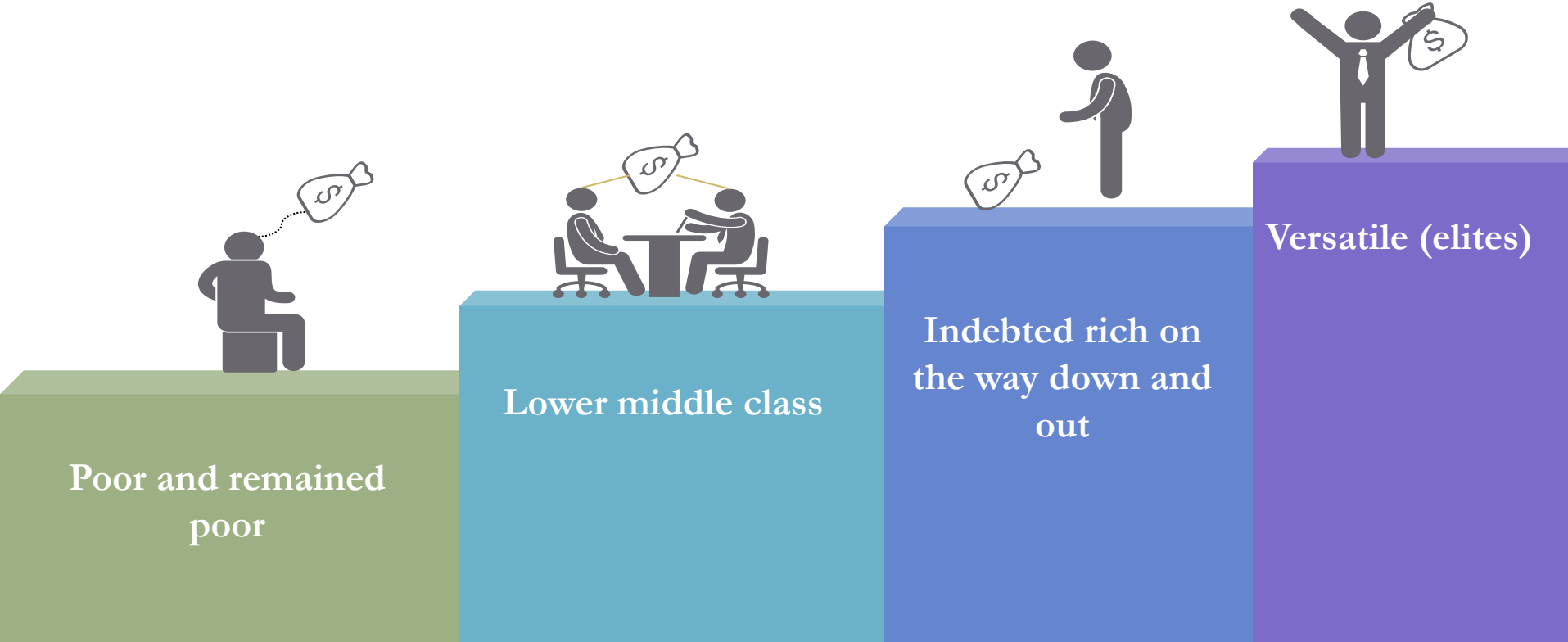


Fuel scarcity &  
subsidy removal

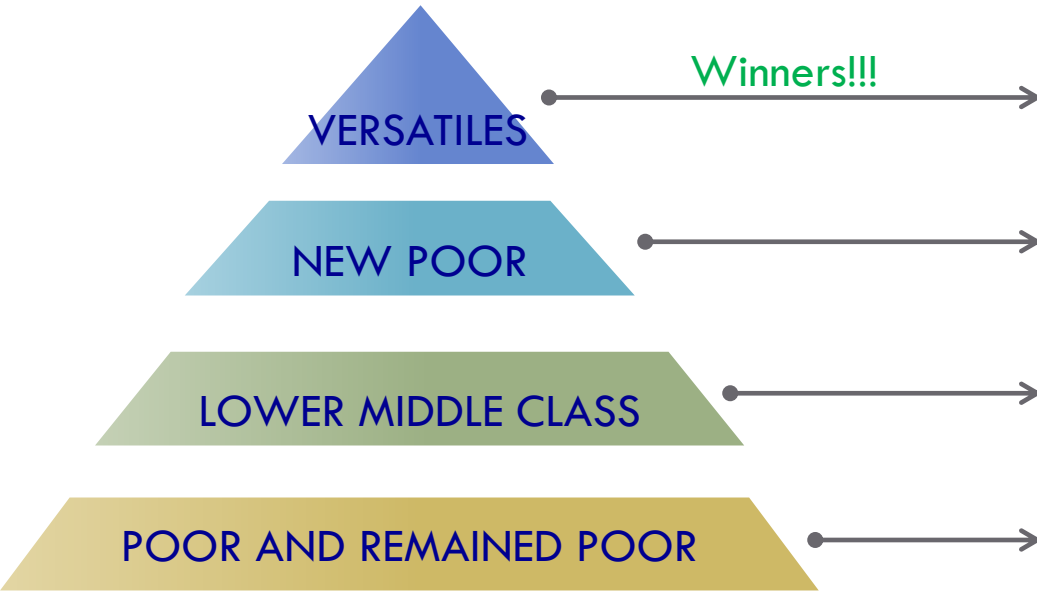


Release of Chibok girls

# ADJUSTMENT IMPACT ON DIFFERENT SUB-GROUPS



# RICH MAN, POOR MAN



- Naira indifferent
- Dollar long
- Consumer driven goods
- Less regime related
  
- Indebted rich on the way down and out
- Dollar illiquid
- Highly regime related
- Assets under water
  
- Income declined by 60%
- Due to inflation and devaluation
- To recover in 2018
  
- No change in situation from economic downturn

Gini coefficient

48.8

Misery Index

32.5

Unemployment

13.9%

# LEADING ECONOMIC INDICATORS

LEI	2011-2015 avg	2016	2017f
<b>GDP growth (%)</b>	4.72	-1.7	0.9
<b>Labour Productivity growth (%)</b>	0.58	-4.1	-1.9
<b>Power (MW) (2014 – 2016)</b>	3421	2920	4500
<b>Oil Price (\$pb; avg)</b>	83.4	44.8	56.5
<b>Oil Production (mbpd)</b>	1.86	1.59	2
<b>Trade Balance (\$bn)</b>	26.8	-6.1	-0.7
<b>Net FDI (\$bn)</b>	3.2	1.6	1.7
<b>External Reserves (\$bn)</b>	29.07 (end of 2015)	25.84	29
<b>Exchange rate (N/\$; year-end)</b>	IFEM: 190.44 Parallel: 226.78	IFEM: 305.9 Parallel: 490	IFEM: 420-450 Parallel: 480-500
<b>External Debt (\$bn)</b>	25.24	33.2	37.2
<b>Inflation (%; year-end)</b>	10.69	18.55	12.5
<b>Terms of Trade</b>	37.12	16.5	18.8



# LEADING ECONOMIC INDICATORS

LEI	2011-2015 avg	2016	2017f
Private consumption (\$ bn)	359.38	339.3	284.8 <sup>^</sup>
Income per capita (\$)	2908	2287	1930 <sup>~</sup>
Budget balance (% of GDP)	-1.2	-2.8	-2.5
Gross fixed investment (\$ bn)	74.3	59.8	49.7
Share of world inward direct investment flows (%)	0.23	0.13	0.13 <sup>*</sup>
Scott-Free Volatility	n/a	20.29	n/a
Nigerian stock market return	6.57	-16.17	5.92
Avg. corporate profitability growth (%)	19.74	-17.4	12.7
Capacity utilization	57.07 (2014 Average)	50.165 (2015 Average)	44.3 (2016 H1)

- <sup>^</sup> to pick up to \$302.4bn in 2018
- <sup>~</sup> to pick up to \$1, 994 in 2018
- <sup>\*</sup> to pick up to 0.18% in 2018

Source: CBN,NBS, EIU, FDC Think Tank

# NIGERIAN ECONOMIC PICTURE

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- Five year averages reveal a country running on empty
- 2016 was a year of reckoning; recession
- 2017: oil to the rescue
- Forex asylum and the limping along

# VESTED INTERESTS VS. NATIONAL INTEREST

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- Driven by low oil production and government revenue
- Economy strangled by pricing distortions in the forex market
- Exacerbated by delayed and inadequate policy decisions
- Inconsistency and political interference in monetary policy environment
- Erosion of investor confidence and dwindling capital inflows

# CHALLENGES

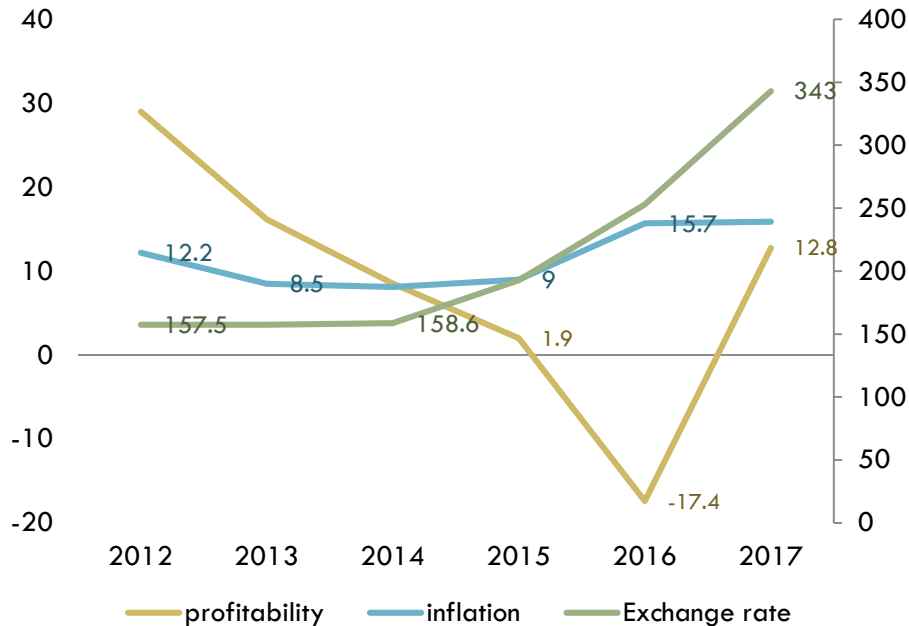
Issues	Remedial steps
Negative economic growth	Maintaining market share & growth turnover
Forex liquidity crisis	Buying dollars at any cost/ blending rates
Consumer down trading	Miniaturizing and small packaging
Cost pressures	Energy saving solutions/ lower distribution costs/effective routes to market
Expanding brand portfolios	Acquisition of companies with narrow portfolios
Interest expense	Borrowing options, increase equity
Forex translation losses	Funds from international partners

