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Inflation-Unemployment: The Relationship And Its Implications

The Nigerian economy is in turbulent times. A dark cloud hovers with the series of drastic and unwanted changes of the past two years. Spikes in inflation, a dramatic increase in unemployment and a substantive decrease in foreign reserves signify economic turmoil. The most notable indicator is the exchange rate which spiked to over N500/$ from the N300/$ range in the parallel market. This extreme variance caused pandemonium across the nation, making it the most discussed topic by Nigerians. Everyone was concerned, even those who had never travelled abroad nor held a dollar.

The gap between the official and parallel exchange rates affects everyone because Nigeria is an import-dependent country. It results in a substantial increase in the cost of goods, and subsequently, in the rate of inflation. Most products used in the country are imported and the desire to purchase foreign goods continues to grow. Furniture, clothes, books and even toothpicks - products that can be produced domestically - are all imported and purchased with US currency. This causes the demand for the dollar to remain consistently high. The monthly demand for US foreign exchange (forex) is approximately $4bn a month. When demand exceeds the limited supply, the price of the dollar rises.

Before mid-2014, the price of a barrel of crude oil comfortably traded above $100/barrel. With the boom in the production of US shale oil – a substitute for traditional crude oil - prices fell drastically. Currently, the Brent benchmark trades at about $50.66/ barrel while the West Texas Intermediate benchmark trades at

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$47.87/barrel. The Organization of the Petroleum Exporting Countries (OPEC) saw oil prices fall from more than $100/barrel to a staggering low of about $30/barrel in early 2016. This drastic price decline, coupled with lower production capacity due to vandalism and leakages, depleted Nigeria's foreign reserves. They stood at about N40bn in 2014 but fell significantly to about N24bn in October 2016. The country simply was not earning as much as it once did. Nigeria started burning through its savings.

Primarily due to the slump in the oil industry, Nigeria's highest revenue generating sector, the country slipped into a recession, marked by four consecutive quarters of negative gross domestic product (GDP) growth in 2016: -0.36% in Q1; -2.06% in Q2; -2.24% in Q3; and -1.3% in Q4. Accompanying the negative growth was a sharp rise in the general price of goods and services. Most of the products and capital goods that Nigeria imported had almost doubled in price as a result of the exchange rate spike. The increase in inflation led to higher expenses for firms which unfortunately led to mass cost-cutting across the country. Companies that were severely affected by the exchange rate spike included Nestle Nigeria Plc, whose net foreign exchange loss increased from N1.7bn in 2015 to N16.2bn in 2016 as the naira lost its value. Nigerian Breweries Plc and Transnational Corporation of Nigeria (Transcorp) Plc were also seriously affected as the loss on foreign exchange transactions increased from N752mn to N7bn and N6bn to N18bn, respectively. Nigerian Breweries Plc notably laid off more than 100 staff from August to October of 2016.

The unemployment rate is defined as the percentage of the total labor force that is unemployed but actively seeking employment and willing to work. It increased for the seventh straight quarter to 13.9% in Q3 of 2016 from 13.3% in Q2. Banks and telecommunication firms were the largest contributors to the increase. FBN Holdings Plc laid off 1,000 workers; Ecobank Nigeria Plc, 1,040; and, Diamond Bank Plc, 200 - all in the span of two months in 2016. According to the National Bureau of Statistics, Q2 of 2016 saw an increase in the labor force from 78.5 million to 79.9 million. Unemployment was highest for those between the ages of 15 to 24 at 24%, while the underemployment rate for the same group was 34.2% in the Q2 quarter of 2016. Within the ages of 15 to 24, 58.2% of Nigerians were either unemployed or underemployed. 2016 saw the worst rise in unemployment as it rose from 9.6% in January to 18.55% in December.

Inflation is the sustained increase in the general price level of goods and services over a period of time, usually a year. The inflation rate fell to 17.78% year-on-year in February 2017 after rising constantly for 12 straight months to 18.72% year-on-year in January 2017, the highest since September 2005. Significant price hikes in the commodity market almost doubled the price of daily goods like bread, eggs and milk. The imported demand, due to the depreciating naira, caused this economic low point. The overdependence on crude oil left Nigeria exposed to severe price changes similar to the oil price shock of 2008 (the global recession saw prices fall from the 2008 peak of $147 in July to $32 in December). The country has yet to fully recover from the fall in the price of 'black gold' and the scarcity of the dollar. Prices continue to sky-rocket and the constant demand for dollars to pay school fees and personal travel allowances has further aggravated the issue.

Prices are said to be "sticky downward", meaning once they increase they do not easily fall back even though there is an improvement in the general economic condition. The exchange rate for instance, went from N275 to N325 when the bankers' committee recommended that the Central Bank of Nigeria (CBN) remove school fees and medical bills from the interbank forex. The recommendation was not implemented at the time with the CBN indicating that they were not setting anything in stone. Their statement was futile as the exchange rate had already sky-rocketed due to supply fears. Nine banks were suspended from participating in the foreign exchange market in August 2016. That day the exchange rate moved from N410 to N430. Within a week it jumped to N490. The banks were eventually re-admitted to play in the foreign exchange game but the exchange rate did not fall back. This is the current issue with inflation. No matter what the good or service, every seller blames the dollar even if it has nothing to do with it.

The unemployment rate in Nigeria is not as volatile. While it remains problematic and high, it has not risen as fiercely as the inflation rate. The issue is that investment, both foreign and domestic, is not high enough and with the current economic situation, there is not much incentive to invest in Nigeria. Schools produce thousands of graduates a year to a market that is filled to the brim, leading to fierce underemployment and low wages.

The unemployment and inflation rates are important variables, directly related to the standard and cost of living of citizens in Nigeria. The misery index is an economic indicator that helps determine how the average citizen is doing economically. It is calculated by adding the seasonally adjusted unemployment rate to the annual inflation rate. It assumes that high unemployment and inflation will lead to social and economic costs for the country. The misery index of 2015 in Nigeria was approximately 18.02% but then spiked to about 28.73% in 2016, the highest ever, as inflation and unemployment rose significantly and consistently. The misery index, constructed by American economist Arthur Okun for US President Lyndon Johnson, provides an easily adjustable snapshot of the economy. The index measures how miserable or happy people in the economy are. Currently, Venezuela has the highest misery index primarily due to their hyperinflation and very weak currency. Food shortages in Venezuela became extremely severe last year and many Venezuelan went weeks without basic items like milk, egg and even toilet paper. Their misery index currently stands at 159.7% followed by South Africa which is 32.2%. Argentina stands at third with a misery index of 30.09%. The happiest countries – countries with the lowest misery index in 2016 - were Thailand, Singapore and Switzerland with indexes of 1.2%, 1.5% and 2.9% respectively.[1] Nigeria's misery index increased from 18.02% to 28.73% in a year. The current index is high and can be seen in the society today. Many people have lost their jobs and basic necessities have increased in price. The major driver of the spike was the significant increase in the inflation rate.

Another theory that relates unemployment with inflation is the Philips curve. It shows the inverse relationship between the level of unemployment and the rate of inflation. In simpler terms, a decreasing unemployment rate in an economy is expected to accompany an increase in inflation. However, the 1973-1975 recession was a period of severe economic stagnation in much of the developed nations like the United States and the United Kingdom. This period of stagnation was characterized with high unemploy-

[1] https://www.bloomberg.com/news/articles/2017-03-03/these-countries-are-getting-more-miserable-this-year

ment and high inflation. The Phillips curve came under scrutiny as it could not explain the phenomenon of rising unemployment and rising inflation in the 1970's recession period. The supposed flaw of the Phillips curve can be seen in the Nigerian scenario today as both unemployment and inflation have risen substantially.

While the Nigerian economy has shown little signs of recovery, the inflation rate dropped for the first time in about a year to 17.78% in February 2017 and the exchange rate at the parallel market has fallen significantly from about N505/$ to N390/$ due to CBN interventions. The central bank has made funds available for school fees and personal travel allowances at about 20% above the official rate of about N307/$. This has alleviated the supply problem for people that school abroad. Before the intervention, it would take weeks before funds were released by banks for school fees payments and people had to turn to the more expensive parallel market. Now the CBN intervention has made funds readily available. Among other new policies, the CBN floods the market with forex on a supposedly weekly basis. This has caused the parallel market rate to drop.

