FINANCIAL DERIVATIVES COMPANY LIMITED

Volume 7, Issue 85

June 20, 2017

Bi-monthly Economic & Business Update

INSIDE THIS ISSUE:

Now that the budget has been signed, what's next?

The acting president has finally signed the budget into law, approximately one month after the Senate passed the 2017 budget on May 11, 2017. Some adjustments were made to the proposed fiscal plan. For instance, the total expenditure increased to N7.44trn from the initial proposal of N7.29trn. The benchmark oil price was adjusted upwards to $44.5pb from $42.5pb. Other adjustments are captured in the table below:

	Initial proposal (N'trn)	Actual (N'trn)
Capital expenditure	2.24	2.18
Recurrent expenditure	2.97	2.98
Statutory service	0.419	0.434
Debt service	1.66	1.84

Termed a budget of recovery and growth, it is actually a reduction in dollar terms, $24.39bn, relative to 2016's budget of $30bn. Nonetheless, the objectives of the fiscal plan are commendable: its focus on building critical infrastructure such as railways, roads, etc; encouraging small and medium scale enterprises as drivers for job creation and productivity; provision of social safety nets for poor and vulnerable Nigerians as growth engines, but to name a few.

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How will the budget be funded?

The funding of the budget resonates in everyone's mind. The economy is in recession and the budget is all about growth and recovery. With a projected revenue of N4.94trn to fund its expenditure plans, approximately 40% will be from oil proceeds, 28% from non-oil revenue such as taxes, while the rest stems from other sources, such as recoveries of looted/misappropriated funds. This means that the government anticipates a deficit of N2.35trn, (estimated at 2.18% of GDP).

The projected oil revenue of N1.99trn is premised on an average oil price of $44.5pb and a production level of 2.2mbpd. Currently, Brent crude (a proxy for Bonny Light) is trading at $46.92pb (June 20th), $2.42pb above the benchmark price. The year-to-date (YTD) average is $54pb, $9.50 above the benchmark price. Oil prices have been volatile recently in spite of the Middle East crisis and extension of the OPEC cuts to 2018. Rising US shale production is not helping matters. The good news is that Nigeria is exempt from cutting production through this agreement.

On the production side, the nation's output level has been suboptimal at an average of 1.55mbpd YTD. In May, Nigeria's output level was 1.68mbpd.[1] The average so far this year is 29.55% below the budget benchmark. The shut-ins and vandalisms this year have been few and far between, thanks to the engagement between the government and Niger Delta militants. Yet, achieving an output level of 2.2mbpd seems overly optimistic. If Nigeria can attain an output level of at least 1.8mbpd with oil prices at current levels, the pressure on revenue will be dampened. Nevertheless, given the possibility of another adjustment in the exchange rate, the naira value of the oil sold in dollars will be higher. This will improve the government's fiscal position. The exchange rate used to calculate the 2017 budget is N305/$; the exchange rate used in 2016 was N197/$.

Other funding options

The government plans to fund its budget deficit via borrowing. The government has already raised funds from the Eurobond mar-

[1] Source: OPEC Monthly Reports

ket twice this year (a total of $1.5bn) and both issues were successful. The government also raised a $300m Diaspora Bond, the first of its kind. There are other foreign borrowing plans that the government is working on with multilateral agencies such as the World Bank and Chinese EXIM Bank. A $6.9bn loan is proposed for rail projects, the rehabilitation of the North-East and projects in education, agriculture and health sectors.

Domestic borrowing is likely to be minimal due to rising costs of servicing the debt. In 2015, the cost of debt servicing was 23% of expenditure, compared to 10% in 2010.[2]

What's next?... Spending! Spending!! Spending!!!

The authority to incur expenditure has been issued and disbursements have begun. The FGN has already approved the release of N350bn for capital projects and a slew of others are expected to follow.

Impact of the disbursement of budget funds

Good news

Increased level of economic activities

The release of funds means that projects that have been abandoned or suspended due to lack of funds will be renewed. This is expected to boost the level of economic activity. We expect to see a decline in salary arrears also as funds are released for recurrent spend.

Increased revenue generation

The 2017 budget is capital intensive. The Power, works and Housing ministry has the highest capital allocation - 56% of capital expenditure. A higher infrastructure spend will increase revenue generation opportunities and over time, significantly reduce the fiscal deficit.

[2] Source: FGN's Economic Recovery and Growth Plan

Increased liquidity in the money market

Money market liquidity is also expected to increase. The average opening position of banks year- to date- (up till June 19th) is N3.55bn long with pockets of negative positions mid months. Short term interbank rates have oscillated between 12% and 15% on average due to liquidity shortages, with sporadic aberrational spikes to as high as 200% pa.[3]

Bad News

Inflationary pressure

The increased liquidity anticipated from the release of budget funds has an inflationary impact. Nigeria's headline inflation slowed further to 16.25% in May. However, this is still above the budget's benchmark of 15.74% and the CBN's target of 11%. Broad money supply contracted by 8.48% in April and when annualized, by 25.44%. This is significantly lower than the CBN's provisional growth benchmark of 10.29% for 2017. We expect this trend to change once budget funds kick in and demand pull pressure weighs on the general price level.

Increased demand for dollars will weigh on the exchange rate

With increased funds available in the money market, the demand for dollars will intensify the pressure on the exchange rate, which as at June 19th, was trading at N368/$ in the parallel market. Heightened demand pressure means that the CBN may have to deplete its external reserves further to defend the currency. Nigeria's external reserves level reached $31bn in the first few days of May, before falling to its current level of $30.21bn (June 16th).[4] The slowdown in the reserves level could be attributed to the maturity of forward contracts sold early in the year.

Implementation

The level of budget implementation has been suboptimal over the years, due to delays in the Senate's approval and the Presidential

[3] Source: CBN
[4] Source: CBN

assent. This usually affects the extent to which projects are completed and also sometimes the quality of the projects implemented. It could also deepen the economic crisis and delay the recovery process as funds are cut off. The 2016 budget was passed by the Senate in March and signed into law in May. The 2017 budget was passed roughly 2 months later than last year.

Conclusion

In conclusion, the 2017 budget is a laudable plan with optimistic objectives. The long wait in the budget process could undermine the effectiveness of the fiscal plan as a tool for evaluating the government's performance. Nonetheless, it is a budget of recovery and growth. All things being equal, it should achieve this goal to some degree, at least.

Maintaining the recovery momentum and achieving sustainable growth

Background/introduction

The tale of Nigeria's current recession can be traced back to the onset of the oil shock in 2014.

Increased global production drove prices to new lows. From a peak of $116pb in 2014, oil was trading for as low as $50.11pb in Jan'15 and $28.94pb in Jan'16. In 2016, Nigeria's production was cut by 16% due to pipeline vandalism. With prices and output down, the federal government's oil revenue took a drastic hit. Revenue fell by almost a third and dollar inflows fell with it. As a result, the naira depreciated dramatically against the, losing 66.1% of its value to close 2016 at N490/$. Economic slow-down set in and by 2016 Nigeria was in a full recession.

To lift Nigeria out of its recession, the government seems to be adopting a Keynesian approach to recovery. According to Keynesian economics, recession arises from a decline in aggregate demand. Thus, Keynesians strongly believe it is the government's responsibility to kick start an economic recovery and boost employment. By increasing expenditure on social or infrastructure development, the government pumps money into the economy and boosts demand and consumption.