# 2016 CORPORATE REVIEW

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- Top 10 listed companies
- Corporate profitability in 2016 declined by 17.4%
- Turnover affected by:
  - Increasing finance costs: average finance cost of top companies has increased by 45%
  - Distribution and logistic costs have grown by 28.6%
  - Forex costs and exchange rate losses
  - Alternative power costs; diesel price is up 22% since January 2016

# 2017 CORPORATE OUTLOOK



Source: FDC Think Tank, Company data, EIU

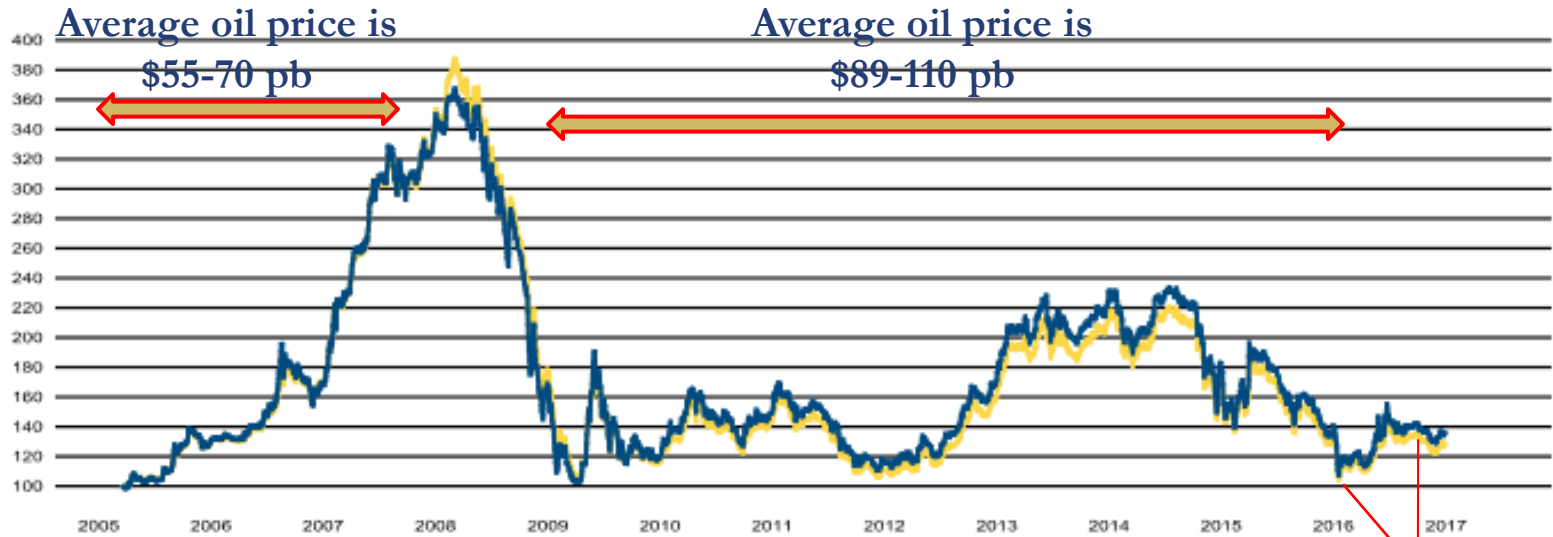
## Key Insights

- Revenue flat
- Profits down
- Margins compressed
- Logistics and distribution costs rocketing
- Higher finance costs and interest rates
- Forex market volatility
- Translation losses
- Alternative energy sources
- Purchasing power erosion

# NIGERIAN STOCK MARKET

- Scottfree index 2016 return = -3.07%
  - Volatility = 20.29%
- The SFNG Blue-Chip 30 Index (USD) = 1.9%
- SFNG Blue-Chip Index (EUR) = -1.13%
- 30 day volatility = 10.75%
- Sharpe ratio = -0.33%
- Trailing P/E = 6.62%
- Dividend yield = 6.38%
- Full market cap = N8.27trn, US\$26.26bn

# STOCK MARKET PERFORMANCE – NIGERIA YET TO RECOVER



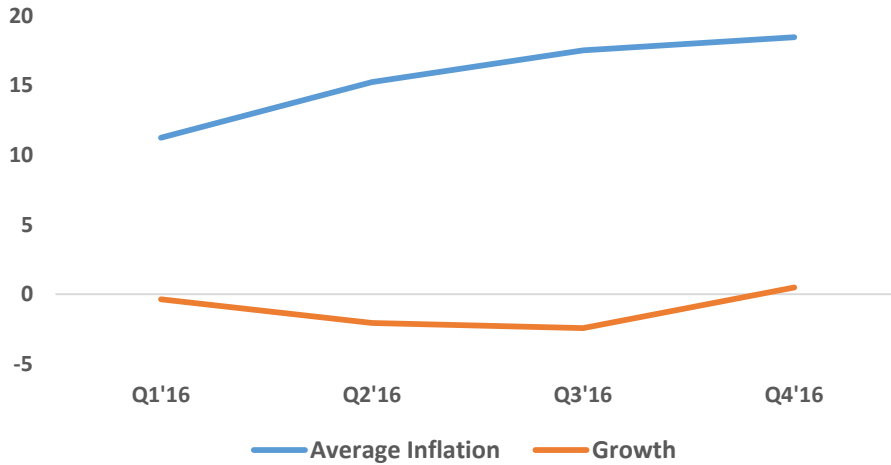
- 2008 -2009: Global financial crisis
- 2014: Oil price crash
- Q4 2016: Oil price recovery
- 2017: Stock market will lag economic recovery

Average oil price is  
\$42-45pb

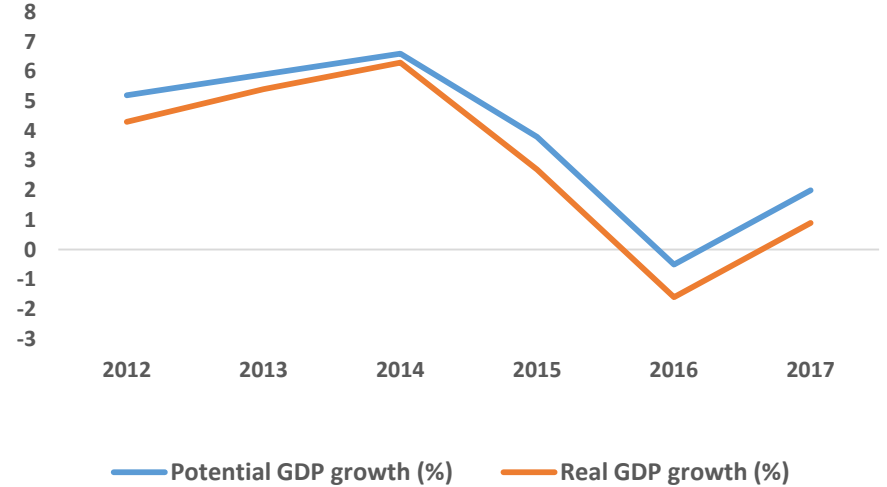


# INFLATIONARY VS. RECESSIONARY GAP

## Inflationary Gap



## Recessionary Gap



- Nigeria will be more prone to inflation than recession
- Economic recovery will be slow and painful

# NIGERIA NOT ALONE IN MONETARY TRILEMMA

- Nigeria and Angola – *Strugglers*
- South Africa – *In difficulty*
- Ghana – *Surviving but winning*

Country	Inflation (%)	Interest rate (%)	Inflation/ Interest rate differential	Growth (%)
Nigeria	18.6	14	-4.7	-1.55
Angola	41.95	16	-25.95	0.1
South Africa	6.8	7	0.2	0.2
Ghana	15.4	25.5	10.1	3.3

Source: NBS, IMF, FDC Think Tank

# TREACHEROUS RECOVERY PATH

## Fast recovery (10% probability)



V-shaped recovery - A flash war in the gulf

## Slow recovery (60% probability)



U-shaped, production: 2mbpd, oil price: \$55bp

## No recovery (30% probability)



Recession continues.

Militancy in Niger-Delta, Oil price - \$40bpd, Boko Haram

# LOOK OUT FOR...

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- Forex market liberalization
- Oil prices (downstream oil sector)
- Accommodative interest rate stance
- Minimum wage revision
- Concessioning of 4 international airports
- Refinery project
- Lagos-Ibadan rail project

# KEY EVENTS TO WATCH

New alternative funding plan for IOCs  
(\$6bn carry arrangement)



Diaspora bond of \$300m



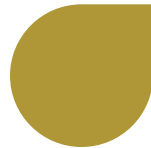
Placement of Nigerian  
Eurobond in Q1'17 for \$1bn



Rapprochement with militants  
and restoration of amnesty  
programme (N20-N60bn)



Approval of budget (N7.3trn)  
26% higher in naira terms, 40% lower  
in dollar terms



Tax amnesty  
programme for FIRS  
defaulters



# IF OIL TRADES ABOVE \$55PB

$$Y = C + I + G + X - M$$

\$370.2bn



\$284.8bn



\$49.7bn



\$24.0bn



\$56.5bn



\$47.3bn



- Real GDP expected to grow by 1.2%
- Headline inflation projected at 12 – 15%
- Exchange rate: IFEM: N350/\$ - N400/\$, Parallel: N470/\$ - N520/\$
- Interest rate: Accommodative Stance of 10%p.a. - 12%p.a.

# IF OIL TRADES BELOW \$40PB

$$Y^* = C + I + G + X - M$$

\$340.8bn

\$250bn

\$40bn

\$31.5bn

\$39.3bn

\$44.2bn



- Real GDP expected to grow by 0.5% – 0.9%
- Headline inflation projected at 20%
- Exchange rate: IFEM: N350/\$ - N380/\$, Parallel: N490/\$ - N520/\$
- Interest rate: less accommodative at 13%p.a. - 14%p.a.