The government launched its Economic Recovery and Growth Plan (ERGP) on March 7th, 2017 and is adamantly committed to turning around the current economic predicament. The ERGP is not a development plan but an economic policy roadmap that encompasses the 2017 appropriation bill and the Medium Term Expenditure Framework (MTEF). Among other objectives, the plan aims to achieve:

- A sustainable and market-determined exchange rate regime, as pressure mounts to let the naira float freely;
- An inflation rate of 15.74% in 2017, 12.42% in 2018 and single digits inflation by 2020; and,
- A reduced unemployment rate from 13.9% to 11.23% by 2020 by creating over 15 million direct jobs between 2017 and 2020 or an average of 3.75 million jobs per year.

The Federal Government, through the Ministry of Agriculture, set up a food task force which aims at improving the logistics and transportation of food across the country. This will enhance the supply of food stuff to places of shortage. The goal is to reduce food inflation which rose by 18.5% following 17.8% in January. Serious efforts have been made by the task force and for instance, led to the transportation of tomatoes from Kaduna to Lagos for the first time in 58 years. The ERGP expects investment in agriculture will drive food security by achieving self-sufficiency in tomato paste in 2017, rice in 2018 and wheat in 2020. By 2020, Nigeria is projected to become a net exporter of key agricultural products like rice, groundnuts, and vegetable oil.

The government recently commenced the registration of unemployed citizens. The National Directorate of Employment confirmed that the registration was part of the official mandate to obtain and maintain a data bank on unemployment and vacancies in the country. This new policy will connect potential employees to employers and loosen the lack of information bottleneck. The truth is employment possibilities will increase only if the economy grows. Job creation comes with economic growth and the need to increase output. In the ERGP, the government aims to expand the gross domestic product by 2.19% and also projects that GDP will grow by an average of 4.62% annually and reach 7% by 2020.

Other objectives of the ERGP include various diversification and liberalization policies by the government. Crude oil production is also targeted to increase to 2.5 million barrels a day. The diversification policies will increase exports and foreign earnings of the government while the liberalization efforts will let the more efficient market forces prevail. In a report recently published by the International Monetary Fund, the Nigerian economy must make some critical reforms urgently if it hopes to recover this year. The multiple exchange rate system has to be abolished in order to reduce the incentive to roundtrip on dollar sales – roundtrip is the practice of selling an asset while agreeing to buy it back for about the same price. This has caused serious depreciation to the value of the naira because it increases the chances of people making gains from buying the dollar at a lower rate and selling it at a higher rate. The IMF also advocated for structural reforms to reduce wasteful spending, tighten fiscal and monetary policy and seize corruption.

In conclusion, unemployment and inflation have been increasing. They translate in a higher cost of living and a reduced standard of living. Things have become very difficult for Nigerians but the government seems to be on the right track by making a plan to reduce the misery index. Once better management of resources and more efficient policies come in to play the inflation and unemployment rates should slow down and eventually reduce. However major incentives to increase the ease of doing business in Nigeria need to be drawn up to encourage both foreign and domestic investment. Currently, Nigeria ranks 169th out of 190 countries on the World Bank Doing Business Index.[2] On the index, Nigeria ranks one of the lowest particularly in getting electricity, paying taxes, trading across borders and registering property. These problems need to be handled by the government in order to convince foreign investors to invest in the country. Tax holidays, pioneer status, and land subsidies are good incentives to draw foreign investment. Foreign investment will create jobs and output, thus leading to more goods being produced with the country. This will reduce the overall need to import certain products.

[2] http://www.doingbusiness.org/data/exploreeconomies/nigeria

Diaspora Bonds – A Financing Option for Nigeria

With the advent of globalization and its inherent implications, there has been an increase in the mobility of labor across geographical boundaries. Migration of highly-skilled labor has been a major characteristic of the relationship between developing and developed countries in the last two decades. Globalization is also increasing the level of interconnectedness among societies and economies.

Diaspora communities are keen to support their families who remain at home. This desire is evidenced in the huge flow of remittances from developed countries to developing countries, especially sub-Saharan Africa, Latin America and South-East Asia. Remittances have become an essential component of social safety nets, cushioning millions of families around the world and keeping them from falling into a financial hole. Global remittances were estimated at approximately $601bn in 2015. Developing countries received about $441bn of that amount, almost three times the volume of official development assistance. Actual figures may be higher as remittances sent through informal channels were unrecorded.[3]

Despite the high volume, value and frequency of remittances, they are only a survival mechanism; they are based on personal relationships rather than national interest and in most cases, they are not coordinated at a national level. Although remittances demonstrate that Diasporas care about their homelands, these monies do not offer a sustainable path to development. There is little governments can do to harness the inflow of funds except make transactions cheaper and easier.

However, governments can issue Diaspora bonds to leverage migrants who are concerned about families "back home", and often at lower interest rates when compared to other government bonds. They are typically offered to expatriates with long-term maturities and low yields, and the Diaspora often overlook many shortcomings of their home country's financial health – such as sovereign risks of default in foreign currency as well as devalua-

[3] Ratha, D., Eigen-Zucchi, C., & Plaza, S. (2016). 'Migration and Remittances Factbook 2016'. World Bank Publications.Page V.

tion – if it means promoting its economic growth and development. While not all countries have been successful in issuing these bonds, this is an avenue where Nigeria stands out as an African success story. With Nigeria now considering its second bond sale of $300m, the time is apt to reflect on where other countries have succeeded and failed to understand what Nigeria can do to build on its strong first step.

India and Israel are the poster-children of Diaspora bonds

India and Israel have successfully issued Diaspora bonds, with the Diaspora community from each country investing billions of dollars. Since 1951, Israel through the Development Corporation of Israel (DCI) has issued Diaspora bonds annually. These yearly issues are seen as a stable and cheap source of foreign exchange. They are usually utilized for infrastructure projects rather than assistance during financial crisis. However, Diaspora bond sales tend to increase during periods of economic crisis. Since 1951, the DCI has issued an average of $1bn annually.

Unlike Israel, where the DCI was established particularly to issue Diaspora bonds, India has used the government-owned State Bank of India (SBI). India, through the SBI, has raised funding via Diaspora bonds on three different occasions. India Development Bonds (IDBs) following the balance of payments crisis in 1991 ($1.6bn), Resurgent India Bonds (RIBs) following the imposition of sanctions in the wake of the Nuclear testing in 1998 ($4.2bn), and India Millennium Deposits (IMDs) in 2000($5.5bn).[4]

Not all Diaspora bonds lead to glory – the African context has seen mixed success

India and Israel's success with Diaspora bonds is yet to act as a roadmap for other countries. Critical factors were: the peculiarity of each country's economic condition, the structure of their Diaspora

[4] Ketkar, S. L., & Ratha, D. (2010). Diaspora bonds: Tapping the Diaspora during difficult times. Journal of International Commerce, Economics and Policy, 1 (02), 251-263.

bonds, their marketing campaigns, and the size and financial strength of their Diaspora communities. Attracting investors is difficult without an appropriate foundation and execution strategy.

In the African context, Ethiopia, Kenya and Nigeria are notable examples of countries that have experimented with Diaspora bonds. Ethiopia struggled with its Millennium Corporate Bond of 2008. Its failure can in part be attributed to political instability, lack of financial collateral, local currency denominated payments, low-risk premiums and a general lack of awareness within the targeted Diaspora that the product existed.

Kenya, in contrast, countered the Diaspora’s cynicism with its bond issue in 2011/2012. The government gave its Diaspora community greater influence in the utilization of the funds raised and the bonds were used to finance specific development projects. This strategy assuaged concerns about corruption and mismanagement for Kenyans and resulted in $600mn raised. The same tactic was not as successful in Ethiopia most likely because people who fled their country due to war, poor economic conditions, or mismanagement were not easily convinced to buy into a product sold by the same government that had perpetrated the wrong doings.