All indicators suggest that this is precisely Nigeria's plan. At N7.3trn, 2017's budget is 20.4% higher in naira terms than 2016. Borrowing plan for the year is in excess of $9bn (N2.75trn). The government has also intensified tax collection efforts to boost internally generated revenue. These actions are commendable. However, this administration is yet to fully grasp the importance of timeliness when it comes to policy implementation.

The truth is, delayed action exaggerated and worsened the impact of the oil shock on the economy. For months, the CBN resisted a devaluation of the currency and instead, introduced forex restrictions, which created artificial pricing. This reluctance to respond at the appropriate time, consolidated the slowdown, and brought about an exchange rate crisis. Meanwhile, the delay in the passing of the 2016 and 2017 budget and implementation of borrowing plans hindered fiscal spending.

Now, it seems like history is repeating itself. Q2 is winding down, and the 2017 budget is yet to be signed into law. Likewise, the government is yet to fully roll out its infrastructure projects and social service plans as stipulated at the beginning of its tenure. To maintain the recovery momentum, the government needs to be more sensitive to timing and avoid unnecessary delays in its responses.

What next? Achieving sustainable growth

This recession has made one thing clear, if the Nigerian economy was a house, its foundation would be oil, and its walls would be made from dollar paper-mâché. In other words, the economy is built from what it cannot control, making it extremely vulnerable to external shocks. This is worrisome, especially in the light of low oil prices. Despite desperate attempts from OPEC and other oil-producers to prop up the market, the future of oil prices remains bleak.

This, therefore, gives rise to another question: can our economy grow without the support of the much higher oil income it received in the glorious past? If so, how? What can be done to achieve sustainable growth in the long term?

First, it is useful to note that a growth strategy based dominantly on debt financing or environmental degradation is not sustainable, as it only postpones the burden to future generations. Next, the importance of diversification cannot be overemphasized. The government needs to expand the country's export portfolio and support the growth of other sectors such as manufacturing and technology. Other means to sustainable growth include:

Industrialization and increasing capacity

Nigeria needs to build its industrial capacity i.e. ability to turn raw materials into finished goods for local consumption and exports. This can only be driven by stable electricity and robust infrastructure (railways, road networks etc). Industrialization has the ability to amplify the activities in other industries. The result is higher productivity.

Policy continuation and commitment

Nigerian governments (state and federal) are notorious for abandoning the projects started by their predecessors. This is unfortunate because the process of development is an ongoing one that lasts decades and even centuries. So until our leaders set aside selfish ambitions and work towards driving the common goal, Nigeria may forever be stuck in a cycle of sporadic growth.

Democracy & accountability

Nigerians are quick to forgive and forget when it comes to their policy leaders. However, good governance can only occur where the population holds the leadership accountable for their actions and choices. This is being made increasingly possible with social media.

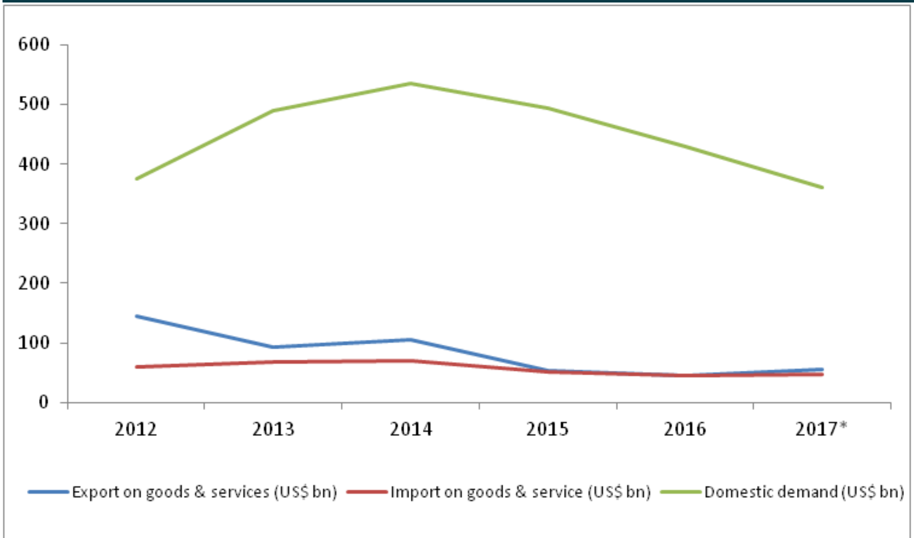
This is not an exhaustive list. However, if addressed, Nigeria will move a step closer to achieving sustainable growth.

In conclusion, the good news is that Nigeria is on its way out of a recovery. However, the economy remains dependent on oil; the major determinant of the exchange rate. Another oil shock (2.0) could result in a double-dip recession .

Shortcomings of a protectionist stance in a period of economic crisis

Back in the first three quarters of 2016, Nigeria's trade balance recorded a deficit. The deterioration in the trade balance was a result of the slump in global oil prices that began in mid-2014, and the ensuing foreign exchange (forex) crisis in an import dependent economy. Several exchange rate adjustments and a weaker currency have made Nigerian exports more competitive. Unfortunately, the method – trade protectionism – may not be a sustainable way to address the trade deficit. Restricting trade in a country that is import dependent, especially when in an economic crisis, is detrimental to growth. It can slow competition, innovation and encourage trade retaliation. All the while, local industry will not be able to meet the supply vacuum created by the import restrictions because it is not positioned to take over. Instead the government needs to stay focused on its economic recovery and growth plan, which stresses competitiveness and improving the business environment. This more holistic, and outward focused approach has a much greater chance of addressing Nigeria's trade deficit and putting Nigeria's economic growth back on the map.

Chart 1 : Trade Balance



Trade protectionism is a measure used to promote exports and reduce dependency on imported goods. Historical and empirical studies reveal that protectionism is typically on the increase when economies are in a recession or depression, as countries seek to boost local demand to stimulate economic growth. In contrast, during an economic boom and time of prosperity, free trade is encouraged.[5]

Trade protectionism includes strategies such as administrative barriers, import quotas, export subsidies, and exchange rate manipulation. For example, protectionism, through tariffs on imports, raises the price of imported goods beyond the market equilibrium price. This decreases demand and eventually, the supply. It can lead to a gradual switch to locally produced goods as consumers will buy less of the expensive items and increase demand for the cheaper domestic products. Many countries today have adopted various forms of protectionism. For example, China encouraged cheap exports by artificially depreciating its currency, ruffling the feathers of the United States. Farmers are subsidized in the European Union (EU) and the import of cheap foreign agricultural products is banned.

Nigeria, too, has leveraged on trade protectionism with some success over the years. Olusegun Obasanjo's administration banned some imported products to protect and promote domestic industries. This led to a scarcity of essential raw materials. Manufacturers had no choice but to reduce the over-reliance on imported raw materials and switch to locally sourced raw materials for their products. Under the Jonathan and Buhari administrations import restrictions on palm oil imports helped strengthen a few domestic industries like Okomu Oil Palm Company and Presco Oil Palm Plc. Restrictions on rice imports saw the creation of LAKE Rice, a partnership between Lagos and Kebbi State, which was introduced days before the year-end festive season in 2016. This development was embraced by the public as the retail price was pocket friendly – selling at N12, 000/50kg bag compared to the price of imported rice at N22, 000.

