FDC Bi-Monthly Update

Volume 7, Issue 94

December 28, 2017

A Financial Derivatives Company Publication

☎:01-2715414, 6320213; Email: info@fdc-ng.com; Website: www.fdcng.com

Inside This Issue:

2017 AT A GLANCE & WHAT TO EXPECT IN 2018

2017 was an interesting year for Nigeria. The macroeconomic scorecard showed an overall improvement in most, if not all economic variables. Recovery, albeit slow, from five quarters of negative growth to post a growth rate of 1.41% in Q3'17, is a feat to laud. A review of where the country was at the start of the year to where it is now shows that most indicators are in the green.

To portray this scorecard, we will use the national income (NI) identity, of

Y= C + I + G + EX- IM, where

Y = output

C = consumption expenditure

I = investment expenditure

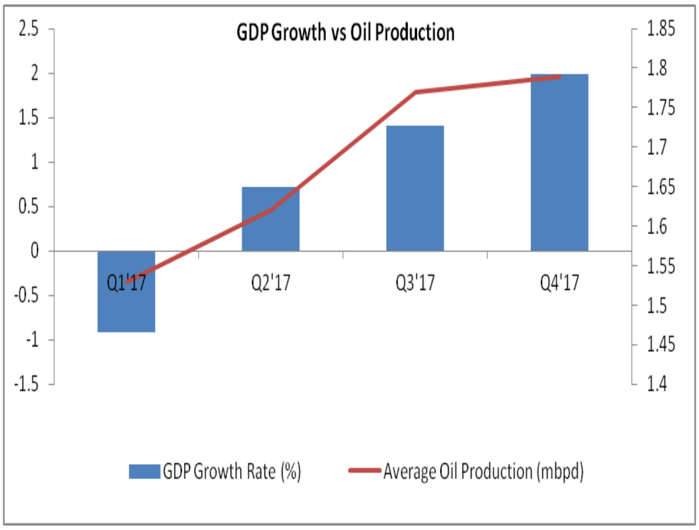
G = government expenditure

EX = exports and

IM = imports.

Y= Output

Economic output increased, thanks to the massive government intervention in the agriculture sector (growth of 3.06%, contribution of 29.15%) and a ramp up in oil production (oil sector growth of 25.89%, contribution of 10.04%).[1] There was minimal disruption to the pipelines and gas supply. This resulted in an increase in Nigeria's oil output from 1.55mbpd in January to 1.79mbpd (November). These figures are net of condensates.[2]