Nigeria too was successful. In 2013 Nigeria issued $100mn in Diaspora bonds. Nigeria faced obstacles similar to Ethiopia in raising investments, but approached its issuance more thoughtfully. Like Israel, Nigeria registered its bonds with the US Securities and Exchange Commission (SEC), which involved compliance with many regulations. Registering debt instruments with the SEC required covering costs of registration as well as stringent disclosure, and transparency of assets. This gave the Nigerian bonds open access to US retail investors, which the Ethiopian Millennium Bond avoided. Along with SEC registration and international support, Nigeria was cautious with its expectations. It only sought to raise $100mn from the Diaspora community, a significantly small amount when compared to its $20bn inward remittances in 2013 As a result, Nigeria’s initial issuance was successful and the country is considering a second sale of $300 million in bonds.

Conclusion

To be successful with the next bond issue, the Nigerian government should open the sale of its Diaspora bond to all. However, it should strategically market to only a few. In most the successful Diaspora bond issues, the sale was open to various classes of investors. However, marketing road shows targeted only the Diaspora community and a few foreign investors. Diaspora bonds should be project-specific and the proceeds should be utilized transparently. Just like remittances, Diaspora bonds are counter cyclical and tend to increase when the country is having difficulty. Experience from India and Israel show that Diaspora bonds reached peak levels during challenging times. For instance, Israel's Diaspora bond sale reached a peak of $1.14bn in 2001, following the 9/11 terrorist attacks which was 45% higher than $785mn in 2000.

The fact that Nigeria just issued a $1bn Eurobond that was 7.8 times oversubscribed, launched the Economic Recovery and Growth Plan, and that Nigeria is experiencing its worst economic crisis in 25 years will likely boost the attractiveness of the Diaspora bond. In addition, S&P recently affirmed Nigeria's credit rating of B, while maintaining a stable outlook. The improvement, albeit slow, is also a factor that should be positively evaluated by investors and could impact on the successful issuance of the Diaspora bond.

Solar in the spotlight

Erratic power supply is arguably Nigeria's Achilles heel. As recently as May 2015, the economy was nearly brought to a halt as airlines, banks, manufacturers and telecommunications companies struggled to fuel their operations due to petroleum product shortages. In 2016, the power picture did not look any better as incessant militant attacks in the Niger Delta curbed gas supply. Nigeria's reliance on generators, premised on the unreliability of its power supply, makes the economy extremely fragile. The question is can renewable sources of energy like solar alleviate this problem and at the same time diversify the country's energy mix?

To understand how solar power fits into Nigeria's power supply mix, we need to look at how the current system operates. Power supply consists of three phases: generation, transmission, and distribution. Power is generated through power plants across the country. Next it is transmitted through a network of lines and transformers that make up the national grid. Finally, it is delivered to consumers by distribution companies.

Power outages occur either when too little power is generated or the grid cannot transmit electricity properly. Nigeria suffers from both problems. Under optimal working conditions, domestic power plants can generate a maximum of 12,500 megawatts (MW), but due to poor maintenance, obsolete equipment and irregular supply of natural gas and coal, the country's highest recorded generation is 5,500MW, with the figure falling to as low as 2,600MW. More recently, in the past 5 weeks, power produced from the national grid has averaged 3,600MW. To put this in context, the average Ghanaian consumes three times more power than the average Nigerian, while the average South African consumes 31 times more electricity. Bear in mind that Nigeria's population of 180 million is more than double Ghana's and South Africa's combined population. Nonetheless, even if all plants ran optimally, the grid itself suffers from structural issues as it is hampered by faulty lines and an overloaded corridor.

Faced with these challenges, the case for solar electricity systems becomes more compelling. A solar powered system needs neither natural gas, diesel nor coal to function, and could even operate outside the national grid. Fortunately, Nigeria is blessed with high levels of sun intensity, particularly in the Northern region. Privatizing the power sector in 2015 created room for companies like Nemoante, to win projects. The Lagos-based solar developer signed a 120MW power purchase agreement with the government in July 2016 and expects more opportunities. This is a positive indication of the current administration's commitment to harness renewables and diversify the energy mix. Furthermore, a Paris-based independent power producer, GreenWish Partners, is set to invest $280 million to build solar power plants in Nigeria and bring 200MW on the grid by the first quarter of 2018. According to GreenWish Partners President, Charlotte Aubin-Kalaidjian, 200MW represents electricity access for 2.5 million people, 1.5 million tons in CO_2 reductions, and the creation of over 2,000 jobs. Certainly, 200MW is significant considering our current production, but this number is easily dwarfed by the 30,000MW the country needs to achieve a 10% GDP growth rate by 2030. To add to the 200MW promise, several companies are now offering Nigerians standalone solar photovoltaic (PV) systems. The intent is to end the self-powering market. The diesel generator market alone is estimated at $21.8bn.

However, while the long-term benefits of solar energy are potentially significant, upfront costs are expensive. In 2015, the average cost of installing a 4-KW solar PV system for a three-bedroom house was just under N2 million. Current economic conditions have not helped this cause. According to industry experts, the weak naira has led to a 25% increase in the cost of system components, which are largely imported. The recession presents an additional challenge as potential customers are more risk-averse and less willing to undertake costly investments in the face of an economic downturn.

All hope is not lost. Companies like Solar Kobo provide platforms to allow payments for PV systems in instalments, and while solar PV providers still seem overwhelmingly focused on residential customers, commercial clients could help the sector stay afloat. Businesses tend to have more inelastic demand for electricity as they need to maintain operations, whereas households can usually find ways to manage.

It is worthwhile to look at the bigger picture, lest we myopically portray solar PV systems as a one-size-fits-all solution. While it may be logical for Nigerian firms to adopt solar technology, it is because alternatives remain unreliable or costly. The fact remains that countries such as South Africa are able to generate much cheaper electricity using fossil fuels. If a foreign firm were to choose between locating a factory in Nigeria and South Africa based on electricity costs alone, South Africa would be the obvious choice. The perfect example is the recently concluded 'Big Brother Naija' that was filmed and located in South Africa rather than in Nigeria. An executive of DSTV cited Nigeria's epileptic power supply amongst other reasons for making South Africa the preferred location to film the reality TV show.

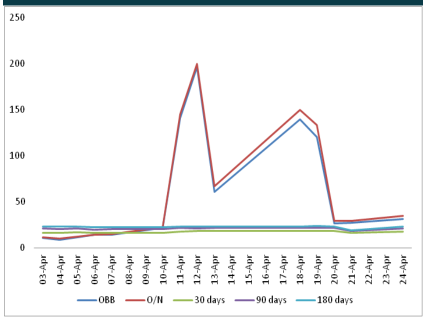
Macroeconomic Indicators

Money Market

The opening liquidity position in the money markets on the 3rd of April was N88.69bn long, significantly higher than the closing position of N151.04bn short, on April 22nd.

Short-term interbank rates (OBB, O/N, 30-Day) averaged 46.38% per annum (p.a.) from the 3rd to 24th of April, 2457bps higher than the corresponding period in March of 21.81% p.a. As at April 24th, short-term interbank rates, OBB and O/N rates were 31.67% pa and 34.67% p.a. respectively, relative to 10.67% pa and 11.42% pa recorded at the beginning of the month. During the period, OBB and O/N rates shot up to record highs of 196.67% and 200%, driven by low liquidity as banks made provision for forex futures.

Chart 1:Interbank Interest Rates (%)



[5]

The CBN injected a total of $4.52bn into the IFEM within the period under review. The naira equivalent (debits) significantly reduced liquidity in the money market.

Treasury bill rates declined during the period under review. As of 24th April, 91-day T/bill rate stood at 14.02% at the primary market, this is relatively flat but lower than 14.13% recorded in the corresponding period in March. The decline in T/bill rates can be attributed to the waning demand for domestic debt from the government.

Outlook

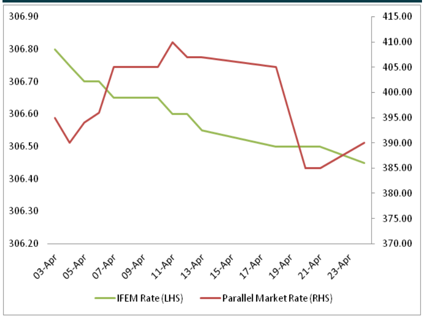
Interest rates are expected to move in tandem with the liquidity position of the market. Therefore further injections of forex into the FX market is likely to weigh on naira liquidity in the system and as such send interest rates skyrocketing.