However, these successes are typically short lived or isolated occurrences as local industry often isn't mature enough or supported enough by government regulation and incentives to take advantage of the supply vacuum created by trade protectionism. An example is the 1980s Structural Adjustment Program. The protectionist devaluation of the exchange rate led to the increased cost of raw materials, equipment and spare parts. This crippled the ability for the

5 Bussière, M., Pérez-Barreiro, E., Straub, R., & Taglioni, D. (2011). Protectionist Responses to the Crisis: Global Trends and Implications. The World Economy

manufacturing sector to increase its production to meet the growing demand.

Trade protectionism can also cause significant interference with a self-regulating market and a competitive foreign exchange policy. The lack of external competition weakens local competition as companies have less incentive to innovate and improve product quality. Without an efficient and competitive pricing system, domestic companies can increase prices without improving the quality of products or services rendered.

Finally, trade protectionism can also lead to retaliation from other trading partners, potentially distorting the trade relationship between countries. For example, when the US levied a tariff on Chinese tires, China retaliated by imposing tariffs on American chicken and automotive products.

In the case of Nigeria's current economic situation, trade protectionist policies may be detrimental given current macroeconomic headwinds, various political ideologies and policy instability, as well as uncertainty. Nigeria still depends heavily on imported items and restrictive trade policies implemented by the government and the CBN are not enough to reduce the huge pressure on foreign reserves, or stimulate competitive local production.

A familiar factor is the inability of the manufacturing sector to meet the burgeoning local demand target. Dilapidated infrastructure, power shortages, insecurity, the high cost of borrowing, the inability to secure long term loans, and multiple taxation levies are common features of the Nigerian business environment. With higher production costs, local products are simply unable to compete with their foreign competitors.

Instead, a fully liberalized exchange rate, complemented with the right policies to encourage and incentivize investment, is needed to set Nigeria on a path to competitiveness and sustainable growth. The government, in its recently released economic recovery and growth plan (ERGP) has placed competitiveness and improving the business environment as one of the pillars in the strategic implementation plan. Nigeria is currently ranked 169th out of 190 countries in the World Bank ease of doing business index. The Presidential Enabling Business Environment Council (PEBEC) – chaired by the Vice President, Yemi Osibanjo – has approved a

60-day national action plan to push forward reforms aimed at easing the bottlenecks and constraints of doing business in Nigeria. These will address the majority of the obstacles highlighted above.

Protectionist policies usually pander to nationalist sentiments and just as the road to perdition is usually paved with good intentions the argument for protectionism needs to be evaluated. Nigeria's focus should remain firmly on the economic recovery and growth plan and its goal of improving the business environment.

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Global Perspective-Cheap minerals, bad policies: Culled from the Economist

The return of the resource curse

The worst growth figures for two decades fail to keep pace with a rising population

Wearing a cowboy hat and holding two scrawny goats at the end of a tether, the farmer scowls when asked how business is going at Nyamata Market, a patch of dusty earth about 25km south of Kigali, Rwanda's capital. "People have no money," he grumbles, pointing at his unsold animals. As if to underscore the point one of the goats jets a stream of urine at your correspondent's shoe. Rwanda's economy, like many across Africa, has been hit by the twin blows of drought and low prices for minerals.

Growth in sub-Saharan Africa slumped to 1.4% last year, its slowest pace in two decades, reckons the IMF. Since the region's population is growing at about twice that rate, this means that GDP per head fell for the first time in more than 20 years. Economies slowed in two-thirds of countries south of the Sahara.

A year earlier, cheaper oil helped speed growth in some countries. Nigeria and Angola, where the black stuff used to account for as much as 90% of exports, were walloped. But countries that import most of their fuel, such as Kenya and Ethiopia, enjoyed a boomlet.

When the price of crude slumped further in the early months of last year, the big oil exporters fell into recession. This time there seemed to be no offsetting benefit for others. The misery was more widespread than in 2015, and more sustained than expected, for two main reasons. The first was a drought across much of east and southern Africa that shrivelled crops, driving up food prices and slashing farmers' incomes.

The second was that ill fortune was exacerbated by government policies that have hobbled growth in Africa's two biggest economies, Nigeria and South Africa. In Nigeria the government refused to let its currency float freely in response to the sharp drop in its export earnings from oil. Faced with an overpriced currency investors held back, waiting for the naira to fall. In South Africa, meanwhile, investment and growth dried up as news of government corruption and economic mismanagement spurred credit-rating agencies to downgrade the country's debt to junk.

Even many of the region's faster-growing countries have passed foolish economic policies. Kenya has capped the rate of interest banks can charge, prompting most of them to stop lending to businesses. Tanzania has barred its main gold producer from exporting gold concentrate. Cameroon's government, fearful of dissent, shut off the internet to English-speaking parts of the country, which is where technology start-ups cluster.

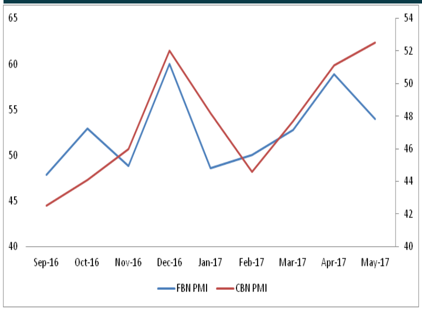
More worrying is that as economies slowed, the parlous state of public finances became clear. The ratio of public debt to GDP has jumped ten percentage points to 42% on average since 2014—the highest level for many countries since they had their debts written off a decade or so ago. The level may not look high by the standards of rich countries, but interest rates in Africa are much higher. The governments of Nigeria and Angola now spend more than half of all their revenue on servicing their debts. Countries such as Ghana, Zambia and Mozambique risk drowning in red ink, having ramped up government spending when GDP growth was stronger and global credit was easy.

Growth should pick up a little this year—the IMF hopes for about 2.6%—but its fragility highlights how the region has yet to kick its addiction to commodity exports, and how it can ill afford to keep piling on debt as it has in recent years.

Macro-economic Indicators

Purchasing Managers Index (PMI)

Chart 2: PMI



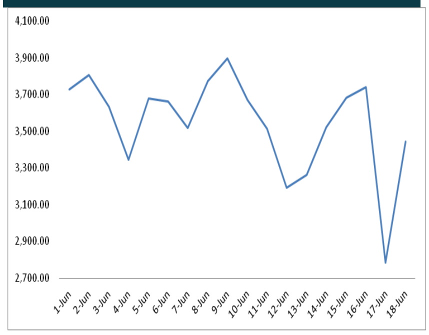
The purchasing managers' index declined dramatically in the month of May to 54.0 from 58.9 in April according to FBN Quest. This directional movement comes in contrast to the movement recorded by CBN's PMI. According to the apex bank, PMI increased to 52.5 in May from 51.1 the previous month. Both indexes reveal that the manufacturing sector is in positive territory. However, cautious optimism has to be exercised as the manufacturing sector still faces some challenges. One of which is the high cost of funding interest payments. Nonetheless May PMI numbers highlight a positive step in the path towards economic recovery.