\* Based on historical events (US\$ bn)

# Policy Imperatives





# POLICIES TO KEEP, REVIEW AND RADICALLY CHANGE

Policy	keep	Review	Radically change
Forex policy		✓	→
Borrowing plan		✓	
Trade policy		✓	→
Tax policy		✓	
Asset sales		✓	
Minimum wage		✓	→
Fuel subsidy	✓		→
Interest rate policy		✓	→

- Radical change if:
  - Oil price spikes
  - Oil price crashes
- Policy review to enact 1.1% growth
- Expect radical change in 2018
- When policies are radically changed voluntarily

# FISCAL POLICIES

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- Expansionary budget of N7.3trn
- Possible supplementary budget if revenue projections fall below expectations
- Explore sale and repurchase agreements on selected assets
- Seek funds from multilaterals, export credit agencies & launch concession programs
- Taxation
  - Increase VAT rate from 5% to 7.5%
  - Improve compliance and effectiveness of revenue collecting agencies
  - Broaden tax base

# BORROWING PLAN

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- Borrowing program: \$30bn
- 2017 : \$5-6bn supplementary budget
  - Chinese support
  - ECA
  - Multilateral
- Eurobond road show commenced : \$1bn

# COORDINATION BETWEEN FISCAL AND MONETARY POLICY

- MPC 3-point agenda
  - Accommodative monetary policy
  - More scrutiny on the banking system
  - Monitoring of M1 movements and dynamics
- The accommodative stance is a signal for more synergy between fiscal and monetary policy

# POLICY REFORM IF, WHEN, AND IMPACT

Will it be done?

**70%**

When?

**Q2 – Q3  
2017**

Impact and  
effectiveness







**Q4  
15-20%**



# Commodities

*Another Tough Year Ahead*

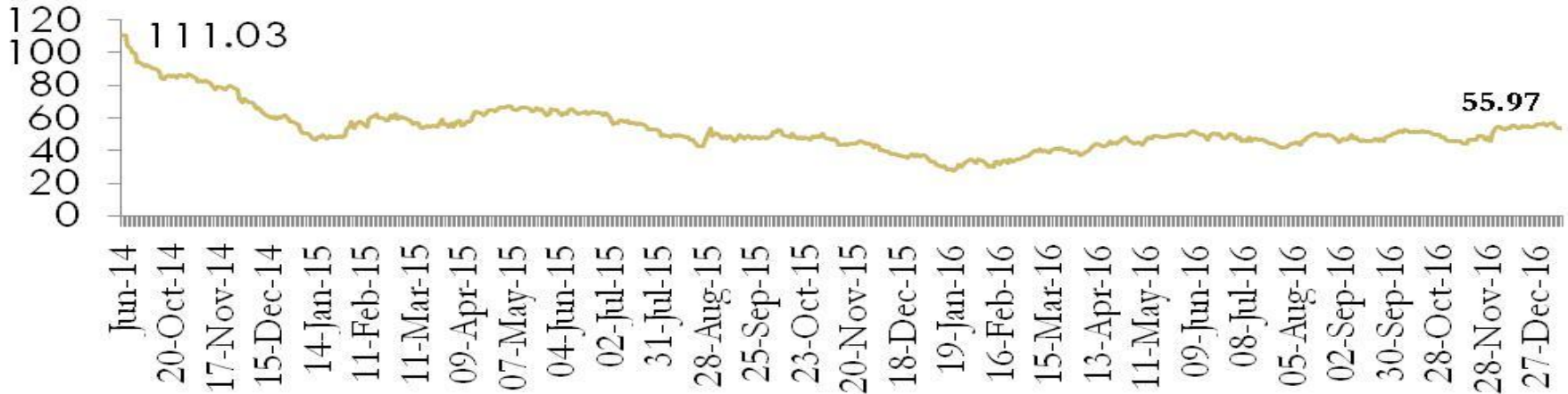
# COMMODITY OUTLOOK & NIGERIA

Exported Commodity	2017 (YTD movement)	Imported Commodity	2017 (YTD movement)
Oil		Wheat	
LNG		Sugar	
Cocoa		Palm Oil	

# WORLD COMMODITY OUTLOOK – OIL

Oil industry transition from survival to fresh growth

## Brent \$'pb



Source: EIU

Apr'15  
Shell & Total delay  
West African projects

Jan'16  
\$27.88pb  
Brent hits 12 year low

Nov'16  
OPEC agrees to curb  
output

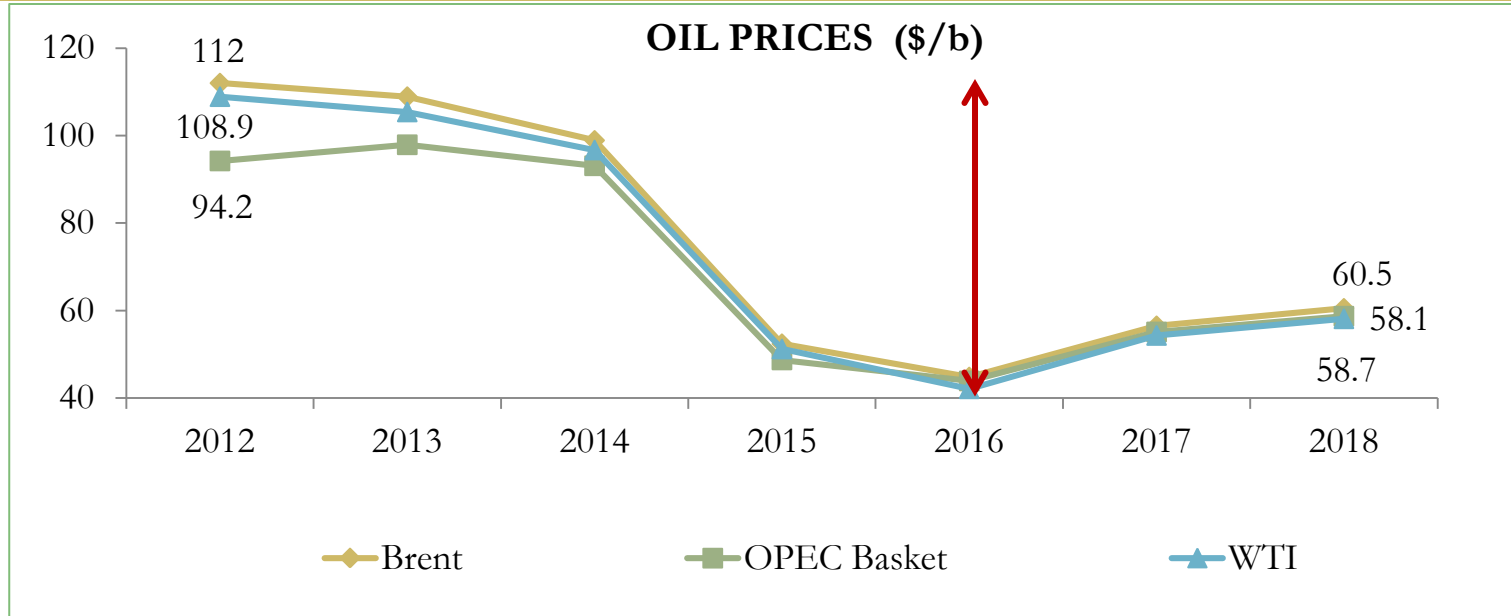


# WORLD COMMODITY OUTLOOK – OIL

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- Spending to surge but not in Nigeria
- Capital spending in N. America expected to grow by 27% according to Barclays
- Barclays' assumptions of investment growth is based on oil price of \$50pb
  - Citi Bank's assumption for 2017 is \$55pb
- Raymond James is more bullish and sees \$65pb in Q1'17

# WORLD COMMODITY OUTLOOK – OIL



## Oil: supply and demand

(m b/d unless otherwise indicated)

	2014	2015	2016	2017	2018
Production <sup>a</sup>	93.76	96.44	96.77	97.03	98.65
Consumption	92.98	94.75	96.02	97.37	98.64
Balance	0.78	1.70	0.75	-0.34	0.01

Sources: Haver Analytics; The Economist Intelligence Unit.

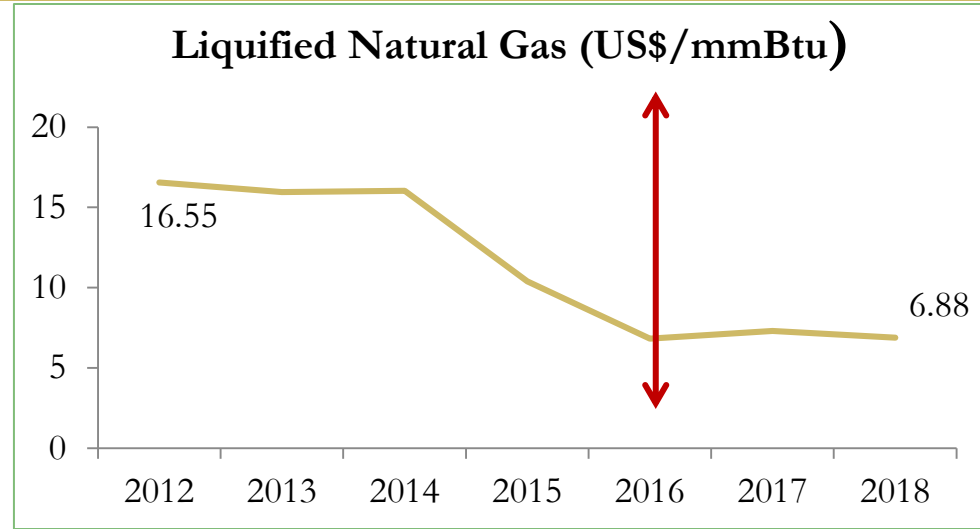
# WORLD COMMODITY OUTLOOK – OIL DEMAND

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- Oil consumption growth expected to decelerate in the EU, China and the US
- Other emerging markets will pick up
- Buoyant economic sales and investment will lead to booming vehicle sales
  - Especially in India
- This will drive growth in oil consumption in 2017-18

# WORLD COMMODITY OUTLOOK - LNG

- Nigeria is now the fourth largest exporter of LNG
- Contributes 14% to Nigeria's major exports
- South-east Asia will be a key region of growth in LNG imports
- Low domestic prices will encourage LNG usage in China
- The EU will absorb much of the new supply in 2017-18
- Africa's production will rise in 2017-18