[5] CBN, FDC Think Tank

Forex Market

Exchange Rate

Chart 2:Exchange Rate (N/$)



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In the review period, the naira opened at N395/$, but then depreciated to N410/$/ before recovering to N390/$ at the end of the period. Since the CBN began its supply intervention on February 20th, the naira has appreciated by 33.33% at the parallel market.

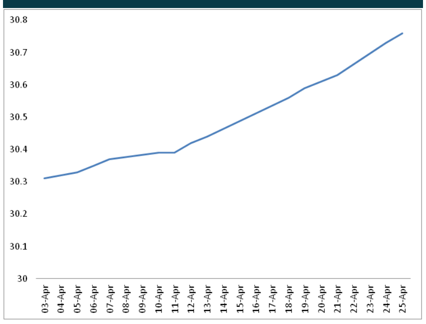
At the IFEM market, the exchange rate remained relatively flat, appreciating by 0.11% to N306.45/$ from N306.8/$ at the beginning of the review period. IATA rate stayed relatively flat, closing at N306/$.

Outlook

The convergence between the parallel and IFEM rates has commenced albeit marginally due to the increase in aggregate supply. However, the latent demand and segmented market remains a threat to the stability of the foreign exchange market. The IFEM rate is more likely to remain sticky within the band of N305/$ - N310/$ until monetary authorities adjust towards the fair value which is tentatively between the band of N340/$-N370/$.

External Reserves

Chart 3:External Reserves ($bn)



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On April 19th, the external reserves reached $30.59bn, the highest level since September 2015. This is a 0.93% ($280m) accretion from the opening level of $30.31bn on April 3rd. The external reserves level is now 5.62% higher than 2016's peak of $28.96bn and 11.36% below 2015's peak of $34.51bn. With gross external reserves at $30.59bn, import cover is estimated at 6.85 months.

Outlook

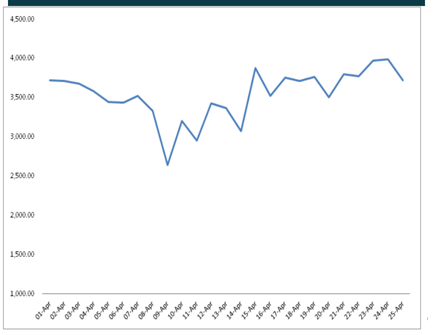
The accretion of the external reserves is expected to continue despite the decline in oil prices due to the improvement in oil production levels. Additionally, the successful Eurobond issue and the

[6] CBN, FMDQ OTC, FDC Think Tank
[7] CBN, FDC Think Tank

ratings affirmation by S&P, is expected to restore confidence. This will encourage inflows of forex from investors and also credit agreements from credit agencies and multinationals. The Diaspora bond is expected to be issued before the end of this quarter.

Power Sector

Chart 4: Power Output (MW/hr)



[8]

Power sent out from the national grid reached 3,968MWh/h on April 23rd. This is the highest output in the month of April, and is 7.97% higher than the 3,675MWh/h on April 3rd. Power output temporarily dipped during the period to 2,638MWh/h due to high gas constraints. On average, during the period, power constraints arising from gas, water management and line issues stood at 2,477.82MW. Although, militant attacks on gas pipelines have reduced significantly, dilapidated infrastructure continues to contribute to the gas leaks and reduced efficiency. The sector lost a total of N24.55bn from April 3rd-23rd.

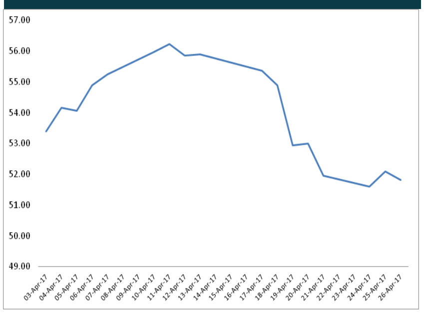
Outlook

Power generation expected to improve as the raining season approaches. Elimination of gas constraints is not foreseeable in the near term. Extensive reconstruction of power infrastructure will be needed to resolve the issues of gas leakages. The insolvent state of the sector will continue to impede the performance amongst the discos, gencos and TCN.

Commodities Market - Exports

Oil Prices

Chart 5: Brent Crude ($pb)



[9]

In the review period, average oil prices was $54.55pb, 4.02% higher than $52.44pb recorded in March. Prices increased relative to last month as the market worried over the Syrian war. The involvement of top oil producers- US, Russia, Saudi Arabia, and Iran, and the potential for heightened regional conflict placed upward pressure on prices.

[8] Nigerian Electricity Supply Industry

[9] Bloomberg, FDC Think Tank

However, oil price closed at a one-month low of $52.28pb on April 24th, 2.22% lower than the price during the opening period. This fall is driven by market concerns over the continued rise in US oil rig counts and shale production. US oil rig count increased by 5 to 688, in the week ending April 21st, pushing prices down 5.87% to $53.07pb (on April 21st) from $56.38 (on April 24th). This production growth dampens the efforts of the OPEC production cut in keeping prices above $55pb threshold.

Outlook

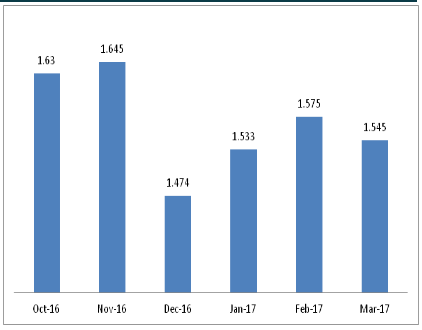
Under the current agreement, OPEC producers and a few non-OPEC producers agreed to cut output by up to 1.8mbpd for the first half of 2017. However, the rise in the US drilling and production has prompted market analysts to call for an extension of the OPEC cut. This will help ease the pressure on prices caused by oversupply. The Energy minister of Saudi Arabia, OPEC's defacto leader, has announced that producers were warming up to the idea of extending cut agreement by another 3-6 months. OPEC will decide whether or not to extend cuts in its Vienna meeting on May 25th.

Additionally, the future of the Syrian war plays into the outlook of the oil market. For the bulls, the geopolitical risks posed by the involvement of top producers in the Syrian war, could keep prices above $55pb. On the other hand, according to the bears, this same event could cause increased tensions between these producers and reduce the possibility of an agreement being reached on extending the production cut deal.

Oil Production

According to OPEC's secondary sources, Nigeria's March oil production fell by 1.9% (30,000bpd) to 1.545mbpd, from 1.575 in February. This is the first monthly decline in 2017, after talks between the government and representatives of Niger Delta militants brought relative calm to the area.

Chart 6: Oil Production (mbpd)



[10]

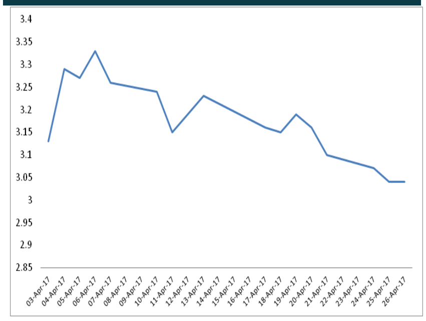
[10] OPEC, FDC Think Tank

Outlook

Militants have raised fresh threats to resume attacks on oil pipelines. Statements reportedly released by the group's leaders blame the government for failing to fulfill its end of its bargain of a ceasefire. If not addressed immediately, this raises a risk to oil production in the short to medium term.

In addition, oil production for April is expected to fall short by 225,000bpd as Shell Nigeria shuts down Bonga deep water oil field for 30 days due to maintenance. The Forcados pipeline is expected to reopen towards the end of this quarter.

Chart 7: Natural Gas ($/MMBtu)



[11]

Liquefied Natural Gas (LNG)

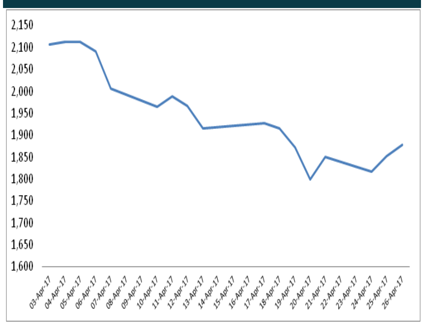
In the review period, price of natural gas fell by 3.16% to close at $3.06mmbtu on April 24th. Still, the average price of natural gas during the period was $3.91mmbtu, 31.65% higher than the average price of $2.97mmbtu in March.