Outlook

The manufacturing sector is expected to remain in positive territory as macro-economic fundamentals improve.

Power Sector

Chart 3: Power Output (MW/hr)



Average power output from the national grid was at 3,593MWh/h, 1.67% higher than 3,534MWh/h recorded in the first half of May. As at the 18th of June, power output recovered to 3, 443MW/hr, following a decline in output to 2,786MW/hr in the previous day, caused by high frequency constraints from heavy rainfall. The general improvement in power output in the first half of June is attributable to improved hydroelectric generation given the raining season. Total loss within the review period was N18.92bn.

Outlook

We expect power generation to remain stable as the month of June rolls on. This is mainly attributable to increased hydroelectric

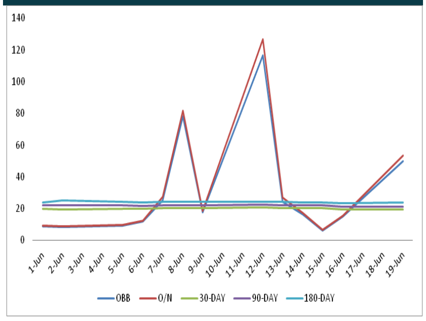
[6] FBN, CBN, FDC Think Tank
[7] Nigerian Electricity Supply Industry

generation as a result of the rainy season. Relative peace in the Niger Delta will also help power generation from gas sources.

Money Market

Markets opened at N41.8bn long in June long relative to May's opening position of N289.18bn long. Average liquidity in the first half of June was N28.5bn short relative to the average opening position in the first half of May at N159.85bn long. Currently the liquidity position in the market is N15.76bn long (June 19th). Reduced liquidity in the money market is attributable to increased funding for dollar positions. Average NIBOR (OBB, O/N and 30-day) was 26.99% pa within the review period in June, compared to 20.93% in the corresponding period in May. Specifically, the OBB and O/N rates spiked to as high as 116.67% pa and 126.67% pa respectively as at the 12th of June. Currently, these rates are still relatively high at 50% pa and 53.3% pa respectively (June 19th).

Chart 4:Short-term Interest Rates (%pa)



[8]

In the secondary market, average yields on Treasury Bills ranged between 13%-19% for the 91 to 365- day bills. Lending rates have remained flat at an average of 25%.

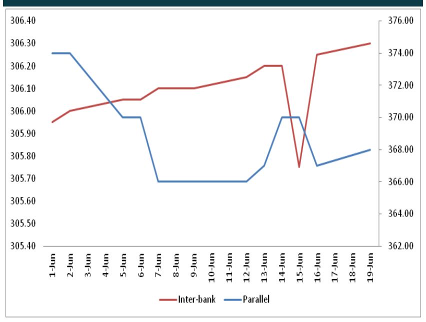
Outlook

The finance minister has announced the release of the first leg of capex to the tune of N350bn and this influx of naira into the system cannot come at a more opportune time. In addition to this, we expect FAAC disbursements and OMO maturities to increase naira liquidity in the system. However, the quantum of these inflows relative to outflows (especially funding for dollars) would determine the liquidity position in the markets and the direction of short term interbank rates.

FOREX MARKET

Exchange Rate

Chart 5:Exchange Rate (N/$)



[9]

Naira appreciation continued in the parallel market with the naira currently trading at N368/$ relative to N386/$, its trading value

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[8] CBN, FMDQ OTC, FDC Think Tank
[9] FDC Think Tank

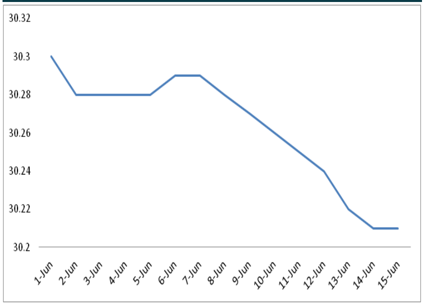
as at the end of the first half of May. During the review period, the naira traded at a year to date high of N366/$. The interbank rate depreciated marginally to N306.30/$ as at June 19th from N305.90/$ at the end of May. The spread between the the parallel and interbank market rates has narrowed to N61.70 from N74.1 in the previous month. At the IEFX window, a total of $2.2bn has been traded since inception in April, while the rate at this window has fluctuated between a band of N365- N380.

Outlook

The exchange rate is expected to maintain the current appreciation trend. This is conditioned however on the CBN's frequency of FX market injections. Global oil price movements are likely to clamp down on the CBN's ability to support the naira with FX injections. This is because oil prices are currently bearish on oil output concerns.

External Reserves

Chart 6:External Reserves ($bn)



[10]

Pace of accretion in the gross external reserves level slowed due to a bearish global oil market and maturing forward transactions. A depletion of $570mn to $30.21bn occurred as at June 16th relative to $30.78bn recorded at the end of the first half of May. Maturing forward contracts and lower oil prices are putting pressure on the reserves level. The gross external reserves import and payment cover is now at 6.71 months compared to May's level of 6.83 months.

Outlook

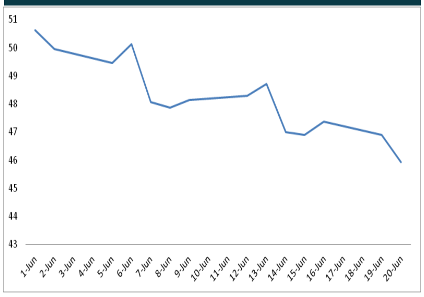
Accretion in external reserves is dependent on a recovery in the global oil market. We anticipate that the oil market will trade bearish as long as oil output fundamentals remain weak.

[10] Source : CBN, FDC Think Tank

COMMODITIES MARKET - EXPORTS

Oil Prices

Chart 7: Brent Crude ($pb)



[11]

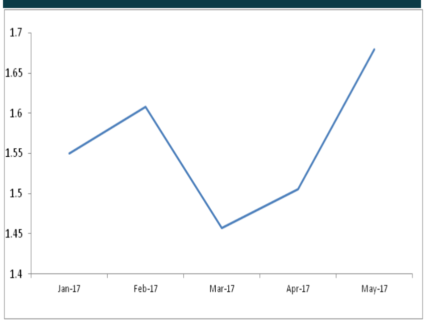
Brent crude has traded bearish in the month of June so far, closing the 15th at $46.92pb. The average price of Brent crude from the 1st – 15th of June was $48.65pb, 3.05% lower than the average of $50.18pb in the first half of May. The market continues to remain bearish as Brent Crude currently trades at $45.92pb, leaving a revenue headroom of $2.42pb for the Nigerian Government (seeing as the budget benchmark is $44.50pb). The oil market continued on a downward trajectory post OPEC extension cut announcements on the 25th of May. Sequel to this, the Middle East crisis between Qatar and 4 other Middle Eastern countries had little to no impact on crude prices. US drilling activity continues to surge with an increase of 6 rigs in the week ending 9th of June.

Outlook

Diplomatic tensions between Qatar and other top oil producers could undermine OPEC's agenda to rebalance the oil market. This is because there is less incentive for Qatar to stick to output cut deal which could support a bearish trend in the oil market.