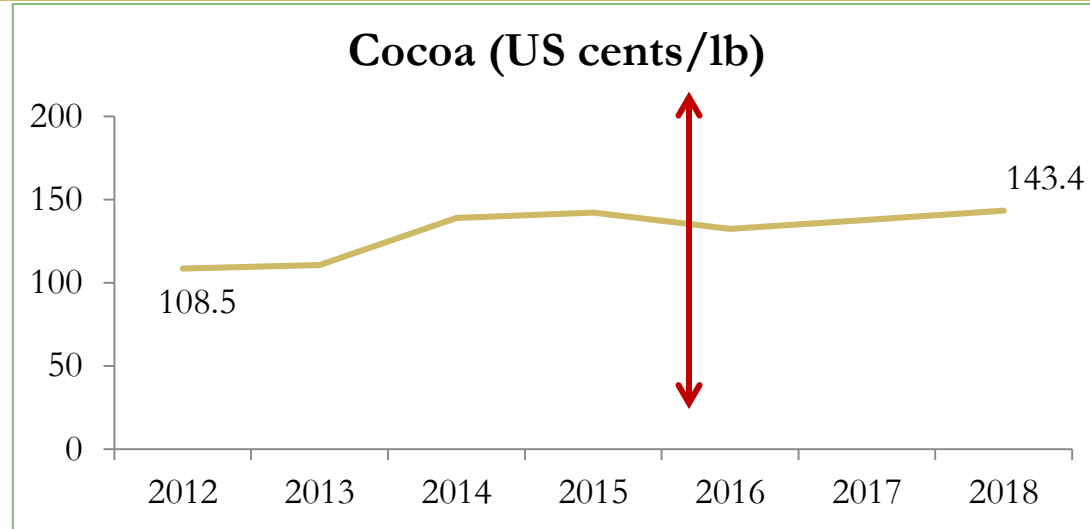
**Natural gas: supply and demand**  
(bn cu metres)

	2014	2015	2016	2017	2018
Production	3,438	3,510	3,595	3,664	3,728
Consumption	3,381	3,439	3,506	3,579	3,652
<b>Balance</b>	<b>56</b>	<b>71</b>	<b>89</b>	<b>85</b>	<b>76</b>

Sources: IEA; BP; The Economist Intelligence Unit.

# WORLD COMMODITY OUTLOOK - COCOA

- High prices will slow consumption in developed economies
- US accounts for 20% of global demand, Europe 40%
- Weak supply will support prices despite subdued demand growth



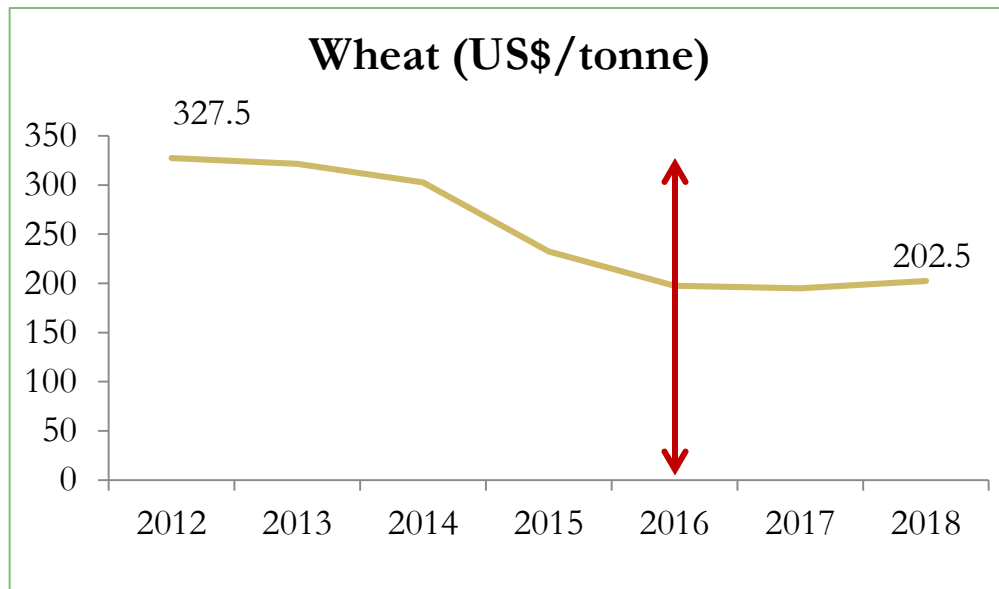
## Cocoa: supply and demand<sup>a</sup>

('000 tonnes unless otherwise indicated)

	2013/14	2014/15	2015/16	2016/17	2017/18
Production <sup>b</sup>	4,329	4,191	3,888	3,945	4,106
Consumption	4,029	3,998	4,032	4,073	4,118
<b>Balance</b>	<b>300</b>	<b>193</b>	<b>-144</b>	<b>-128</b>	<b>-12</b>

# WORLD COMMODITY OUTLOOK - WHEAT

- More than 160m tonnes of wheat now traded annually
- Supply of high quality wheat has tightened
- Excessive rain in France has damaged yields and quality
- Despite this, US, Canada and Australian wheat production will boost supply in 2017



## Wheat: supply and demand

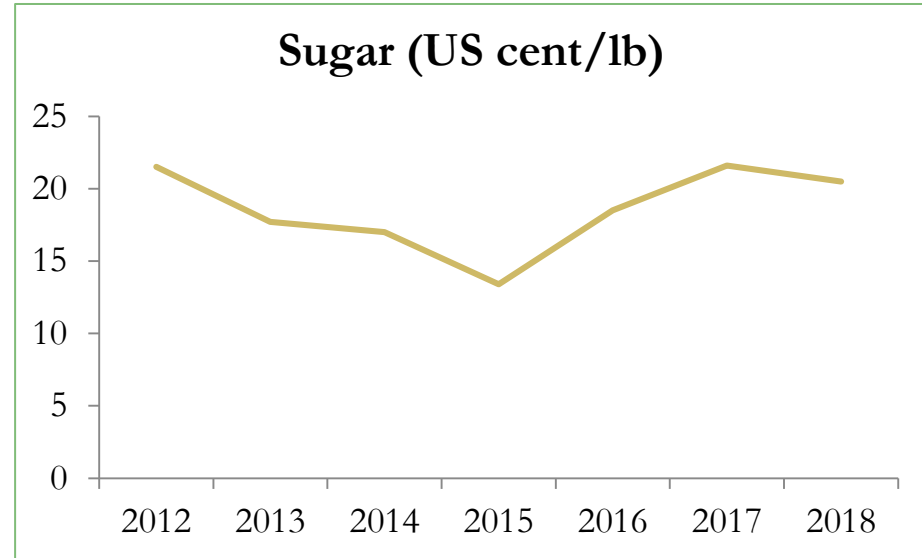
(m tonnes unless otherwise indicated)

	2013/14	2014/15	2015/16	2016/17	2017/18
Production <sup>a</sup>	712.3	727.8	733.3	741.8	730.7
Consumption	693.9	709.6	714.6	730.0	728.5
<b>Balance</b>	<b>18</b>	<b>18</b>	<b>19</b>	<b>12</b>	<b>2</b>

Sources: Haver Analytics; The Economist Intelligence Unit.

# WORLD COMMODITY OUTLOOK - SUGAR

- Prices will remain relatively high, but pace of increase will be less frantic
- India will need to import to maintain strategic reserves
- Health warnings may dent sugar demand in the developed world
- El Nino will affect production levels in Thailand



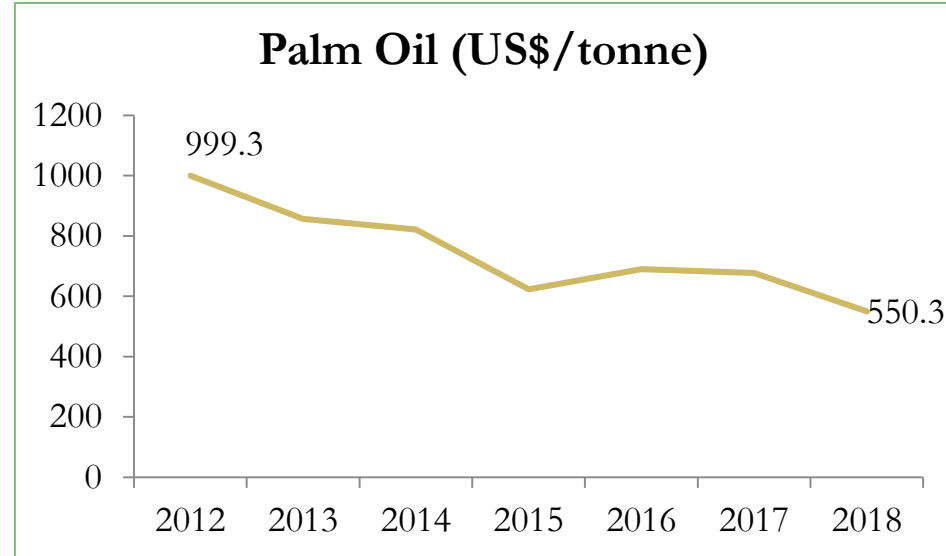
## Sugar: supply and demand<sup>a</sup>

(m tonnes unless otherwise indicated)

	2013/14	2014/15	2015/16	2016/17	2017/18
Production	170.9	172.1	166.6	168.2	173.4
Consumption	166.6	168.1	171.4	174.5	177.9
<b>Balance</b>	<b>4.3</b>	<b>4.0</b>	<b>-4.8</b>	<b>-6.3</b>	<b>-4.5</b>

# WORLD COMMODITY OUTLOOK – PALM OIL

- India will remain the largest market for palm oil
- China's palm oil demand is hindered by competition from soybean oil
- Below-average yields will lead to slow output in Indonesia
- Malaysian yields will recover in line with growing conditions in 2016/17
- Exceptional stock levels will push prices down in 2017-18



## Palm oil: supply and demand

('000 tonnes unless otherwise indicated)

	2013/14	2014/15	2015/16	2016/17	2017/18
Production <sup>a</sup>	59,990	62,060	58,575	64,355	66,895
Consumption	59,215	60,465	61,310	63,165	65,090
<b>Balance</b>	<b>775</b>	<b>1,595</b>	<b>-2,735</b>	<b>1,190</b>	<b>1,805</b>



# DOMESTIC COMMODITIES

	Jan'16 (N)	Jan'17 (N)	% Change
Cement (50kg)	1400	2300	↑ 64
Garri (50kg)	3900	15000	↑ 285
Rice (50kg)	8500	18000	↑ 112
Flour (50kg)	8000	11000	↑ 38
Semolina (10kg)	1800	3100	↑ 72
Semovita (10kg)	2300	3700	↑ 61
Maize (50kg)	2500	13250	↑ 430
Beans(50kg)	13500	18000	↑ 33
Tomatoes (basket)	10000	9000	↓ 12.5
Pepper (Basket)	6000	5000	↑ 67
Palm Oil (25L)	6500	17000	↑ 208
Sugar (50kg)	8050	19000	↑ 136