Outlook

Natural gas production has declined however, inventories remain high. With that said natural gas is set to trade bullish in the long run and relatively bearish in the short run as inventories decline. Therefore we expect the commodity to trade as high as $4.3 - $5/ mmbtu in 2017.

Cocoa

Chart 8: Cocoa ($/mt)



[12]

During the period, the price fell by 13.8% to $1,816/mt from the opening price of $2,107/mt. The average price of cocoa of the review period was $1,960/mt, 3.4% lower than the average price of $2,029/mt in the corresponding period in March

[11] Bloomberg
[12] Bloomberg

Outlook

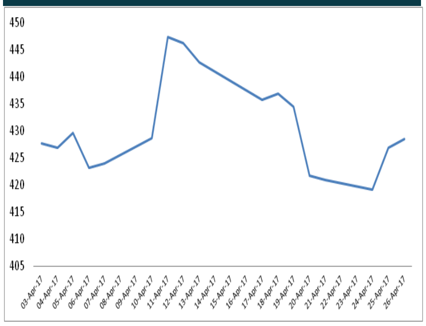
Cocoa production surplus is expected to persist this season due to favorable weather conditions and this will continue to suppress cocoa prices. In addition, improved production outlook in West Africa remains a bearish factor for prices.

Imports

Wheat

During the period, wheat prices lost 1.99% to close at $4.19/bushel from $4.27/bushel on April 3rd. Average prices are also down marginally to $4.31/bushel from $4.37/bushel in the corresponding period in March.

Chart 9: Wheat (US cents/bushel)



[13]

Outlook

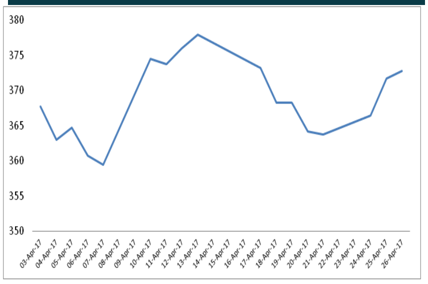
Wheat prices are expected to trade bullish on weather concerns in the US and Canada.

Corn

In the review period, corn prices declined marginally by 0.59% to $3.65/bushel from $3.67/bushel at the beginning of the month.

Expectations of favorable weather conditions weighed on corn futures. Warm weather in April is particularly favorable for the planting of corn, which is the first of the United States' two primary exported crops to be sown.

Chart 10: Corn (US cents/bushel)



[14]

Outlook

As is the case with wheat, harsh weather conditions in the US are to push prices up due to limited supply from the region.

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[13] Bloomberg
[14] Bloomberg

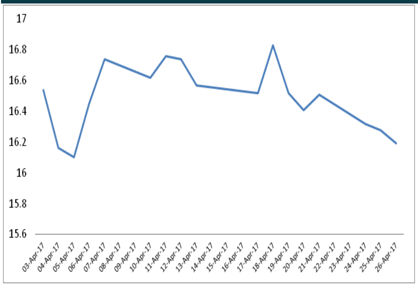
Sugar

In the review period, sugar prices decreased by 1.33% to $0.1632/pound from $0.1654/pound on April 3rd.

Outlook

Sugar fundamentals remain weak, hence, bumper harvest recorded in the largest producing regions are to weigh on prices.

Chart 11: Sugar (US cents/pound)

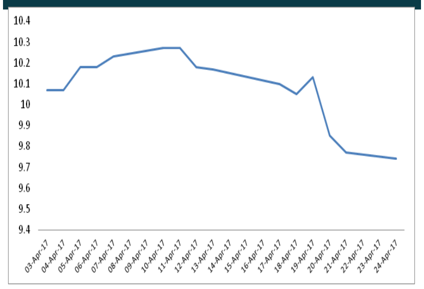


[15]

Rice

Rice lost 1.94% to close at $9.87/cwt from $10.07/cwt on April 3rd.

Chart 12: Rough rice ($/cwt)



[16]

Outlook

The global market for rough rice is shifting as countries become increasingly more focused on policies targeted at self-sufficency. Therefore global demand is contracting at a much faster pace in an environment of rising supply. We expect this change in dynamics to weigh heavily on prices as the months progress.

[15] Bloomberg
[16] Bloomberg

Avant-garde
Academia
L i m i t e d

Who We Are

Avant-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 at the 8th 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.

For more information about Avant- Garde Academia Limited please go to our website: www.avant-gardeacademia.com
For enquiries or consultation E-mail us: info @avant-gardeacademia.com Or call Chinyere Ubani 08039238138 | Tope Vincent 08034017603

Global Perspective – culled from the Economist

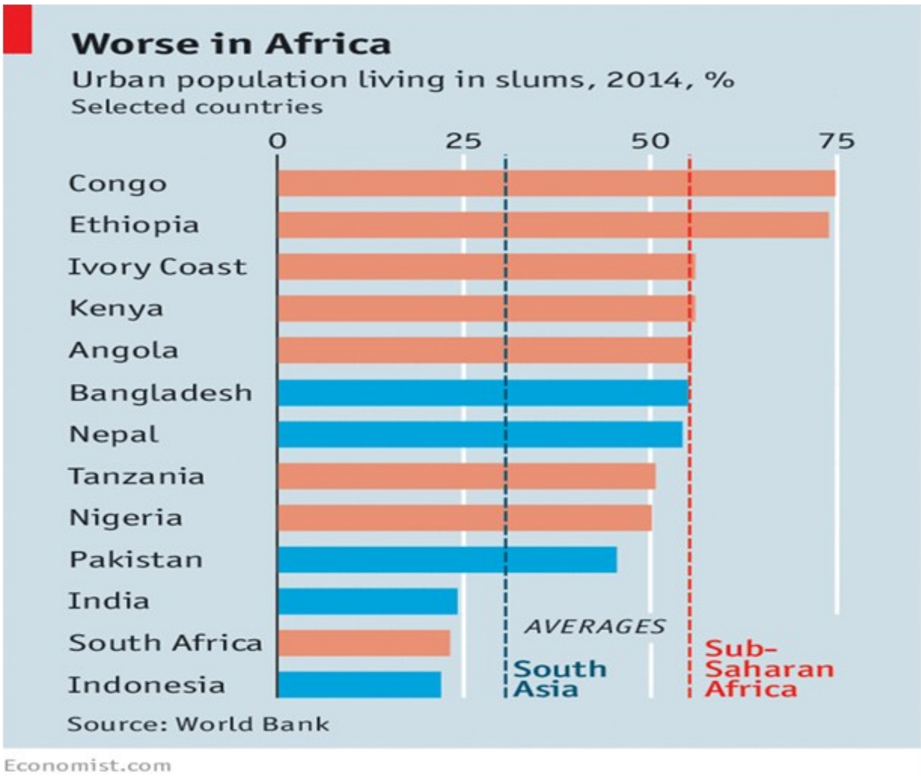
Exploitation and short-sightedness in Africa's slums

STANDING on a muddy patch of grass in Mathare, a district in the eastern part of Nairobi, Kevin surveys his handiwork. From an electricity pylon, a thick bundle of crudely twisted wire hangs down into a tin-roofed shack. From there it spreads to a dozen more. Single wires run perilously at eye level over open sewers, powering bare light-bulbs, kettles and blaring speakers. In exchange for a connection, Kevin and six of his friends collect 200 shillings per month each (about $2) from about a hundred shacks in his corner of the slum. To protect the business, the gang pays off police officers and intimidates the competition. The connections, Kevin insists, are cheaper than official ones, and safer too. The rotting body of a fried rat near one of the lines suggests otherwise.