Oil Production

Chart 8: Oil Production (mbpd)



[12]

The recently released OPEC report shows a sharp increase in oil production in Nigeria by 11.6% to 1.680mbpd in May from 1.506mbpd the previous month. Relative peace in the Niger Delta has been sustained as stakeholders have remained committed to peace agreements. The resumption of activity in the Bonga oil fields helped propel this increase in production. In June so far, Forcados production has resumed after closure for repairs. The oil field has a capacity of 300, 000 bpd and is expected to push up oil production in June.

[11] Source : Bloomberg, FDC Think Tank
[12] Source : OPEC, FDC Think Tank

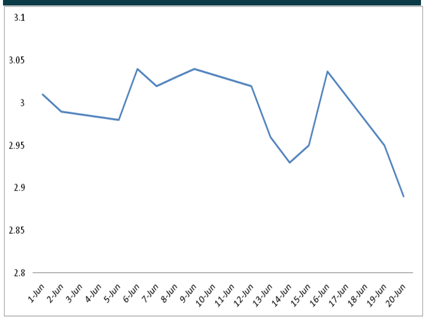
Outlook

Oil production is expected to increase in the month of June as a result of the resumption in activity in key oil fields. This is good news as the increase in output will help offset the decline in price.

Natural Gas

In the first half of June, gas prices reached an average of $3.01/ MMBtu, 8% lower relative to $3.27/MMbtu in the first half of May. As at June 20th, it was trading lower at $2.89/MMBtu. Lower oil prices in the review period have tended to reinforce losses in the gas market. There is also the concern that higher US shale production is boosting gas output. The EIA reports a build-up in gas inventory in the week ending 9th of June to 78bn cubic feet.

Chart 9: Natural Gas ($/MMBtu)



[13]

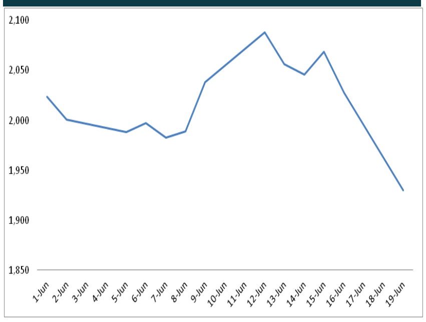
Outlook

Hot weather conditions in the South and East of the US are expected to support the relatively bearish trend in the market. Therefore we expect bearish price movements which are further reinforced by declines in the oil market.

Cocoa

Average price of cocoa in the review period was $2,028/mt, 6.3% higher relative to $1,907/mt in the first half of May. Currently cocoa is trading much lower than mid-month highs at $1,917/mt (June 20). The relative rally in cocoa prices in the review period stems from gains recorded in the previous period and upfront sales of cocoa output by Ivorian farmers. This initially forced the price of the commodity down. However, the trend was reversed when it became apparent that the large upfront output sale came at an opportunity cost to future output.

Chart 10: Cocoa ($/mt)



[14]

[13] Bloomberg, FDC Think Tank
[14] Bloomberg, FDC Think Tank

Outlook

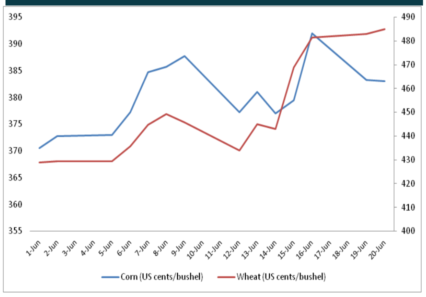
Cocoa prices are expected to remain within the current level, as improved output from Ecuador and Brazil is anticipated to flood the already oversupplied market and dampen prices.

IMPORTS

Wheat

Wheat prices maintained a strong rally again this month. In the first half of June, wheat futures outperformed the first half of the previous month by 10.87% to close at $4.69/bushel relative to $4.23/bushel. Currently wheat is trading much higher at $4.80/bushel (June 20). This is mainly attributed to weather conditions in the US, Canada and Black Sea. Dry weather conditions are positively correlated with higher grain prices as we observed with wheat. However, these gains have been capped on account of the recently released USDA report, which increases wheat output forecast by 0.8%.

Chart 11: Grains (US cents/bushel)



[15]

Corn

Similar to the wheat market, corn prices also outperformed in the review period by 4.08% relative to the first half of May. Corn averaged $3.79/bushel in the first half of June relative to $3.71/bushel in the previous period. Corn futures are currently trading higher at $3.82/bushel. Unfavourable weather conditions were also responsible for gains in this market. As in the wheat market, analysts expect larger than average corn ending stocks for 2016/17 and 2017/18 and as such, this has capped gains in the market.

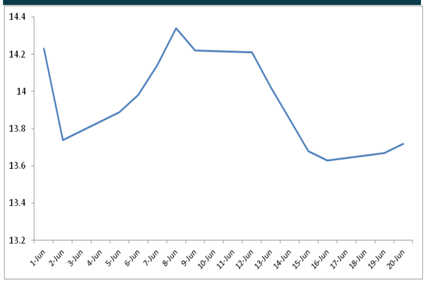
Outlook

The persistence of unfavourable weather conditions is expected and as such we anticipate a generally bullish grains market.

[15] Bloomberg, FDC Think Tank

Sugar

Chart 12: Sugar (US cents/pound)



[16]

Sugar prices have maintained their bearish trend this month. Sugar prices averaged $0.1403/pound in the first half of June, 11.19% lower than $0.156/pound in the first half of the previous month. Sugar prices continue to trend lower beyond mid-month lows, currently trading at $0.1372/pound (June 20). The market continues to sustain high sugar output amidst shrinking demand. Global demand for high-fructose corn syrup (HFSC) is still on the rise and is weighing on sugar prices, as it is a major substitute for the commodity. Due to its relative affordability, many countries such as China and large companies such as Pepsi Co., have switched to HFSC. According to reports, HFSC has displaced 13% of locally produced sugar in major producing countries like Brazil and India.

Outlook

The outlook for sugar prices is rather gloomy as the market continues to produce output with no corresponding demand to soften its impact on prices. The demand for HFSC is still on the rise and is expected to weigh down on sugar prices.

[16] Bloomberg, FDC Think Tank

Avant-garde
Academia
Limited

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.

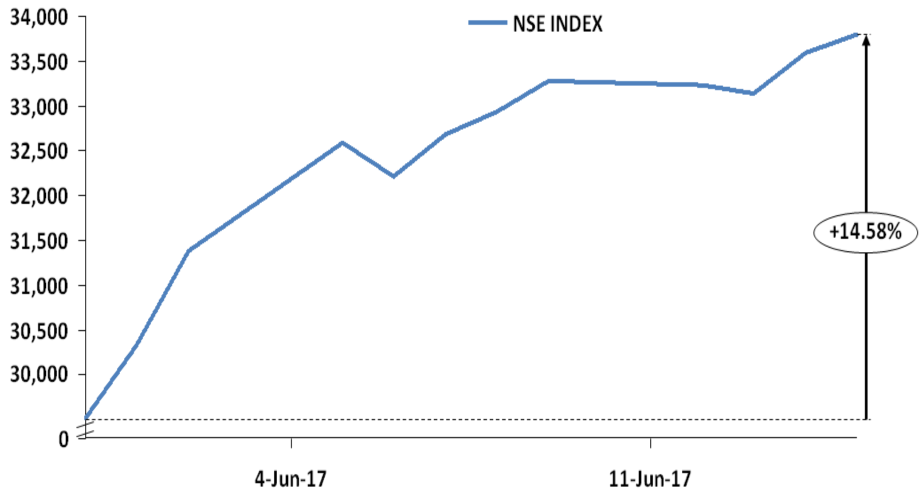
For more information about Avant- Garde Academia Limited please go to our website: www.avant-gardeacademia.com
For enquiries or consultation E-mail us: info @avant-gardeacademia.com Or call Chinyere Ubani 08039238138 | Tope Vincent 08034017603

Stock Market Update

The Nigerian equities market gained 14.6%, hitting mid June 2015 levels of 33,797.84 points as at June 15, 2017. The YTD return on the index advanced to 25.8%, while market capitalization closed at N11.68trn. Market PE ratio as at June 15, 2017 was 10.5x. During the review period, the liquidity weighted SFNG Blue Chip 30 Index showed that the market gained 15.2%.