3

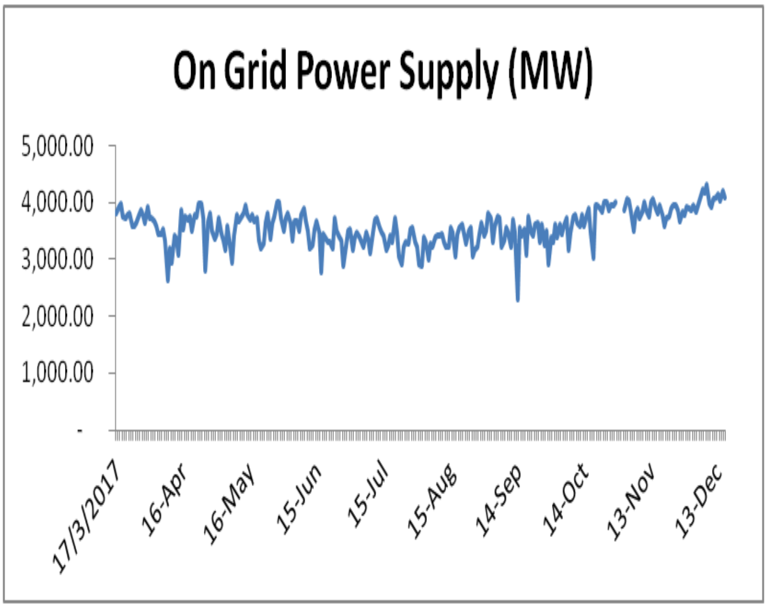
[1]Source: NBS' Q3 GDP report

[2]Source: OPEC's Monthly Oil Market Report for December

[3]Source: NBS, OPEC

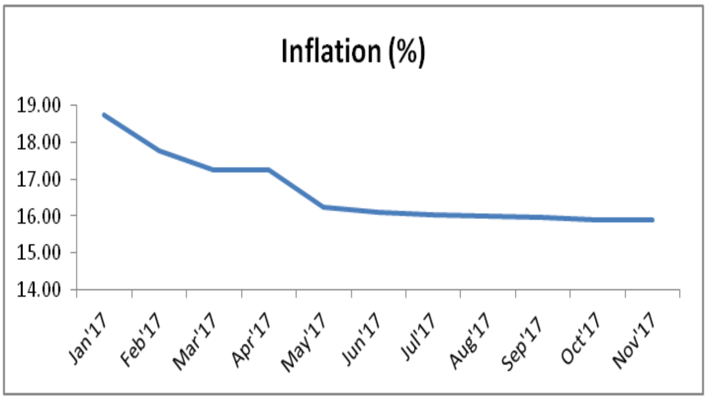
In 2017, the estimated average supply of on-grid power was within the range of 3,500MW- 3,800MW. There were peaks and troughs in the year; some resulted from seasonality, while others resulted from constraints.

Productivity is also estimated to have improved, thanks to a reduction in bottlenecks. No data has been released from the National Bureau of Statistics (NBS) on productivity. However, it is expected that positive growth numbers, increased government's focus on infrastructure and improving the ease of doing business will have a positive impact.



[4]

C = Consumption Expenditure



[5]

Consumer demand is slowly picking up as confidence levels inch up. Consumers are also gradually adjusting their behavioral patterns, shifting from luxury brands to local substitutes. The disposable income of consumers has picked up in tandem with the declining trend in headline inflation year–on-year and the exchange rate gains and stability recorded in the foreign exchange (forex) market. Headline inflation at the start of the year was at a record high of 18.72%. Base year effects, seasonalities, decline in global commodity prices and a stable currency all had a positive effect, reducing the rate of inflation to 15.9% in November. For most of the year, the core sub index followed the trend in headline inflation with the food index easing only in late Q3'17. Nonetheless, Nigeria still has a high inflation rate -the 10th highest in Sub- Saharan Africa (SSA). Despite a slower increase of the consumer price basket, domestic commodity prices have remained sticky downwards due to a slow adjustment process and time lag effect.

[4]Source: FGN

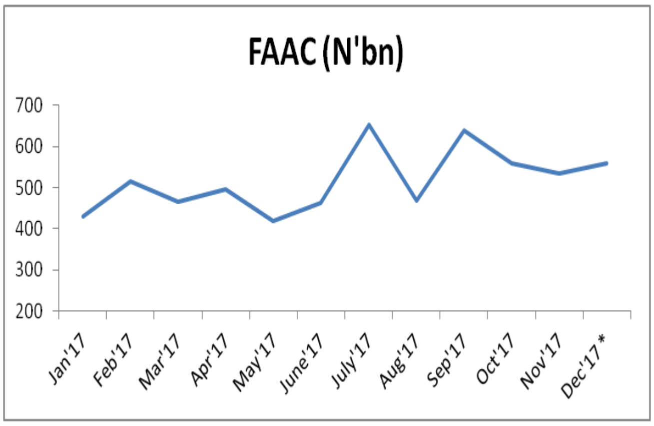
[5]Source: NBS' October inflation report

I = Investment Expenditure

There is a growing sense of investor sentiment in the Nigerian economy. Key policy reforms that were put in place, in addition to positive macro-economic data, were some of the driving factors. The introduction of the investors and exporters window (IEFX) in April created some sanity and stability in the forex market. Foreign portfolio inflows are much higher now than they were at the start of 2017. The level of international investors' participation has increased to approximately 48% of total trading activities (January-October) from 45% for the same period in 2016.

The stock market recorded two rallies in the course of the year, one in May and the more recent one which could be termed the Santa Claus rally. Portfolio managers are rebalancing their portfolios as the year comes to an end. In addition, the oversubscription of the Eurobonds raised at the capital markets, in spite of a ratings downgrade by Moody's, is a pointer to the growing investor confidence in the economy. The government was able to successfully raise approximately $4.5bn in Eurobonds and a Diaspora bond of $500m.