So goes the provision of public services in Nairobi's poorest districts. These warrens of shacks and crudely built apartment blocks are home to 40% of the city's population, according to one recent World Bank survey (others put the figure even higher). As the city's population has exploded—from a third of a million at independence in 1963 to over 4m now—so too have the slums. Across Africa, they are the primary way by which hundreds of thousands of people have escaped even greater poverty in the countryside. By 2030, half of Africa's population will live in cities, up from a third in 2010. According to the UN, two-thirds of that growth will take place in slums. Between 1990 and 2014, the continent's slum population more than doubled, to some 200m people. Finding ways to improve slums will be one of the most pressing problems of the 21st century for African governments.

There for a reason

Slums grow because they provide something poor people need: affordable housing near to work, schools and public transport. Perversely, for such a poor continent, African cities tend to be sprawling and car-dependent. From Lusaka to Lagos, suburban housing estates and shopping malls, seemingly transplanted from Houston or Atlanta, are springing up at the edge of cities. But the vast majority of Africans cannot afford cars. In Nairobi slums are among the very few places close to jobs where it is possible to go shopping, watch a film and get a street-side meal, all without having to get into a vehicle.



The need to be near jobs helps explain why slums often sit next to staggering wealth. In Nairobi Mathare is wedged between Eastleigh, a bustling Somali commercial hub, and Muthaiga, a luxurious country club popular with white Kenyans. Alexandra in Johannesburg, a township of tin shacks, is at the edge of Sandton, the city's poshest office district. In Lagos, a megacity where two-thirds of people live in slums, Makoko, a collection of shacks built on stilts in the lagoon, sits under the city's Third Mainland Bridge, across from which new office buildings rent for vast sums.

Africa's slums are full of enterprising people. But they are also deeply dysfunctional places, where much of the population lives in a Hobbesian world of exploitation. It is not just electricity that is provided by violent cartels; so is water, rubbish collection and security. The state scarcely enters: in most slums, health care and education are provided privately or by charities, if at all. Diseases such as cholera and HIV are rife. There is often little in the way of a legal system to protect property rights. Instead, well-connected landlords make fortunes renting tiny patches of land to people who have nowhere else to go.

And slums are violent. In Nairobi the cartels fight vicious turf wars with each other. Some, like the Mungiki, a Kikuyu mafia, are organised on ethnic lines. In Lagos slums like Makoko are run by local chiefs called "baales", who dress like mob bosses and expect tributes from residents. Cops are unwilling to go in, except occasionally to extract bribes or to shoot a suspect. Politicians do enter: an abundance of unemployed young men are easy recruits to gangs raised to intimidate opponents.

Perversely, slums are also expensive. In Mathare options range from a shared space in a wooden shack on top of an open sewer with no water or electricity for 700 shillings per month ($7) to a relatively clean room in a compound with a light bulb and a shared outside toilet, for 3,000. That may seem cheap, but slum landlords are doing much the same as Western consumer businesses do in Africa: packaging their product up in tiny enough bites for the poor to afford it. And just as a hundred tiny sachets of washing powder cost more than a single large box, so too with land. According to Jacqueline Klopp, a researcher at Columbia University, per square foot of land rented, Nairobi's slum residents could well pay higher rents than some of the city's wealthy expatriate workers.

Why can't slums be cleared? African governments often see slums as an eyesore and would like to do just that. In Nigeria the Lagos state government has become notorious for waking up slum-dwellers on the most valuable patches of land with bulldozers. When the government wants the land, people are simply kicked off and expected to find new homes. In Kigali, Rwanda's spotlessly clean capital, taxi drivers point out patches of neat grass where slums have been torn up. Less authoritarian governments, such as Kenya's, have tried to "upgrade" slums in situ by building newer, better housing.

Yet when slums are demolished, other ones become more crowded. And new housing is often too expensive or isolated from services for slum residents to benefit. In Kibera, another Nairobi slum where the government has built smart apartments nearby, they are lived in by middle-class newcomers. Those few residents who were upgraded preferred to sublet their new homes.

According to Sumila Gulyani, a World Bank researcher, slums tend to improve when their residents have an incentive and the money to invest. If people either own their property, or rent for long periods, they spend more on improvements and take care of their surroundings. Over time, that can produce better areas. The problem with many African slums, she says, is that people rarely live in one place for more than a few years. While they are there, the money they make is extracted from them by landlords and cartels, who have little incentive to invest. In many cases, improvements—such as proper piped water—brought in by well-meaning outsiders are vandalised by the cartels.

If government treated slums as real city districts they might improve. In Mathare there is some reason to be hopeful. Though shacks still predominate, some taller buildings have been going up, with more space. In his shack, Crispin Adero, a 20-year-old construction worker, has plastered the walls with posters of Manchester City football players. Music plays from a television connection to a satellite tuner. A ladder leads to an upstairs room, which Mr Adero shares with his wife. He built it himself, having made a deal with his landlord to share the costs. Life, says Mr Adero, "is OK." But not everyone has such luck. And outside, sewage still runs in the street.

Stock Market Update

The Nigerian Stock Exchange (NSE) All Share Index (ASI) closed positive in the review period (April 3 – 24) rising by1.88%. This was driven by positive sentiment following earnings surprises and improving macro-economic indicators. The earnings season has also commenced, with the likes of Nigerian Breweries and Unilever posting upbeat results. Inflation eased for the second straight month in March to 17.26%, the naira appreciated 1.28% with steady injections from the CBN. The index closed the review period at 25,747.05pts. Market capitalization was also in the green, gaining a similar 1.88% to close at N8.91trn. The year to date return on the index as at April 24 was -4.2%.

Market breadth was positive at 1.06x as 35 stocks gained as against 33 that declined; 100 stocks recorded no change in their share price. The average value of stocks traded on the exchange within the review period was N1.37bn. The most active stocks traded by value were GTB (15.93%), Zenith Bank (13.49%), Nestle (6.13%), NB (5.915%) and GSK (4.4%). The best performing stocks were Transcorp (32.8%), Learn Africa (21.13%), C&I Leasing (20%), Stanbic IBTC (19.39%) and Lafarge (17.38%).

Top5 Gainers

Company	Apr. 3'17 (N)	Apr 24'17 (N)	% Change	Absolute Change (N)
Transcorp	0.73	0.97	32.88	0.24
Learn Africa	0.71	0.86	21.13	0.15
C&I Leasing	0.5	0.6	20	0.1
Stanbic IBTC	18	21.49	19.39	3.49
Lafarge Africa	43.2	50.71	17.38	7.51[17]

The worst performing stocks within the review period were FCMB Group (-18.18%), Dangote Sugar (-15.08%), ETI (-14.37%) TransExp (-12.12%) and May & Baker (-10.53%).

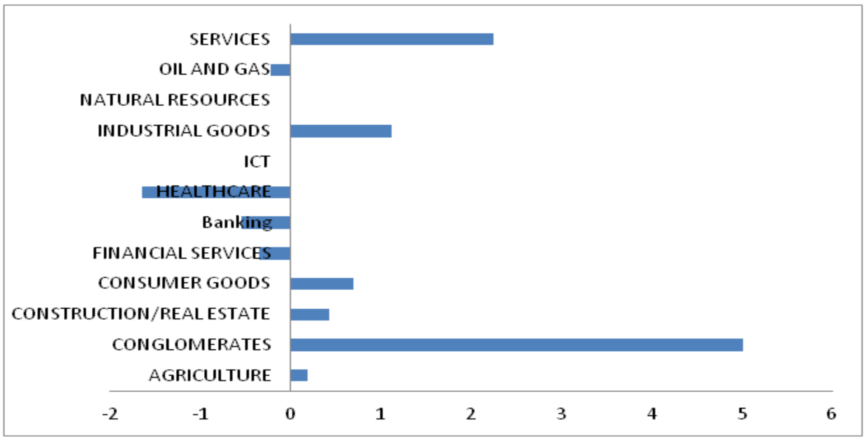
[17] NSE FDC Think Tank

Top 5 Losers				
Company	Apr. 3'17 (N)	Apr 24'17 (N)	% Change	Absolute Change (N)
FCMB Group	1.21	0.99	-18.18	-0.22
Dangote Sugar	7.16	6.08	-15.08	-1.08
ETI	8.7	7.45	-14.37	-1.25
Trans-Nationwide	0.99	0.87	-12.12	-0.12
May & Baker	0.95	0.85	-10.53	-0.1[18]

Sector Performance

All the sectors recorded a positive performance except Financial Services, Healthcare and Oil & Gas. The Healthcare sector recorded the worst performance with an average loss of 1.55%, while gains in Livestock Feeds mitigated the losses recorded by Okomu and Presco, resulting in the Agriculture sector reporting a gain of 0.18%. The banking subsector recorded a loss of 0.55% driven by ETI's loss of 14.37%. All the tier 1 banks recorded a positive performance within the review period (Apr 4-Apr 24).