The Nigerian equities market remained upbeat as the index consolidated on gains recorded since the beginning of May; the longest winning streak since 2014. The market witnessed a flurry of activities after the introduction of the CBN's investor's window and MSCI rebalancing, which saw Nigeria's weightings reviewed upwards from 6.5% to 7.9%. This is expected to increase interest in Nigerian equities as funds tracking the index may increase their weightings. The bull-run however appears to be running out of steam as the gains reduce week on week.

The market rose sharply in the first two weeks of June to produce a total return of 14.6% for the review period to close at 33,797.84 from 29,498.31. The YTD return on the index edged upwards to 25.8% from 9.8% as at May 31, 2017 whilst market capitalization also closed higher at N11.69trn having gained N1.48bn during the week. The market is currently trading at a price to earnings ratio of



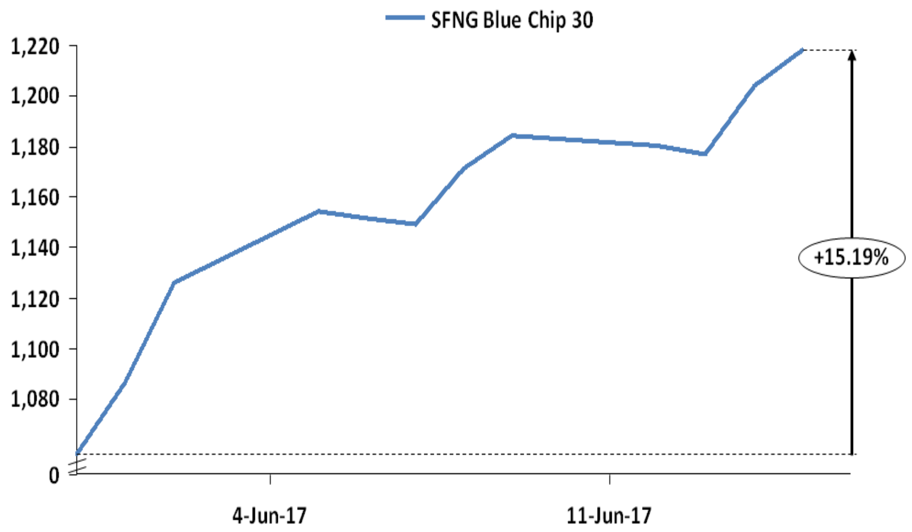
17

[17] NSE, FDC Think Tank

10.5x. Daily changes, representing volatility on the ASI, ranged between -1.16% and 3.85% during the review period.

The Scott Free Nigeria (SFNG) Blue Chip 30 Index gained 15.2% in the review period, compared with 10.2% recorded in the prior period, to close at 1,218.55. The SFNG is a market capitalization weighted index adjusted for free-float. It reflects the performance of the largest and most-liquid 30 companies listed on the Nigerian equity market.

Chart 14 : Scott Free Nigeria (SFNG) Blue-Chip 30 (BC30) Index



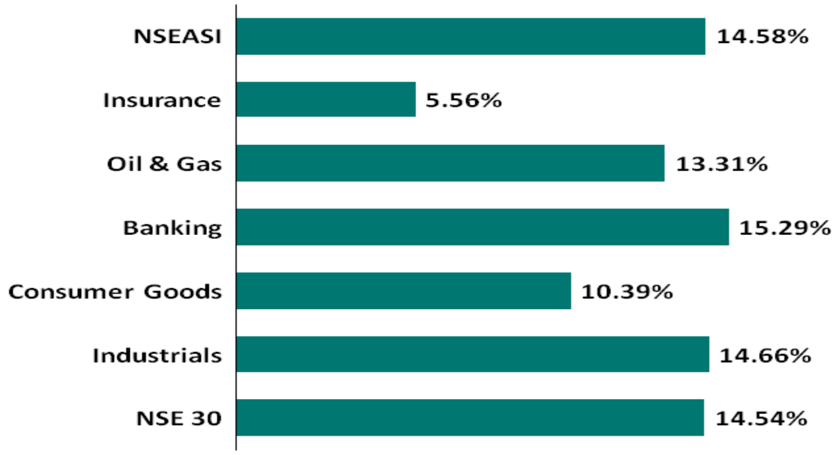
[18]

All sectors closed positive with the Banking sector (up 15.3%) leading the chart in the review period. Aside from JAIZ Plc which shed 10.5%, all other banking stocks, closed positive. Gains in the sector can be attributable to the following stocks such as FBNH 31.89%, ACCESS 25.63%, ECOBANK 22.64%, ZENITH 20.84% and STANBIC IBTC 19.23% respectively. As H1'17 calendar draws to a close, the large cap bank stocks may witness increased activities due to investors taking positions for half-year dividends.

The insurance sector rose by 5.6% over the two week period to 146.34 points. The sector performance was driven by AXA MANSARD 15.6%, CONTINENTAL RE-INSURANCE 11.5%, AIICO 7.7% and LAW UNION & ROCK 4.1%. Overall, the industry is highly fragmented and dominated by top 10 insurers of which premium is skewed towards.

[18] Scott Free Index, FDC Think Tank

Chart 15 : Sectoral Performance



[19]

The best performing stocks were MAY & BAKER 178.5%, HONEYWELL FLOURMILL 56.5%, TRANSCORP 54.2%, UNITY BANK 53.6% and CADBURY 49.1%.

TOP 5 GAINERS (N)				
Company	Jun 15'17	May 31'17	% Change	Absolute Change
May & Baker Nigeria Plc	4.15	1.49	178.5%	2.66
Honeywell Flour Mill Plc	2.16	1.38	56.5%	0.78
Transcorp Plc	1.85	1.20	54.2%	0.65
Unity Bank Plc	0.86	0.56	53.6%	0.30
Cadbury Nigeria Plc	14.75	9.89	49.1%	4.86

Top price losers were CUTIX (-11.8%), UNIVERSITY PRESS (-10.7%), JAIZ BANK (-10.5%), LINKAGE ASSURANCE (-9.5%) and THOMAS WYATT (-7.4%).