G= Government Expenditure



[6]

Government expenditure increased this year, evident in the ongoing infrastructural projects and social intervention programs. The level of spending a government can embark upon is a function of the funds at its disposal. The federal government earned more revenue this year primarily due to higher oil proceeds (higher oil price and production) and tax revenue (more efficient collection process). The monthly statutory allocation to states reached a year-to-date peak of N637.7bn in September from January's level of N430.16bn. Nonetheless, a good number of states still have salary arrears. In order to address its high debt service burden, the government decided to exchange maturing T/bills with dollar notes. A series of international debt issues were raised to fund the deficit gap.

EX-IM

Nigeria's trade balance has shifted into a surplus position from a deficit recorded in 2016. According to the Economist Intelligence Unit (EIU), Nigeria's trade balance in 2017 is forecast at $6.1bn from $-0.5bn in 2016. The export level has grown faster than the import bill, due to a robust oil price (FY'17 average of $53.62pb) and production of 1.7mbpd- 1.75mbpd.

[6]Source: NBS, *FDC's Forecast

Constraints still Persist

The macroeconomic picture just described is positive, but in spite of this there were constraints that hindered the pace of growth and level of output. These consisted of variables within and outside our control.

Constraints within our control

The gridlock at Apapa crippled business activities and hindered productivity. This was caused by poor traffic management, construction activities and total disregard for the law. The cost of the gridlock to businesses and the economy was significant.

The high cost of borrowing is one of them. Contrary to market expectations of a reduction in interest rates, the Monetary Policy Committee of the Central Bank maintained the status quo during its six meetings held this year. This stance has actually been maintained since July 2016, when the Monetary Policy Rate (MPR) was increased to 14% pa from 12% pa. The average cost of borrowing has remained high at 25-27% pa while Nigerian Interbank Offered Rates (NIBOR) oscillated within a wide range of 2%- 148% (OBB, O/N) depending on the level of liquidity in the system. Treasury bills, on the other hand, have declined from an average yield of 16%-18% (across all tenors) to 10%- 15% in the secondary market; an indication of a likely reduction in the benchmark interest rate.

The stability in the exchange rate is commendable. However, the existence of multiple exchange rates continues to create avenues for arbitrage and speculation.

Other constraints include the high inflation rate and underlying pressure in spite of the steady decline year to date. A state by state comparison showed a disconnect between states with the highest inflation rates and state government revenue. For instance, Kaduna has one of the highest inflation rate at 17.9% but one of the lowest FAAC shared (N4.71bn). Delta has one of the lowest inflation rates of 13.75% but its FAAC is the second highest (N12.81bn). For a state like this, it highlights the issue of mismanagement of funds. There is a positive correlation between states with the lowest inflation rate and number of months of salary arrears. States such as Kogi and Bayelsa have the highest number of months in salary arrears and are also among the states with the lowest inflation.[7]

[7]Source: NBS, FDC. FAAC figures are as at October 2017, Inflation figures are as at November 2017

Policy Shifts & Decisions

On the policy front, monetary policy was left unchanged throughout the year, with the MPR at 14% pa. Fiscal policy revolved around government borrowing and revenue generation. There was increased focus on building the tax revenue buffers with the introduction of the Voluntary Assets and Income Declaration Scheme (VAIDS). The 2017 budget was passed late and only about 45% of the budget on capital expenditure has been executed.

Macroeconomic Scorecard

	Jan'17	Mar'17	Jun'17	Sept'17	Dec'17*
GDP growth rate (%)	-1.73 (Q4'16)	-0.91(Q1'17)	0.72 (Q2'17)	1.41 (Q3'17)	1.99 (Q4'17)
Inflation rate (%)	18.72	17.26	16.10	15.98	15.90
Avg. Oil price ($pb)	52.40	50.32	46.42	56.07	63.00
Oil Production (mbpd)	1.55	1.46	1.71	1.78	1.79
Average power supply (MW)	n/a	3,771.60	3,462.30	3,432.97	4,000.00
FAAC (N'bn)	430.16	466.93	462.36	637.70	550.00
External reserves ($'bn) end period	28.17	30.30	30.29	32.49	40.00
Exchange rate (N/$) – parallel market end period	498.00	392.00	368.00	365.00	365.00

8

[8] Source: NBS, CBN, * FDC's forecast

What are we likely to face in 2018?