Every meal starts with us



• Salt (Refined and Iodized) • Seasoning (Cubes and Tablets) • Tomato Paste • Vegetable Oil

[www.nasconplc.com](http://www.nasconplc.com)

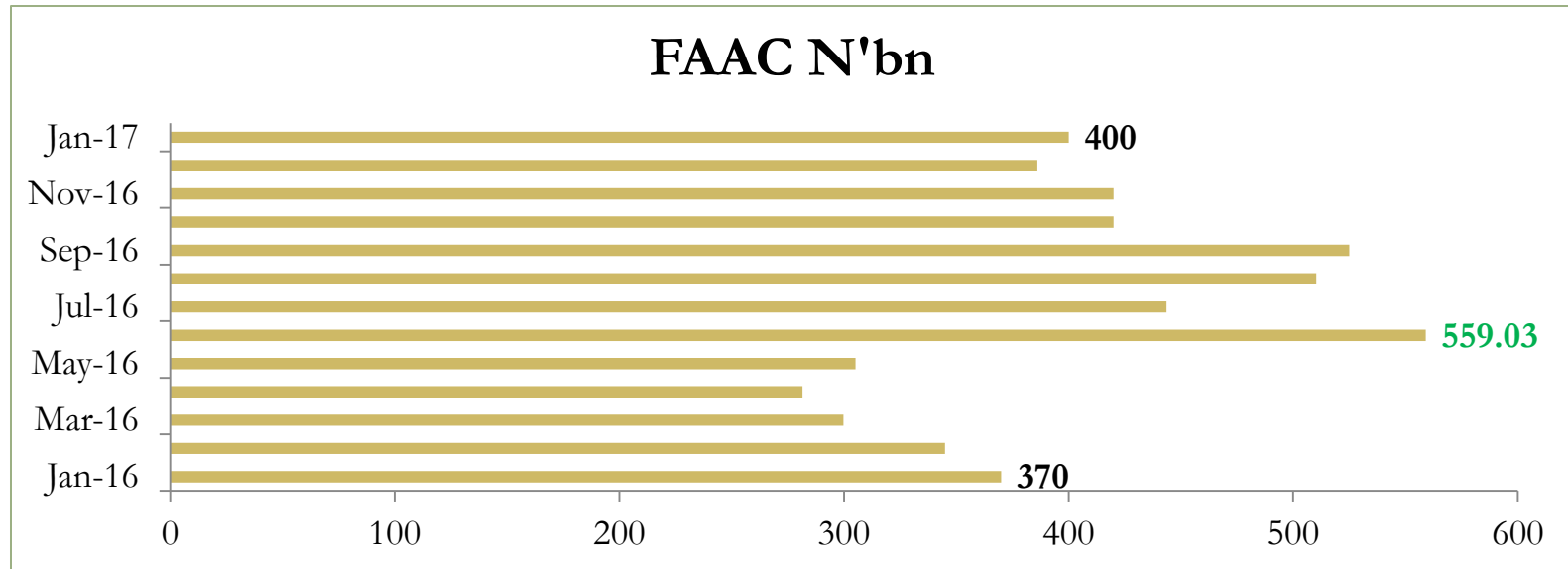


Available nationwide.

# Business Proxies

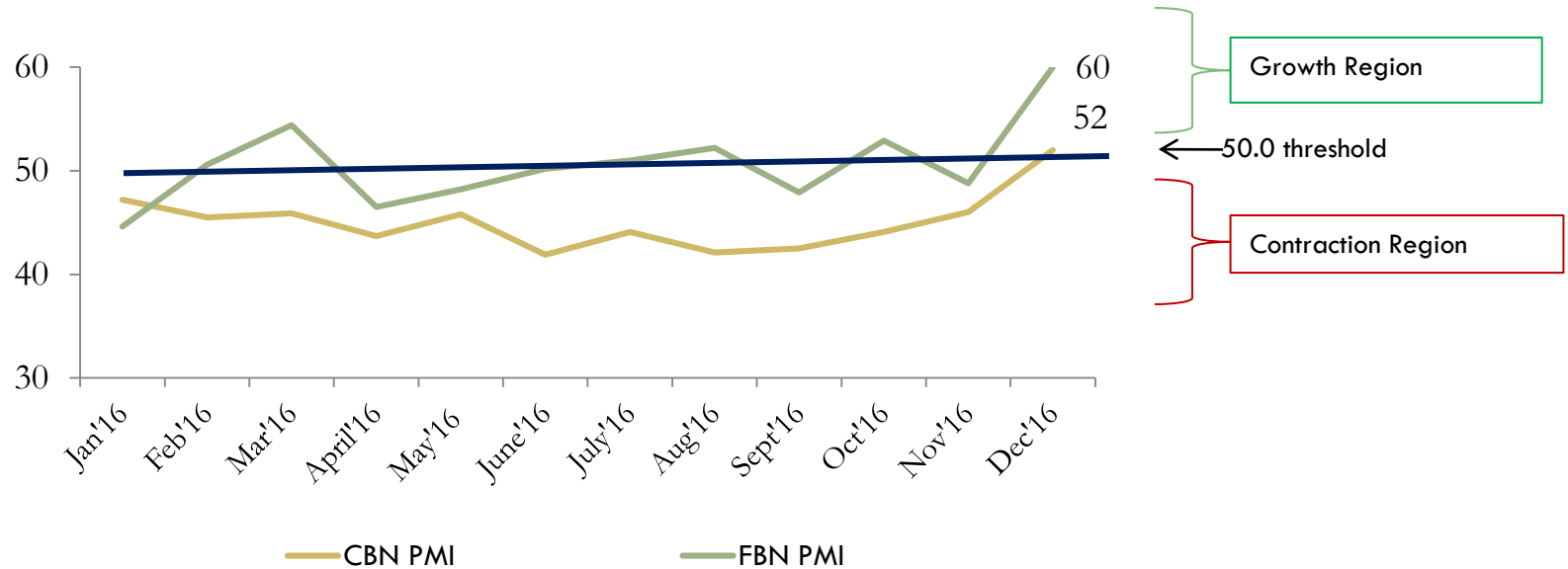


# FAAC TO INCREASE IN 2017



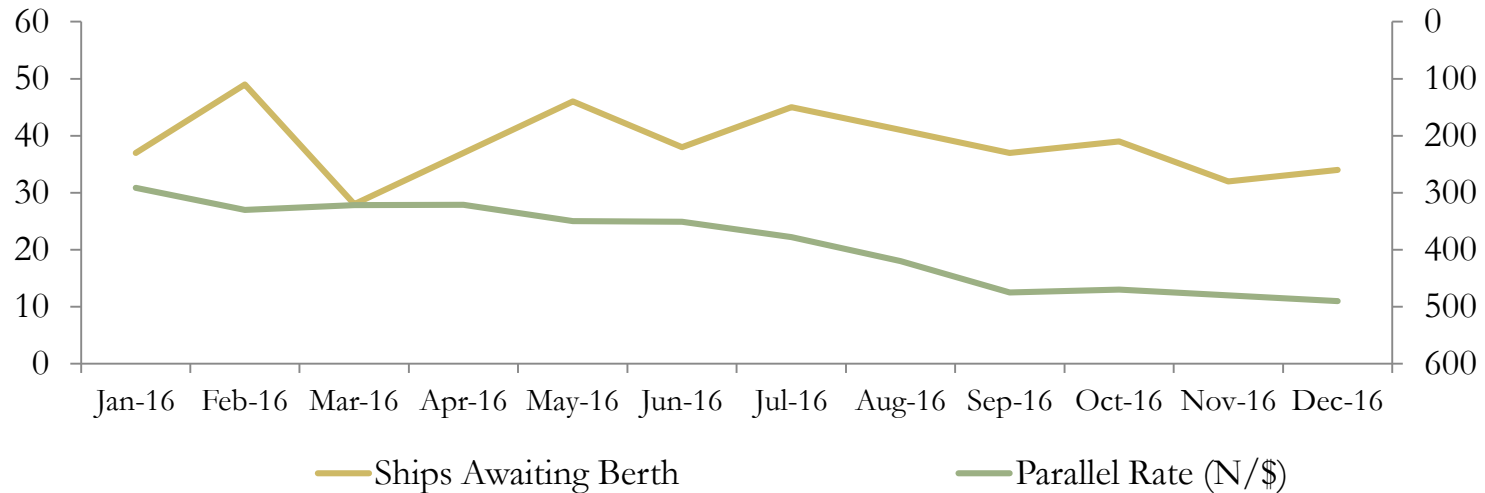
- Uptick in disbursements signals the recovery ahead
- Based on higher oil prices
- Production also increased by 8.7% - Forcardos to reopened in Q2'17
- N400bn is still a far cry from 1-year high of N559bn

# MANUFACTURING ON THE RECOVERY PATH



- Both FBN and CBN PMI showed significant recovery in December
- Upward trajectory will be maintained barring any forex constraints
- Manufacturers still have to grapple with rising inventory costs and slowing demand

# SHIPS AWAITING BERTH TO TREND HIGHER

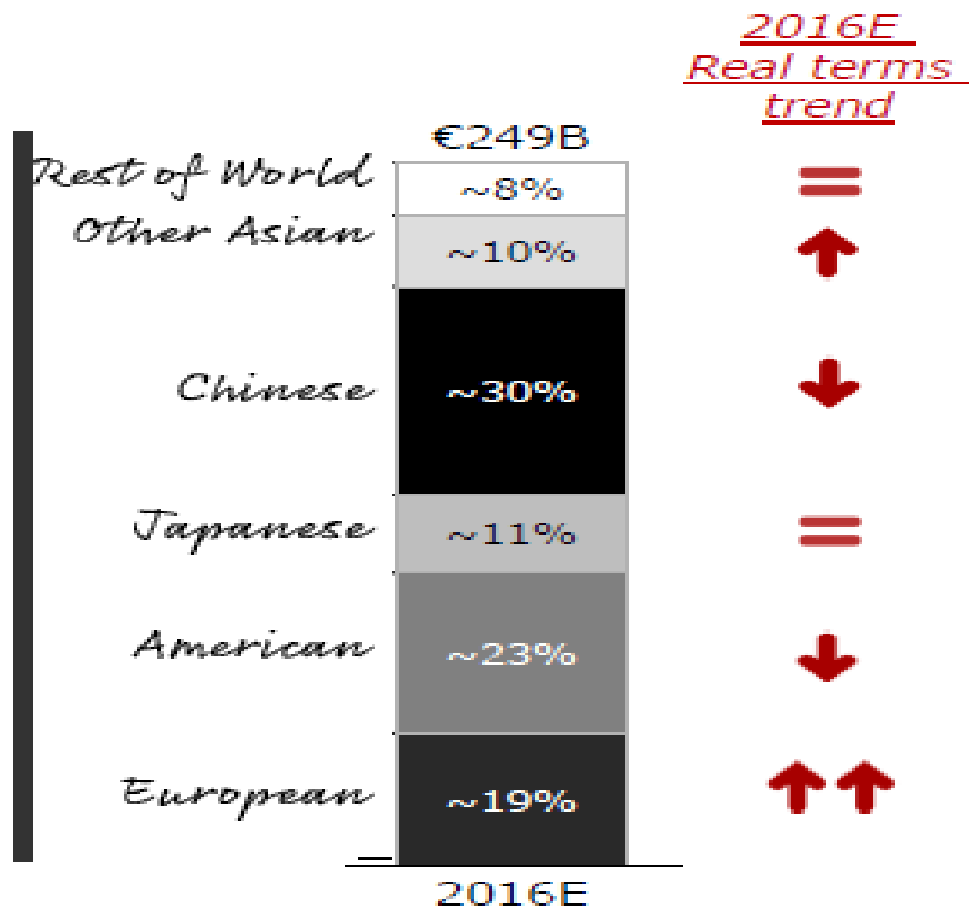


- Recent slash of import duties will spur demand for inputs
- Illiquid foreign exchange market remains an impediment to full recovery in shipping positions