TOP LOSERS (N)				
Company	Jun 15'17	May 31'17	% Change	Absolute Change
Cutix Plc	1.86	2.11	-11.8%	-0.25
University Press Plc	3.60	4.03	-10.7%	-0.43
Jaiz Bank Plc	0.85	0.95	-10.5%	-0.10
Linkage Assurance Plc	0.57	0.63	-9.5%	-0.06
Thomas Wyatt Nig. Plc	0.50	0.54	-7.4%	-0.04

[19] NSE, FDC Think Tank

Outlook

As the five-week rally starts to lose steam, we expect speculators to begin aggressive profit taking before H1 2017 results are released. This may trigger a price correction for overvalued stocks and serve as a dampener on market sentiments.

LAGOS BUSINESS SCHOOL
EXECUTIVE PROGRAMMES 2017

ALL OUR PROGRAMMES ARE NOW MODULAR TO FOSTER WORK-LIFE BALANCE!

Global Executive Leadership Programme

For global chief executive officers and managing directors

This programme is designed to prepare business leaders for deeper and insightful leadership as they take on more responsibilities and break new global business frontiers.

November 2017
January 2018
March 2018

Duration: 5 months

Chief Executive Programme

For potential managers and supervisors, early career employees

This programme equips chief executives with the knowledge, attitude and resources to lead in the 21st century.

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

Aug 21 - Dec 5, 2017 (Abuja)
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

MODULES ARE DELIVERED OVER ONE WEEK, IN EACH MONTH, FOR THESE PROGRAMMES AT LBS

LAGOS BUSINESS SCHOOL
PAN-ATLANTIC UNIVERSITY

Lagos Business School is ranked with the world's top business schools in open enrolment executive education (2007-2016) and custom executive education (2015-2016). Financial Times, London.
Financial Times, London

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

Corporate Focus - Unilever

Sector: Consumer Staple **Ticker Symbols: NSE:** UNILEVER **BLOOMBERG:** UNILEVER: NL **REUTERS:** UNILEVER: LG **FT:** UNILEVER: LAG **Shares Outstanding:** 3.78bn **TP Downside: 23.5%** **Target Price:** N29.14 **Market Cap:** N136.19bn **2016 Annual Dividend:** N0.1 **2016 Annual Dividend Yield:** 0.28% **Price:** N36

UNILEVER NIGERIA: Upbeat in top and bottom-line despite tough trading conditions environment

Analyst's Note

The Fast Moving Consumer Goods (FMCG) sector remains one of the fastest growing in the economy despite a decline in its contribution to gross domestic product (GDP). The Nigerian consumer market, estimated at N1.2 trillion, presents increasing opportunities. Companies, such as Unilever, are at its forefront. Yet, there are several factors that can affect Unilever's future revenues and share price. The most prominent is the domestic economy with its high inflation rate, low purchasing power of the naira, relatively low external reserves and a fall in foreign exchange (forex) earnings. The lower availability of disposable income is also affecting sales in the FMCG sector as consumers choose cheaper substitutes. Thus, Unilever's performance walks a macroeconomic tightrope with management successfully navigating an unpredictable environment.

Circa 32.1% earnings growth driven by price increase

Unilever Nigeria posted sales of N22.2 billion in Q1'17 which represents a 32.1% increase of N16.8 billion. Food and drink increased by 21.8% to N10.5 billion year over year (YoY). Personal care saw an increase of 37.2% to N6 billion, while the home care segment was up by 49.7% to N5.6 billion (YoY). Sales growth was driven by higher product prices offsetting the impact of rising costs on margins. Despite consumer down-trading, currency constraint on business operations and the impact on volume from product price mark up, we believe that higher product pricing has helped the company's profit story.

Substantial cost savings from operating expenses help boost profitability

Unilever Global currently runs three cost savings programs which we feel are being institutionalized in Unilever Nigeria: zero based budgeting (ZBB) program, Connected4Growth and net revenue management (the optimization of SKUs pricing according to distribution channels). In Q1'17, its ZBB program resulted in reduced marketing and administrative expenses of 22.6%. A breakdown of the marketing and administrative expenses component of the budget shows a 44.8% decline in brand and marketing to N501 million. Overheads declined by 11.4% to N1.88 billion, while service fees decreased 30.7% to N260.8 million.

Significant rise in net finance cost by approximately 17%

Finance income rose by nearly 2.6 times to N149.7 million while the finance cost grew by 32.7% to N724.4 million. Overall, the net finance cost increased by 17.6% to N574.7 million from N488.5 million in the previous year. In late 2016, a $59.7 million (N18.8billion) loan was provided by Unilever Finance International AG at 6.45%. Its purpose was to refinance a local short term bank overdraft. As of December 2016, Unilever has drawn down $49.2 million (N14.98billion) of its $59.7million (N18.8 billion) loan. This reduces the company's weighted average borrowing cost significantly. However, movement of the 'naira' can effectively nullify any gains from this strategy.

Company Overview

Unilever Nigeria is a leading manufacturer of consumer goods in Nigeria. Established in 1923, it is the oldest surviving manufacturing organization in the country. The company has been quoted on the Nigerian Stock Exchange since 1973. Its roots are in soap manufacturing, diversifying into several successful strategic business segments including food and drink, personal care, and home care products.

Business Segment	***Product lines***
Food & Drink	Blue Band, Knorr, Royco and Lipton Tea
Personal Care	Vaseline, Lifebuoy, Rexona, Fair & Lovely, CloseUp and Dove
Home Care	Omo Detergent and Sunlight

The company is an advocate of long-term sustainable business practices. It sources all its key ingredients locally through farmers and suppliers where available. The company also grows some of its raw materials on agricultural lands it owns. Exposure to currency volatility and uncertainty is reduced through a sustainable and secure supply of essential ingredients.

The company's performance over the years is in the snapshot of its financials shown below:

Unilever Nigeria PLC (PZ NL) - Standardized					
In Millions of NGN except Per Share	**2015**	**2016**	**2017E**	**2018E**	**2019E**
12 Months Ending	**12/31/2015**	**12/31/2016**	**12/31/2017**	**12/31/2018**	**12/31/2019**
Revenue	**59,221.7**	**69,777.1**	**77,243.2**	**84,581.3**	**91,432.4**
- Cost of Revenue (Sales)	38,174.2	49,481.0	**54,501.6**	**59,022.8**	**63,803.6**
Gross Profit	**21,047.5**	**20,296.0**	**22,741.6**	**25,558.5**	**27,628.8**
+ Other Operating Income	0.0	0.0	**-**	**-**	**-**
- Operating Expenses	16,485.3	14,615.2	**15,870.1**	**18,223.6**	**19,836.8**
Operating Income or Losses	4,562.2	5,680.8	**6,871.5**	**7,335.0**	**7,791.9**
- Interest Expense	**3,170.5**	**2,726.2**	**2,145.1**	**2,433.5**	**2,722.0**
- Foreign Exchange Losses (Gains)	0.0	0.0	**-**	**-**	**-**
- Net Non-Operating Losses (Gains)	**(379.4)**	**(1,151.9)**	**(1,352.4)**	**(1,057.9)**	**(1,143.6)**
Pretax Income	1,771.1	4,106.4	**6,078.8**	**5,959.4**	**6,213.5**
- Income Tax Expense (Benefit)	578.7	1,034.5	**1,653.2**	**1,620.7**	**1,689.8**
Income Before XO Items	**1,192.4**	**3,071.9**	**4,425.6**	**4,338.7**	**4,523.7** [20]