Chart 13 : Sectoral Performance Apr 4-24,2017



[19]

[18] NSE FDC Think Tank
[19] NSE FDC Think Tank

Corporate Earnings

Stanbic IBTC Holdings

Stanbic IBTC holdings released its Q1’17 interim results today. The result was impressive as both top line and bottom line advanced sharply. Gross earnings grew by 35.20% to N47bn in Q1’17 from N34.78bn in the corresponding period last year. Profit before tax spiked by 81.84% to N18.63bn in the period under review compared to N10.24bn last year. Profit after tax increased significantly by 106.31% to N16.07bn from N7.79bn in Q1’16.

Nigerian Breweries

Nigerian Breweries released its unaudited results for Q1’17 today. The result was broadly positive as gross revenue increased by 17.7% to N91.3bn, compared to N77.6bn in 2016. Profit before tax increased by 16.2% to 17.4bn from N15bn in 2016. The profit after tax for the period rose by 9.9% to N11.4bn from N10.5bn in Q1’15. Other new finance expenses for the three-month period declined to N860mn from N2bn in 2016. Nigerian Breweries accounts for approximately 10% of total market capitalization. In spite of the positive results, it had a neutral impact on the stock market.

Outlook

We expect market volatility to persist on the Nigeria bourse for the rest of month. Speculation is likely to drive trading volumes and market direction. As the federal government intensifies efforts to bring a convergence in the foreign exchange markets, foreign investor interest may improve bringing the much-desired liquidity back to the Nigerian equities market.

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January 2018
March 2018

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May 15 - Aug 18, 2017

Duration: **4 months**

Senior Management Programme

For regional managers, unit heads and assistant general managers

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

Mar 6 - Sept 18, 2017
May 22 - Oct 20, 2017 (Abuja)
June 19 - Nov 24, 2017
Sept 18, 2017 - Feb 16, 2018

Duration: **6 months**

Management Acceleration Programme

For potential managers and supervisors, early career employees

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

Aug 9 - Nov 4, 2017
May 3 - Aug 5, 2017 (Abuja)

Duration: **4 months**

Owner Manger Programme

For founders, entrepreneurs and business owners

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

April 3 - Sept 8, 2017
June 5 - Nov 24, 2017 (Enugu)
Oct 16, 2017 - March 16, 2018 (Abuja)

Duration: **6 months**

Agricbusiness Management Programme

For agriculturists, persons interested in agriculture, business owners

This is an innovative and stimulating learning experience that integrates classroom and action learning in providing the specific business skills required for the agricultural sector

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Aug 14 - Dec 15, 2017 (Enugu)

Duration: **6 months**

Advanced Management Programme

For General Managers and Directors reporting to CEOs

This programme is designed to help experienced senior managers refine their management and leadership skills needed for continued career advancement. The programme prepares them for the c-suite

May 8 - Sept 15, 2017

Duration: **6 months**

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Financial Times, London

For Reservations/Additional Information:
Efosa Ajorgbor: 07019900758; **Arinze Maduekwe:** 07080070552
execedsales@lbs.edu.ng

Equity Report: Nestlé Nigeria Plc

Analyst Recommendation: HOLD
Recommendation Period: 365 days
Industry: Consumer Goods
Market Capitalization: N590.52 billion
Current Price: N760
Target Price: N756.07

Nestlé's recent Q1 2017 result shows its resilience in a period of slowing consumer demand and weak macroeconomic fundamentals. The company's sales grew by circa 70% to N61.2bn. This revenue growth was driven primarily by price increases across its product segments. Furthermore, the decline in competition from imported products due to foreign exchange (forex) shortages led to an increase in sales volumes. Gross profit and operating margins grew by 32% and 21% year-on-year (yoy), respectively. Net income increased by 25% yoy to N8.3bn. Gross profit margin declined by 10.8 percentage points to 38.4%, while the operating margin declined by 3.4 percentage points to 21.6%. Profit after tax margins declined by 4.8 percentage points to 13.7%. While revenue and earnings grew, margins declined due to a combination of high raw material costs, increased energy cost and higher finance costs.

Recent improvements in oil production, the external reserve levels and the naira point to better economic conditions. The government's economic recovery plan could bolster Nestle's results in the coming months if successfully implemented. Also, the proposed minimum wage hike could increase consumer demand and strengthen purchasing power. Despite these improving economic and business fundamentals, there are factors that could limit Nestle's potential growth. A deviation from the government's economic recovery goal could result in further deterioration. In addition, Nigeria's economic rejuvenation is tied to a favorable oil price and production metrics. Thus, any significant price and production shock could wipe out recent improvements recorded and send the country back to recession and weaker consumption. While the company's resilience shows the strength of its brand and management, an intrinsic valuation of the company shows that it has little upside. Taking into account its future earnings growth, product range and cost structure and relevant valuation metrics (detailed in the appendix section), Nestle current price is hovering around its intrinsic valuation. Accordingly, we place a HOLD rating on Nestlé.

Industry and Company Overview

Nestle plays in the food and water segment of the consumer goods industry. Nigeria's large and young population provides a potentially huge and lucrative market for investors in these segments. However, companies in the food processing industry, including Nestle, face challenges, particularly infrastructural deficiencies. Food companies in the country can take advantage of the growth forecast in food consumption and disposable income if minimum wage is increased. And government policies aimed at ensuring self-sufficiency in the production of key agricultural products such as rice, millet, sorghum, maize and soybean will ensure cheaper raw materials for food processing companies.

The food processing industry in Nigeria is dominated by major multinational players such as Cadbury, Nestle and Unilever. Despite the harsh economic conditions, Nestle has recorded remarkable profitability as evidenced by its N12.12 earnings per share. This is in stark contrast to its multinational competitors, Unilever and Cadbury's earnings per share of N0.93 and N-0.50, respectively. Nestle is also outperforming its local competitors. UAC Foods and Flour Mills have earnings per share of N1.83 and N1.05, respectively.

Nestle's size and brand recognition position it to benefit from the long term projection in disposable income. The rising consumption of bottled water also provides an opportunity to expand the Nestle PureLife water brand. Finally, the increasing investment in the grocery retail industry could result in improved sales for food processing companies as a wider consumer base patronize these retail outlets. The growth of Nestle through the years is shown below. Both revenue and total assets have grown significantly.

Income Statement for Nestle Nigeria Plc					
N'000	**2012**	**2013**	**2014**	**2015**	**2016**
Revenue	116,707,394	133,084,076	143,328,982	151,271,526	181,910,977
Cost of Sales	(66,538,762)	(76,298,147)	(82,099,051)	(83,925,957)	(106,583,385)
Gross Profit	**50,168,632**	**56,785,929**	**61,229,931**	**67,345,569**	**75,327,592**
Marketing and distribution expense:	(18,866,526)	(22,932,923)	(24,689,301)	(25,904,586)	(28,775,263)
Administrative expenses	(5,312,537)	(6,020,026)	(7,340,409)	(7,693,740)	(8,338,992)
Operating Profit	**25,989,569**	**27,832,980**	**29,200,221**	**33,747,243**	**38,213,337**
Finance Income	909,074	361,307	551,594	443,805	4,199,314
Finance Costs	(1,848,471)	(2,146,697)	(5,305,837)	(4,868,571)	(20,864,243)
Net Finance Cost	(939,397)	(1,785,390)	(4,754,243)	(4,424,766)	(16,664,929)
Profit Before Tax	**25,050,172**	**26,047,590**	**24,445,978**	**29,322,477**	**21,548,408**
Income tax expense	(3,912,897)	(3,789,311)	(2,210,338)	(5,585,700)	(13,623,440)
Profit After Tax	**21,137,275**	**22,258,279**	**22,235,640**	**23,736,777**	**7,924,968**