2018 will be different in many ways. One of the reasons is that it is the penultimate year to the elections in 2019. The New Year will be split into two halves. The first half will be characterized by economic and policy actions. The second will be Politics! Politics!! Politics!!!.

The critical issues that will be discussed across the markets, investors, policymakers and the general public include but are not limited to the following:

1. *Growth sustainability in a period of heightened political campaigning;*
2. *Fiscal consolidation and revenue diversification;*
3. *Maintaining security at a time of a highly contested political campaign;*
4. *Acrimonious debate of the minimum wage and its likely fallouts;*
5. *Government borrowing and debt management; and*
6. *War against corruption.*

OUTLOOK FOR KEY MACRO-ECONOMIC INDICATORS

Growth

The growth momentum is expected to be sustained in 2018, although at a slow pace: 2-2.2%. The drivers of growth will remain unchanged: increased agriculture and oil production. In addition, increased infrastructural development and its impact on productivity will boost aggregate demand.

Inflation

Due to political campaigning that will take effect fully in 2018, we anticipate an increase in the level of money supply, at a growth rate of 5-10%. Broad money supply contracted by 11.06% in 2017 due to tight liquidity conditions. Also, the likely review of the minimum wage (currently at N18,000) and other social intervention programs by the government will exacerbate inflationary pressures in 2018.

Oil Production

Nigeria's production levels have been capped at 1.8mbpd by the Organization of Petroleum Exporting Countries (OPEC). This cap limits Nigeria's production levels. Hence we project that oil output will remain within the range of 1.75mbpd to 1.8mbpd, barring any disruptions to pipelines.

Exchange Rate

The exchange rate will witness some pressure due to the anticipated increase in liquidity. However, the CBN will attempt to support the currency at the expense of the external reserves level.

Concluding Thoughts

Economic and policy decisions will be influenced by political motives. Nonetheless, the economic recovery recorded in 2017 will be sustained in 2018 however at a slow pace of 2.2%. This is based on the assumptions of a robust oil production level and oil prices at an average of $55pb. If there are any shocks to oil production and even price, all bets are off.

FUEL SCARCITY DAMPENS CHRISTMAS CELEBRATIONS

Christmas was subdued this year as Nigerians were once again faced with the throes of fuel scarcity. Activities were stifled and movement restricted as consumers hassled for and bought fuel at exorbitant prices. The immediate impact was felt on domestic transport fares which spiked by at least 100% (a combination of scarcity and the Christmas effect). The only consolation was that power supply was relatively stable. So you could still enjoy a quiet Christmas at home without going out.

There are speculations that the fuel scarcity may persist due to supply constraints. According to the Nigerian National Petroleum Corporation (NNPC), it has increased its petrol import to address the lingering scarcity. However, a higher oil price ($65-$66pb) and current exchange rate of N306/$ (IFEM) have increased the landing cost of Premium Motor Spirit (PMS) in Nigeria; a cost presumably borne by the NNPC.

Some parts of Lagos have seen some relief while the scarcity continues to bite in Abuja and other states. This could be because people have travelled for the holidays and are yet to return. A clearer picture will be portrayed in the early weeks of January.

DIFFERENT STROKES FOR DIFFERENT FOLKS:

LESSONS FROM NEXT DOOR (GHANA)

The age long rivalry between Ghana and Nigeria assumed a much more sophisticated dimension in 2017. The comparison of the effectiveness of monetary policy as a tool of economic management became an issue of acrimonious debate and analysis.

The perennial competition between both countries dates as far back as pre-independence- the debate and sports rivalry between Kings College Lagos and Achimota College in Achimota, and also between University College of the Gold Coast, now University of Ghana (an affiliate of University of London) and University College of Ibadan (College of the University of London). In the realm of politics, there was the egregious and charismatic Nkrumah (Osagyefo), the champion of Pan Africanism and the mild mannered and soft spoken Nigerian leader, Abubakar Tafawa Balewa.