# Global Retail Market

# GLOBAL PERSONAL LUXURY GOOD MARKET BY CONSUMER NATIONALITY

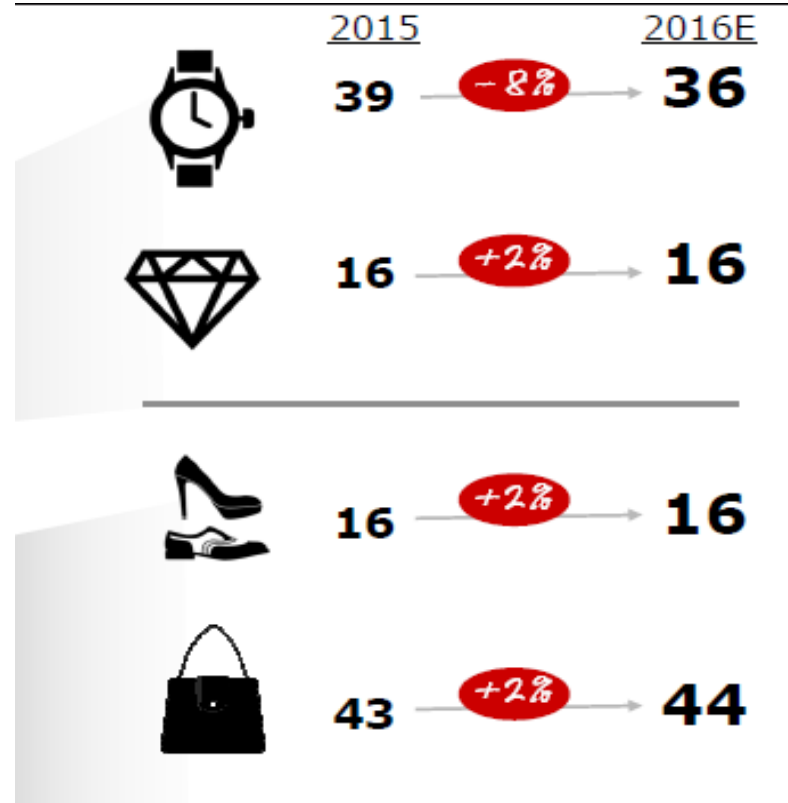
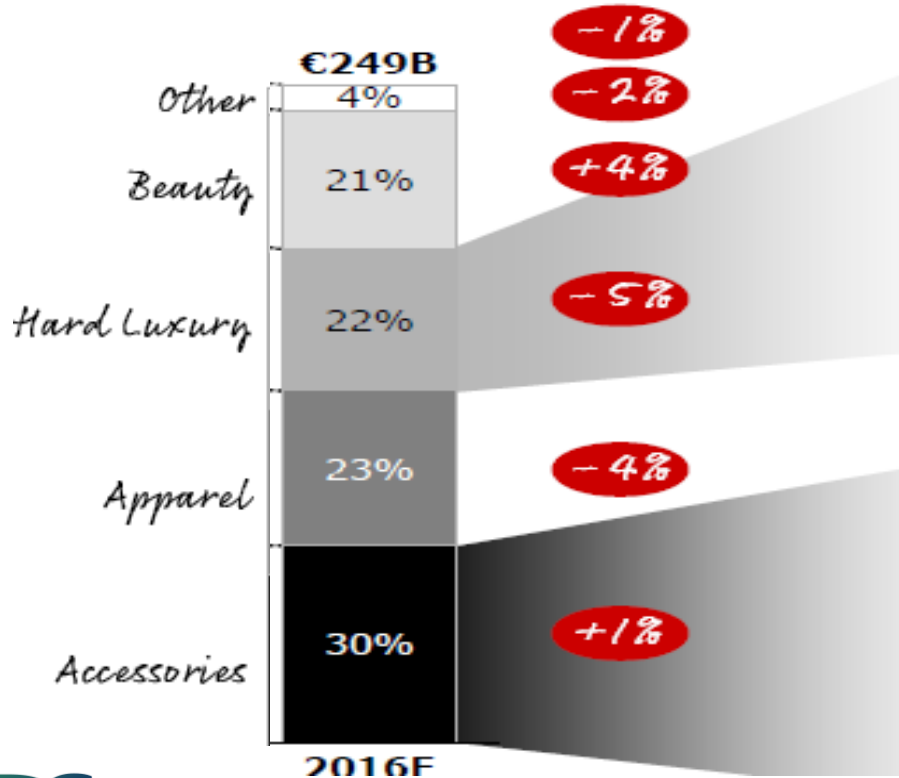


Chinese consumers,  
unique market growth  
driver since 2012,  
slowing down market  
in 2016



# GLOBAL PERSONAL LUXURY GOOD MARKET BY CATEGORY

YoY '16E vs. '15



Source: Bain & Company

# APPETITE FOR LUXURY TRAVEL

- London is the city with the highest spending visitors globally
- In 2015, Nigerians were the 6th highest spending visitors in London, UK
- Despite the downturn, data shows Nigerians spend an average of £1,626 (N1.02m) per visit



Market	Spend per visit
Saudi Arabia	£3,769
Kuwait	£2,898
China	£2,174
Qatar	£2,148
Pakistan	£2,078
Nigeria	£1,626
Singapore	£1,523

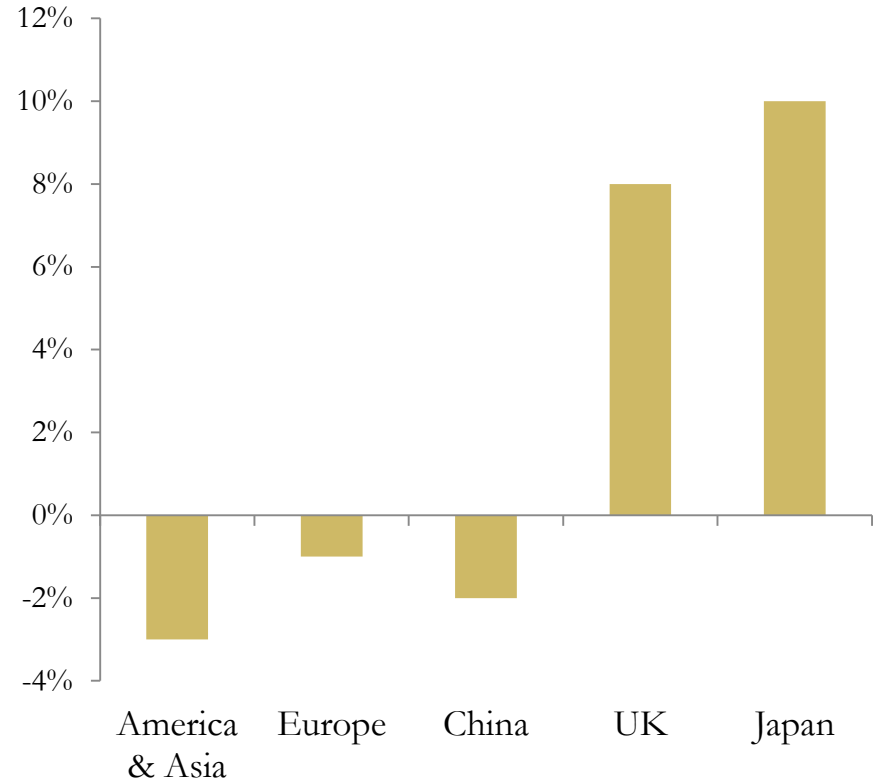
Source: Knight Frank, 2015

# THE RICH LIKE PERSONAL PAMPERING

- The overall industry posted a growth of 4% in 2016; Global GDP was 2.3%
- The total value of the industry is 1.08 trillion euros
- 16% of global GDP
- In all 10 segments
  - Luxury cars remained top performer, growing 10% -especially high end
  - Strong sales in China
  - Luxury hospitality: 4%, Cruises: 5%, and fine restaurants
  - Beauty products, fine wines, spirits & fine foods were strong
  - Private jet market contracted, yacht sales stagnated; Only one Nigerian bought a super yacht

# PERSONAL LUXURY GOOD STAGNATED AT 246BN EUROS

- Different strokes for different folks
- America & Asia contracted 3%
- Europe declined 1% primarily due to tourism
- Depreciation of the pound and appreciation of the yen all affected the market



# WHAT ARE PEOPLE BUYING?

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## Experimental

- Growth of luxury expenses outpaced luxury goods by 5%

## Casual- People are dressing down

- Casual style gaining traction across categories
  - €3bn – Luxury Sneakers
  - €3bn – Luxury denim
  - €2bn – Luxury down jackets
  - €2bn – Luxury bag packs

# WHAT ARE PEOPLE BUYING?

---

## Digital

- E-commerce reached 8% market share
- 3<sup>rd</sup> largest market after U.S and Japan
- Local consumption outpaced tourist consumption by 5%
- Airport sales now 6% of total- Duty free: Dubai, Heathrow, Singapore

# Real Estate Industry



# RECENT DEVELOPMENTS

## Residential Market

Fall in demand due to lower incomes, increasing supply leading to higher vacancies. Quality of properties becomes important as tenants search value for money.