Balance Sheet for Nestle Nigeria Plc					
N'000	**2012**	**2013**	**2014**	**2015**	**2016**
Property, Plant and Equipment	62,159,796	65,878,425	67,514,854	69,148,171	70,171,526
Intangible assets	26,347	-	-	-	-
Long term receivables	420,930	573,247	1,157,883	1,352,196	1,678,251
Total non-current assets	**62,607,073**	**66,451,672**	**68,672,737**	**70,500,367**	**71,849,777**
Inventories	8,784,909	9,853,893	10,956,010	10,813,960	20,637,750
Trade and other receivables	13,457,105	17,884,775	22,330,813	24,445,995	24,035,411
Prepayments	300,066	300,637	398,002	525,205	1,711,842
Cash and cash equivalents	3,814,065	13,716,503	3,704,505	12,929,526	51,351,152
Total current assets	**26,356,145**	**41,755,808**	**37,389,330**	**48,714,686**	**97,736,155**
Total Assets	**88,963,218**	**108,207,480**	**106,062,067**	**119,215,053**	**169,585,932**
Share capital	396,328	396,328	396,328	396,328	396,328
Share premium	32,262	32,262	32,262	32,262	32,262
Share based payment reserve	49,543	26,585	44,637	150,466	126,480
Retained earnings	33,707,429	40,139,626	35,466,416	37,428,018	30,323,005
Total Equity	**34,185,562**	**40,594,801**	**35,939,643**	**38,007,074**	**30,878,075**
Loans and Borrowings	23,556,616	26,471,275	18,385,876	12,530,361	10,384,341
Employee benefits	1,082,673	1,821,829	1,827,773	2,382,213	2,103,744
Deferred tax liabilities	4,958,723	6,086,480	5,270,723	6,563,548	5,186,338
Total non-current liabilites	**29,598,012**	**34,379,584**	**25,484,372**	**21,476,122**	**17,674,423**
Bank overdraft		-	1,237,606	305,024	154,582
Current tax liabilities	2,349,901	2,803,623	3,478,733	5,040,468	15,489,634
Loans and Borrowings	3,457,431	947,809	12,730,126	17,108,803	40,130,375
Trade and other payables	19,003,142	29,066,050	26,656,779	36,661,728	64,662,096
Provisions	369,170	415,613	534,808	615,834	596,747
Total current liabilites	**25,179,644**	**33,233,095**	**44,638,052**	**59,731,857**	**121,033,434**
Total liabilites	**54,777,656**	**67,612,679**	**70,122,424**	**81,207,979**	**138,707,857**
Total equity and liabilites	**88,963,218**	**108,207,480**	**106,062,067**	**119,215,053**	**169,585,932**

Management

Nestle's approach to ensuring sustainable returns in a period of weaker consumer demand involves cost management, top line growth and strategic investments in key brands. This has resulted in solid sales growth at a period when many companies are facing tepid sales. Management increased prices about four times in 2016 in order to ensure revenue growth. The appointment of its current CEO, who has extensive experience in driving revenue growth across different African regions, underscores the company's approach towards harnessing the talents of its sales team. Nestle's cost efficiency has seen it increasingly explore the use of local materials in its production processes. Some of the locally produced items include soya bean, maize, cocoa, palm olein and sorghum. This reduces Nestle's exposures to the vagaries of the forex market, thereby helping it manage input costs better.

The company's board is led by Mr. David Ifezulike, who joined Nestlé in 1980 and worked for over 26 years in various capacities and locations. Nestle's current Managing Director, Mr Maurico Alarcon assumed his position in October 2016. He has extensive experience across several regions in which Nestle is located. Mr Alarcon joined Nestle Mexico in 1999 where he worked in several sales and marketing assignments in the ice cream business. Across Africa, Mr Alarcon served as Business Executive Manager, Ice Cream, in Egypt where he transformed the business by driving a substantial revenue and profitability growth. He also drove strong topline growth in Nestle Cote d'Ivoire through his engaging leadership style.

The experience of Nestle's management in leveraging its solid brand to drive growth in revenue and earnings, in a period of weak economic activity, should give investors confidence in the management team. The management's effective use of Nestle's pricing power reduces the impact of increased costs and ensures sustainable earnings.

The Bulls Say and the Bears Say

Bulls Say:

- Superior brand value in both food and beverages segment
- Improving macroeconomic fundamentals
- Proposed upward review of minimum wage would bolster consumer purchasing power

- Continuous investment in innovation, research and development provides Nestlé with an immense opportunity to diversify its revenue base and satisfy dynamic consumer taste
- Robust distribution network and a talented sales force
- Experienced management team

Bears Say:

- Despite improving economic fundamentals, the risk of relapse in economic recovery momentum could lead to further consumer resistance
- Higher interest payments on dollar-denominated borrowings
- Weaker earnings resulting from higher financing costs
- Insecurity in the northern region of the country has affected distribution and sales
- Intense competition in the food nutrition segment of the consumer goods industry

Risk and Outlook

The major risks that Nestlé Nigeria Plc faces are markets risks and the security challenges in the country. Markets risks include currency risks, weak economic fundamentals, and changes in the prices of raw materials. The company has been exposed to currency risks on sales, purchases and borrowings that are denominated in foreign currencies, predominantly US dollars, euros, pounds sterling and Swiss francs. The currency risk, which is one of Nestlé's most important risks, has resulted in an increase in net financing costs as reflected by the 257% increase in net finance costs in Q1 2017. Despite the recent improvement in forex supply in the country, there is still uncertainty in the forex market due to possible oil price and production shocks. Even though Nigeria is projected to record GDP growth this year, any derailment in the implementation of the government's recovery plans, a decline in oil prices or production could lead to a contraction in GDP.

The security challenges in the country, especially in the south-south and north-east regions have limited Nestlé's sales and distribution. Sustained attacks from Boko Haram have affected various sales and marketing initiatives that would have taken Nestlé closer to consumers in the northern area of the country.

In spite of Nestlé Nigeria's management's ability to manage the macroeconomic challenges it faces in the near future, the intensity of the macro headwinds could challenge the company's performance. While first quarter results of 2017 were remarkable, several macroeconomic factors and risks may reduce its potential performance.

Appendix - Valuation

We derived our valuation for Nestlé Nigeria Plc by using the Discounted Cash Flow (DCF) methodology. Our fair value estimate for Nestlé Nigeria Plc is N756.07, which is a 0.5% downside on the current price of its share as of May 9, 2017. The discount rate (weighted average cost of capital) of 11.5% is derived using a 15.97% risk free rate (the yield for the 20 year FGN Bond maturing on August 2019), a beta of 1.0994, an after-tax cost of debt of 4.7%, and a market risk premium of 6%. The long term cash flow growth rate to perpetuity calculated is 3.8%.

Considering Nestlé's growth plans, extensive product range, operational efficiency target, improving macroeconomic fundamentals and an impressive Q1 2017 result, we forecast a three-year revenue growth CAGR of 16.6%.

Nestlé Valuation using DCF

DCF Valuation				
N'000		**2017E**	**2018E**	**2019E**
EBIT		47,310,051	63,499,774	74,929,733
Less: Taxes		(11,354,412)	(15,239,946)	(17,983,136)
EBIAT		35,955,639	48,259,828	56,946,597
Plus: Depreciation Expense		6,321,927	6,600,214	6,997,991
Less: CAPEX		(8,140,997)	(9,769,196)	(11,527,651)
Less: Change in working capital		(1,766,494)	5,271,866	4,265,193
Free Cash Flow (FCF)		32,370,074	50,362,712	56,682,129
WACC		11.5%	11.5%	11.5%
Present Value (PV) of FCF		26,051,011	36,360,549	36,711,989
Terminal value @ perpetual growth rate (2019)		**2017**	**2018**	**2019**
Terminal value as of 2019				770,968,725
Present value of terminal value	499,342,483			
DCF Calculation	**Valuation**			
PV of explicit period	99,123,548			
PV of terminal value	499,342,483			
Enterprise Value	598,466,031			
+ Cash	51,351,152			
- Borrowings	(50,514,716)			
Equity Value	599,302,467			
Share price	**756.07**			
Shares outstanding ('000)	792,656			

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