[20] FDC Think Tank, Bloomberg & Company Data

Unilever Nigeria PLC (PZ NL) - Standardized					
In Millions of NGN except Per Share 12 Months Ending	**2015 12/31/2015**	**2016 12/31/2016**	**2017E 12/31/2017**	**2018E 12/31/2018**	**2019E 12/31/2019**
Assets					
+ Cash & Near Cash Items	4,435.2	12,474.1	12,876.4	11,773.7	12,645.1
+ Accounts & Notes Receivable	3,033.3	3,033.3	4,353.7	4,767.3	5,175.2
+ Inventories	6,173.1	9,878.5	10,180.7	10,971.6	12,102.7
+ Other Current Assets	7,366.2	7,366.2	17,711.9	16,848.6	15,790.0
Total Current Assets	**21,007.8**	**41,542.5**	**45,122.6**	**44,361.2**	**45,712.9**
+ Net Fixed Assets	27,368.9	29,272.2	33,078.6	36,904.5	40,610.7
+ Gross Fixed Assets	*36,393.6*	*40,530.7*	*47,083.2*	*53,655.2*	*60,107.5*
- Accumulated Depreciation	*9,024.7*	*11,258.5*	*14,004.6*	*16,750.7*	*19,496.8*
+ Other Long-Term Assets	1,795.8	1,676.6	1,983.6	1,947.6	1,850.9
Total Long-Term Assets	**29,164.7**	**30,948.8**	**35,062.2**	**38,852.1**	**42,461.6**
Total Assets	**50,172.5**	**72,491.3**	**80,184.8**	**83,213.3**	**88,174.5**
Liabilities & Shareholders' Equity					
+ Accounts Payable	6,280.8	8,173.2	10,559.1	11,731.4	10,784.6
+ Short-Term Borrowings	11,962.2	20,501.3	20,183.6	21,517.5	23,749.2
+ Other Short-Term Liabilities	16,454.6	24,838.9	20,203.0	22,734.1	24,657.9
Total Current Liabilities	**34,697.7**	**53,513.4**	**50,945.8**	**55,983.0**	**59,191.7**
+ Long-Term Borrowings	591.1	414.3	637.5	601.4	561.0
+ Other Long-Term Liabilities	6,880.5	6,873.7	6,262.9	6,535.3	6,638.1
Total Long-Term Liabilities	**7,471.6**	**7,288.0**	**6,900.4**	**7,136.6**	**7,199.2**
Total Liabilities	**42,169.2**	**60,801.4**	**57,846.2**	**63,119.6**	**66,390.8**
+ Share Capital & APIC	1,937.4	1,937.4	1,937.4	1,937.4	1,937.4
+ Retained Earnings & Other Equity	6,065.9	9,752.6	20,401.2	18,156.3	19,846.3
Total Equity	**8,003.3**	**11,689.9**	**22,338.6**	**20,093.7**	**21,783.7**
Total Liabilities & Equity	**50,172.5**	**72,491.3**	**80,184.8**	**83,213.3**	**88,174.5** [21]

Management

His Majesty Nnaemeka Achebe CFR, MNI, the Obi of Onitsha, who joined Unilever in 2003, leads the board. Managing Director, Mr. Yaw Nsarkoh, has led the company since 2004. He has held many portfolios throughout his 23-year career within Unilever.

The board and management team have a broad understanding of the various industries in which the company is involved. As the structural landscape changes, management is able to effectively price its product, so as not to put the company at a disadvantage given the competition it faces. The company's management team has also shown the ability to find the optimal capital mix to adequately fund its operational needs. The company will undertake the rights issue of N63 billion with the intention to de-lever its balance

[21] FDC Think Tank, Bloomberg & Company Data

sheet. This will raise funds for a planned local manufacturing capacity expansion for its personal care business in the South-West region. This action shows management understands its operating environment and that an adverse currency movement could affect them materially as is the case of Lafarge Africa.

The Bulls Say and the Bears Say

Bulls Say:

- Prominent brand value across all its business segments
- Investment in its sustainable sourcing program could reduce costs and enhance the company's profitability margins
- Extensive distribution channels, which could be strengthened through retail network optimization and strategic expansion
- Experienced management team

Bears Say:

- Intense competition from other leading players such as PZ Cussons, Cadbury and Nestle
- Rising cost of raw materials and key inputs
- Foreign exchange challenges could put pressure on earnings due to higher operating cost of imported raw materials
- Macroeconomic headwinds have dampened demand for non-essentials
- High leverage and rising finance costs threaten earnings growth
- Poor infrastructure increases operating costs

Valuation

We derived our valuation for Unilever Nigeria Plc using the discounted free cash flow to equity (FCFE) method. Our fair value estimate for Unilever Nigeria Plc stood at N29.14, which is a 23.5%

downside on its current share price of N36 as at 16 May, 2017. The discount rate used in the discounted FCFE is the cost of equity (17.7%), which is derived using the 3-year bond yield of 16.1% (FGN bond maturing in 2019), market risk premium of 1.8% and an assumed Beta of 0.8728. The long-term cash flow growth rate to perpetuity calculated is 4%.

PZ Cussons Nigeria PLC (PZ NL) - Standardized			
In Millions of NGN	**2017E**	**2018E**	**2019E**
Turnover/Revenue	**77,243**	**84,581**	**91,432**
EBITDA	9,618	10,336	11,106
EBIT	6,872	7,335	7,792
Less: Cash Taxes @ 27.2%	1,869	1,995	2,119
Tax-effected EBIT (NOPAT)	**8,740**	**9,330**	**9,911**
Plus: Depreciation & Amortization	2,746	3,001	3,314
Less: Capital Expenditures	(6,552)	(6,827)	(7,020)
Less: Change in Net Working Capital	(6,148)	5,799	1,857
Unlevered Free CashFlow	(1,214)	11,302	8,062
NPV of Unlevered Free Cash Flow	**19,364**		

Given Unilever's impressive Q1'17 result and management's strategic plans, we foresee a three-year revenue compound annual growth rate (CAGR) of 9.42%. This is on the back of an improved macroeconomic condition alongside less consumer resistance, due to an anticipated increase in minimum wage.

Upgrade to HOLD rating

Unilever Nigeria trades at a 12-month forward estimated P/BV and PE multiples of 10.3x and 37.7x, respectively. These are both trading at discounts to 2015 levels of 20.4x and 135.2x. Unilever Nigeria's year to date return sees it gain 7.11%, slightly underperforming the ASI by 2.65%. Annualizing the Q1'17 revenue figure puts FY'17 revenue above our current revenue estimate (N88.6 billion vs N77.3 billion). The divergence in revenue is based on the assumption that we anticipate a product price hike due to the likely depreciation of the naira, impacting volume sales. Overall, growth in top-line and bottom-line is expected, thus we have upgraded our rating to HOLD from SELL.

Risks to Our Rating and Price Target

We believe the key risks that could keep our rating and target price from being achieved include the following:

- Adverse currency movements, which could affect sales and earnings
- Increase in raw material costs
- Material deterioration in trading conditions driven by weaker consumer demand as well as heightened competition

Upside risks

- A stronger-than-expected macro-economic environment in H2'17
- Stronger than expected demand

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