## Commercial Market

Corporate demand remains constrained however purpose built commercial properties are coming into the market. Dollar rents remain a big issue amidst dollar scarcity.



## Real Estate

## Retail Market

Retail market hit with lower consumer spending due to creeping inflation numbers. Retail outlets experiencing low turnover. Vacancy rate in newly open Novare mall is about 55%.

## Hotel Market

Hotel occupancy as low as 40% in prime areas. Largely due to fall in demand from expatriates who have exited the country.

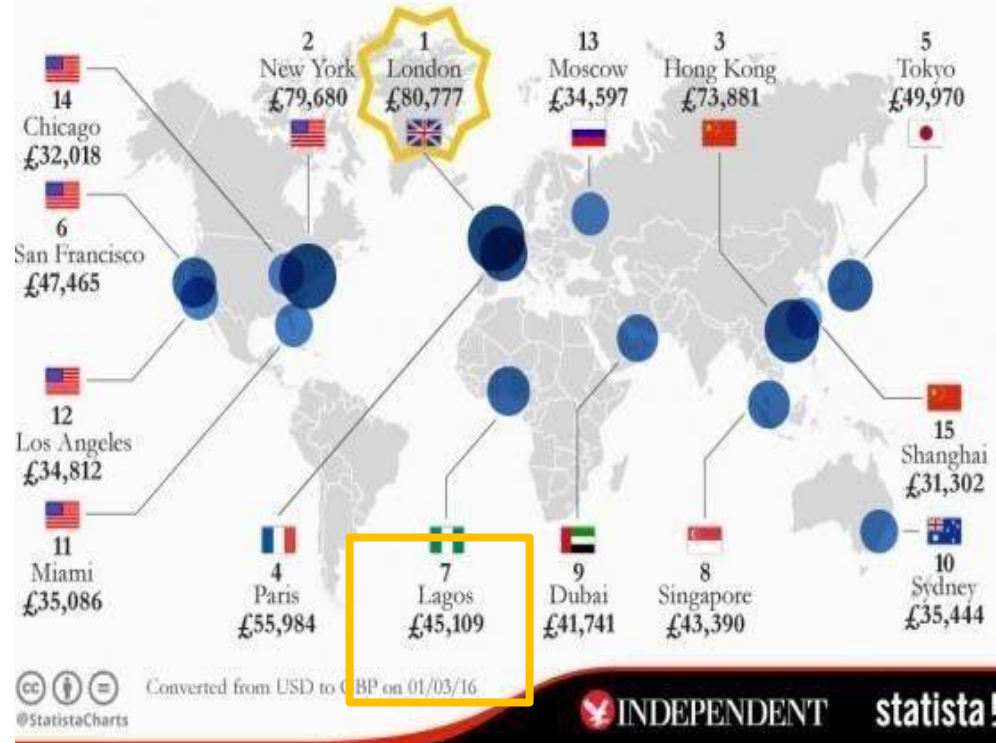


# TRENDS IN THE REAL ESTATE MARKET

- **LAGOS** is the *7th most* expensive city to live and work in *worldwide*
- London (*the world's most expensive city*) is the preferred place for Nigerian elites to buy property outside Nigeria
- Property price growth in London is now cooling as at 30<sup>th</sup> Jan 2017- due to the “Winter chill”
- Nigerian elites will experience a decline in the value of their portfolio- Net worth declines

## London is the world's most expensive city to live & work in

Total cost of accommodation per worker in cities worldwide in 2016



# RECENT DEVELOPMENTS - LAGOS-IBADAN RAILWAY

- Lagos- Ibadan railway network has been awarded to a Chinese engineering company
- Expected to be a modernized rail network
- Will negatively impact the real estate market in central Lagos
- Demand for housing in the central business district will decline
- Rental prices will follow suit



# RECENT DEVELOPMENTS

- Lagos vacancy factor index is as high as 74% from Jan 2015
- As a lagging indicator real estate will recover slowly
- Real returns in the stock market still negative, increasing supply
- Real estate believed to be hedged against inflation
- High interest rates puts deals under water
- Landlords offering discounts and lower advance rents – 1 year rent
- Supply increasing due to money laundering
- Flight to quality in finishing and prime locations

# REGULATORY POLICIES

- Nigeria's regulatory framework remains a hurdle for long term development of the sector
- To register a property, 13 steps are required, 77 days and costs 10% of the value of the property
- Regulatory procedures add to the rental cost of the property

Nigeria's Regulatory Framework		
Indicator	2017 Ranking	2016 Ranking
Registering property	182	182
Getting electricity	180	182
Getting credit	44	60
Dealing with construction permit	174	173
Paying Taxes	182	182

Source: World Bank's Ease of doing business report

# REAL ESTATE MARKET CHALLENGES

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- The market is still undersupplied with:
  - A-grade office space
  - High quality retail space
  - Affordable modern housing
  - Decent and quality car parks

# Aviation Update



# DOMESTIC MARKET UPDATE

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- Arik is facing financial challenges
- Needs to pay cash for aviation fuel
- On-time is approximately 1-2 hours delay
- Aviation regulatory bodies shake up - Top officials have been replaced
- Medview airline goes public
  - Has IOCSA certification

# DOMESTIC MARKET UPDATE

- CBN offers forward contracts to the aviation sector
- Airlines react by rationing air tickets - Offering lower fare categories in naira at N305/\$
  - Delta- Naira tickets opened to certain agents in the market
  - Lufthansa- Naira tickets available for a 30day period
- Conversely, passengers still have no money to spend abroad due to dollar scarcity
- Tickets available will depend on inventory of airlines
- This comes as a disadvantage to domestic carries still under duress



# IMPACT OF TRUMP'S TRAVEL BAN

- Passengers will prefer European carriers to the Middle East
- Proximity to the hot beds makes them unattractive
- Will be great for European carriers: BA, Lufthansa, Air France
- Routes to the far East will be unaffected



# REGIONAL ROUTE / ABUJA CLOSURE

- Abuja airport closure remains a burning issue
- \$18mn is cost of construction
- Disruption cost of about \$1 billion
- European airlines are not going to Kaduna
  - B/A, Lufthansa
- Lufthansa cuts flights into Lagos from 7 to 5 flights a week
- Back to 7 flights on March 8<sup>th</sup> - when closure of airport commences
- Expected to replace flights to Abuja with Port-Harcourt



# GLOBAL AVIATION

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- Boeing forecasts high 2017 profits with 765 plane deliveries
- Emirates voted the world's best airline in 2016
- To commence Dubai-Athens-Newark flights
- Air passenger traffic to slow to 5.1% in 2017 from expected 5.9% in 2016
- 61% of 2017's net income will be concentrated in North America



## Who We Are

**A**vant-garde Academia Limited (AAL) is an education advisory and counseling service organization that was incorporated in July of 2013. AAL was incorporated as an educational aggregator in grooming candidates to be potential global citizens who will reinvest their acquired skills in Nigeria in future. It is positioned to provide support, assistance and guidance to potential candidates and entrants to Ivy League, Elite and premium academic institutions in America. Our target market comprises parents of children in identified elite Nigerian secondary schools and/or top executives in the business community, who have a strong need for our services. The market also extends to Nigerians resident in Diaspora, and expatriates resident in Nigeria. In Partnership with Ascent Education Advisors, a reputable Education Advisory Services firm, we have designed a range of admissions solutions to cater for children in different stages of secondary school education.

### OUR STRATEGIC PARTNER – ASCENT EDUCATION ADVISORS

A reputable education advisory service firm, the lead consultant Ms. Peggy Hanefors has over 10 years experience in admissions; including a position as the Assistant Director of International and Transfer Admissions at the University of Pennsylvania. She was first reader and evaluator of about 3,000 applications for students from across the globe.

### What We Offer

- Information and advice about the American University System and its application process.
- Evaluation of student's record prior to application.
- Assistance in selecting curriculum and summer activities that will match the student's desired course of study and also highlight his/her personality and interests.
- Development of personal application timeline, that includes standardized testing, college visits, application deadlines, etc.
- Help in selecting teachers for recommendations
- Guidance in presenting extracurricular record
- Guidance in putting together an overall great college application that highlights the unique attributes of the applicant
  - Essay topic brainstorming
  - Editing
  - Proof-reading
- Guidance in choosing the most suitable college among acceptances.
- Interview preparation

### Our Packages

**Package 1: 8th to 10th Grade (Final 3-5 Years)**  
This package is a program designed for candidates from as early as the 8<sup>th</sup> grade (Junior Secondary School - JSS 2) of high school. This is a full package with the benefits of all the services we offer in addition to education and assistance with entire college admission process, including an unlimited number of applications.

**Package 2: 11th and 12th Grade (Final 1-2 Years)**  
This package is similar to Package 1 but is designed for students in the final two years of high school.

**Package 3: (Per Application)**  
Unlike packages 1 and 2, package 3 only provides unlimited assistance with applications to pre-determined universities.

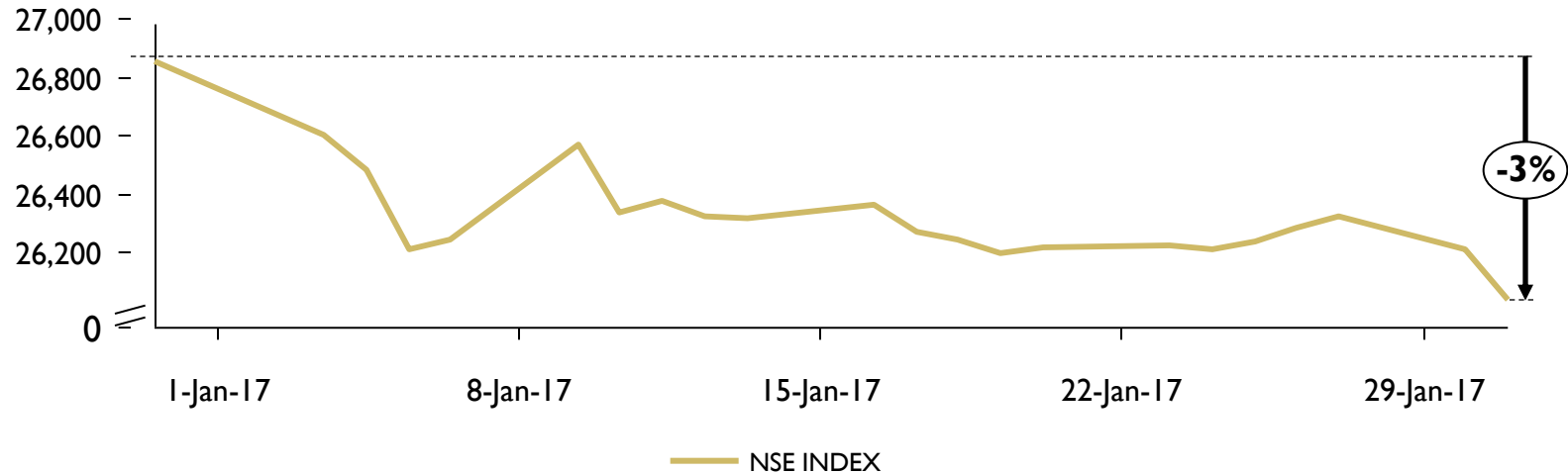
We host a Parents Admission Support Forum in Lagos bi-annually with the aim of giving parents the information they need to ensure their child(ren)/wards gain admission into reputable universities in United States of America.

To attend one of our events, kindly contact or visit us at  
9a Idejo Street, Victoria Island Lagos.

# Stock Market

# MARKET IN JANUARY ...

## THE SLIDE CONTINUES



- Nigerian stock market tumbled by 2.84% to close at 26,036.24 points
  - Bringing YTD return of the index to -3.12%
- Companies' share prices are reflective of hawkish central bank policy, weak economic and earning results

# MARKET IN JANUARY ...

## THE SLIDE CONTINUES

- Market capitalization closed at N8.99trn for the month of January
  - Representing a 2.68% decreased from N9.24trn
- The bourse average daily turnover decreased by 80.7% to N487.5mn from N2.52bn
- The average daily volume traded (ADVT) increased by 24.8% to N365.7mn
- Market PE ratio now 8.6x
- Rights Issue
  - Guinness Nigeria plc launches rights offer of N40bn
  - Allow the company to optimize its balance sheet, improve its financial and operational flexibility

# MARKET IN JANUARY

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- Listing by introduction - Medview Airline
  - N9.75 billion ordinary shares of 50 kobo each at N1.50 per share, indicating a start-off market capitalization of N14.63 billion
  - Airline's success is part of a larger economic ecosystem
  - Enhances NSE's market depth



# MARKET IN JANUARY

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- Nigerian aviation industry is still plagued by:
  - Lack of skilled resources and maintenance infrastructure which increases cost to industry
  - Sub-scale players
  - Airlines and airports customer experience still far from international standards

# MARKET IN JANUARY

- Guinness and Forte Oil report earnings

Company	Revenue Growth	PBT Growth	EPS	P/E Ratio	Share Price Growth
<b>Guinness</b>	19.37%	-382%	-5.25	-	-21.85%
<b>Forte Oil</b>	19.24%	-23.8%	3.52	21.02	-11.22%

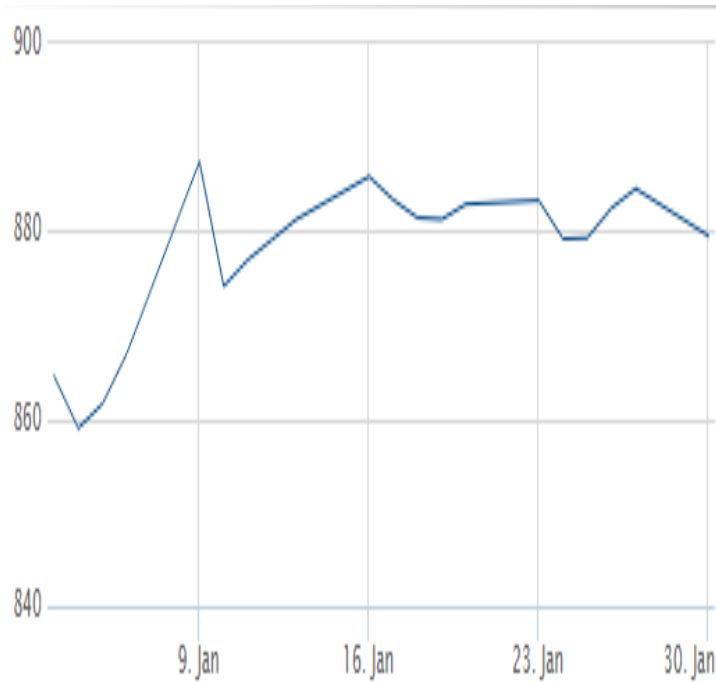
- Revealed challenges of consumer sector
  - Revenue growth of 19.4% y-o-y in H1'17 is due to strong spirits sales
  - Spirits contributed 30% of value sales as at November and beer value remains in decline
  - PBT margin declined to -8% in H1'17 from 3% in H1'16
  - Finance cost rose to N6.1bn from N2.2bn y-o-y of which N2.2bn was due to unrealized FX losses

# MARKET IN JANUARY

- Oil and gas downstream (Forte Oil)
- Revenue increased by 19.24% to N148.6bn in 2016 from N124.6bn in 2015
- Segment contribution:
  - Power generation: up 8.71% in 2016 from 8.23% in 2015
  - Lubricant & grease: up 7.7% in 2016 from 4.95% 2015
- PBT were hurt by distribution and finance cost rise of 9.5% to N3bn and 19.9% to N6.2bn respectively
- Operation loss in Ghana: N59.9mn

# MARKET IN JANUARY – SCOTT FREE INDEX

## ScottFree BC 30



- Scott-Free index fell by 1.32%
- YTD volatility 22.69%
- BC30 index up marginally by 0.42% in January
- The SFNG Blue-Chip 30 Index (USD) was down 0.86% while the SFNG Blue-Chip Index (EUR) was down 5.89%
- 30-day volatility of 10.63%
- Sharpe ratio of 9.41
- 1 year return of 1.91%
- Trailing P/E 6.48

# AGRICULTURE STOCKS (OKOMU OIL AND PRESCO)

- Structural upside and policy direction supports a positive
- Central bank's increase lending to agriculture
- Imposition of import tariffs on imported CPO
- ~1 million metric tons per annum (mtpa) palm oil local supply deficit  
vs. current domestic production of 930,000 mtpa)
- Okomu's capex spend of ~N6.7bn over FY'15EA– FY'17E is  
supportive of expansion plans (~7,500ha of oil palm)
- Presco's renewable energy project is a positive for costs

Company	EPS	P/E Ratio
Okomu Oil	484kobo	9.13x
Presco	560kobo	7.9x

# BANKING STOCKS (UBA, ZENITH & GTB)

- ...consolidation in the sector is inevitable in the medium to long term given the continued demand for higher capital
- One of the strongest industry names with a very solid and profitable presence
- Revenue to assets remains very strong (GT 10.6%, UBA 7.6% vs Zenith 8.17%)
- 31% of GTBank's total income is non-interest revenue, which is non capital intensive and generates excess cash / capital (Zenith 21%)

Company	EPS	P/E Ratio
UBA	185kobo	2.58x
Zenith	390kobo	4.03x
GTBank	501kobo	4.73x

A hand is shown moving a white chess piece, specifically a knight, on a chessboard. The background is a soft-focus image of a chessboard with various pieces. The text "Political Update & Risks" is overlaid in a bold, dark red font.

# Political Update & Risks

# POLITICAL UPDATE

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- The race to 2019 will be shaped in 2017
- The economy will be the main determinant
- The APC will be consolidating its hold
- A shakeout of the disgruntled members will start in Q2
- At least 5 PDP governors will defect to the APC in Q1
- 2 in the South-South and 3 in the South-East



# POLITICAL UPDATE

---

- Anambra state will remain with the incumbent
- The PDP will reorganize but remains in tatters
- A new party with grass-root appeal will emerge
- Will have a slow start with limited success in 2019
- Will benefit from the tumult within the APC after the 2019 election
- The political rush to the APC will remain for spoils and not ideology
- The slow economic recovery and a failing forex market will hurt the APC in urban Nigeria

# POLITICAL UPDATE

---

- The leadership struggle within the South-West and North-West will bubble to the top
- Setting the stage for the post 2019 Nigerian political struggle
- Allegations against top government functionaries will erode the credibility of the APC
- Inability to fire people for corruption will lead to reputation damage for Buhari
- Incumbency and patronage will ensure continuity of the APC in office

# Outlook



# REMOTELY POSSIBLE BUT UNLIKELY EVENTS

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- Nigeria to accept IMF loan
- Complete removal of subsidies
- Naira to become a fully convertible currency
- Oil goes back above \$100pb
- President Trump to close personal twitter account

# FEBRUARY OUTLOOK

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- Eurobond road show will commence Feb 2<sup>nd</sup>
- The naira will slip to N520 in the market
- Attempts to use forwards to stabilize the market will be futile
- The Forex market is polluted and needs sanitization
- The CBN will need to fund the spot market consistently
- Stock market will trade flat to negative again in February
- More surprising negative results will be announced in March

# FEBRUARY OUTLOOK

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- T/Bill rates will begin to slide at the 90day tenor
- Average daily turnover will decline again in February
- The price of diesel will stay above N250-260 per litre
- Inflation in January to decline marginally
- The budget will be approved in March
- The Social Intervention Programme of N5000 will have limited impact on the economy

# CORPORATE HUMOUR



Don't cry because its over, just smile  
because it happened – Dr. Seuss

Gratitude is a currency, we can spend  
without fear of Bankruptcy - Anonymous



# CORPORATE HUMOUR



Earth provides enough to satisfy every man's needs but not every man's greed – Mahatma Gandhi

What we do for ourselves dies with us what we do for others and the world remains and is immortal – Albert Pike





# CORPORATE HUMOUR



Our vanity is the constant enemy  
of our dignity – Anne Sophie  
Swetchine

Success is not a doorway it is a  
staircase – Dottie Walters



# CORPORATE HUMOUR



There are 3 types of people  
*those who make things happen*  
*those who watch things happen*  
*and those who wondered what happened*  
- Tommy Lasonda

Fortune favours the bold -  
Terrence



# CORPORATE HUMOUR



Fortune reverses the brave and  
overwhelms the cowardly –  
Marcus Seneca

If the risk-reward ratio is  
right, you can make big  
money buying trouble - Anon



# CORPORATE HUMOUR



Results are what you expect,  
consequences are what you get -  
Anon

Life is the art of drawing  
sufficient conclusions from  
insufficient premises - Anonymous



# CORPORATE HUMOUR



Many persons of high intelligence have notoriously poor judgement – Sydney Harris

It is better to be a failure at something you LOVE than to be a success at something you hate – George Burns



*Thank  
you*



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