In the war against corruption, there was the Rawling's formula of clearing the wardrobe (Ghana executed three former heads of states, generals and judges at a go) as against the Nigerian ineffective approach with different outcomes. Ghanaians today fear corruption even though it is growing but Nigerians do not care and cannot wait to put their hands in the till at the slightest opportunity.

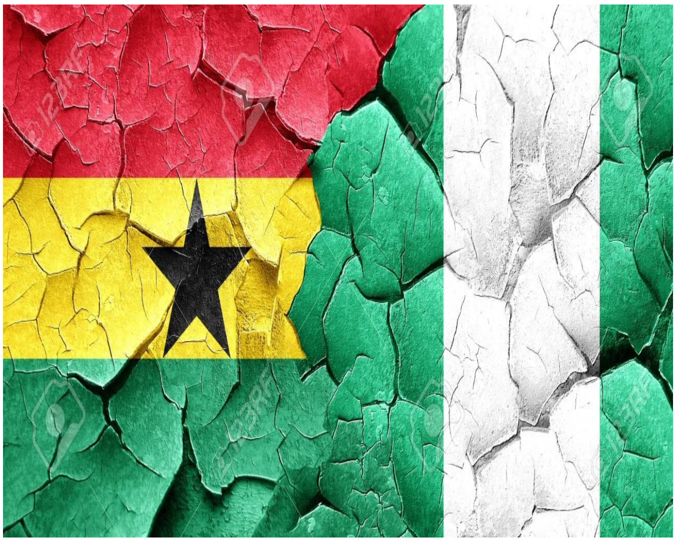
In soccer, the Green Eagles of Nigeria fought bitter battles with the Ghanaian Black Stars,

whilst Asante Kotoko of Kumasi were the rivals of stationery stores in Lagos at the club level.

In 2016, Nigeria and Ghana suffered from similar commodity shocks of oil, cocoa, gold and aluminum. Both countries saw sharp drops in economic growth, spikes in inflation and currency weaknesses. Both countries adopted drastic steps of fiscal consolidation and international borrowing. Ghana went further to raise approximately $1bn from the IMF under a four-year extended credit facility programme. The Ghanaian fund raising was further complicated by its closeness to a general election and the Nigerian economic plan is a work in progress.

As both countries began to see slow improvement in their economic fortunes, they adopted diametrically different approaches to monetary policy. The Bank of Ghana eased and lowered interest rates four times in 2017, whilst Nigeria maintained status quo (contraction) in the last 12 months.

The outcomes are outstanding and tell a stark story of how you can achieve different levels of economic success by being bold, audacious and smart.



Ghana has seen growth spike from 1.1% in Q2'16 to 9.3% in Q3'17, one of the highest in the world. Inflation has dropped by 7.5% (from last year's peak of 19.2%) to 11.7%. Ghana was in the league of high inflation countries in the world and has dropped off that ignominious table; its currency has softened by 6.79% this year. However, its growth numbers are distorted by its low oil production base in 2015. Nonetheless, the Ghana economic story makes the Nigerian economic management strategy look amateurish and pathetic. Nigeria's inflation has slowed cumulatively by 2.82% and growth of 1.41% is suboptimal, fragile and uneven. Unemployment plus underemployment in Nigeria has spiked to record levels of 40%. The naira has strengthened by 42.47% (year to date) and external reserves have grown but so also is the external debt level.

Peer Comparison

	Nigeria	Ghana
Q3'17 GDP growth rate (%)	1.41	9.30
Population (mn)	190.00	28.00
Inflation (%)	15.90	11.70
Oil production (mbpd)	1.79	0.15
External reserves ($'bn)	37.78	6.85
MPR (%)	14.00	20.00
Number of rate cuts in 2017	None	4.00
Unemployment + underemployment (%)	40.00	21.00

Ghana's oil production level is as at August. Inflation numbers are as at November
Source: Ghana Statistical Service Labour Report 2015, Trading Economics, CBN, NBS, OPEC

Concluding Thoughts

The fast paced growth recorded in Ghana, within a short space of time, signifies the need for Nigeria to embrace an accommodative stance, reduce interest rates and increase liquidity to boost its recovery. This has the downside of a weaker currency and heightening inflationary pressure. But as the saying goes, the end justifies the means. According to Keynes, in the long run, we are all dead.

AMERICA IS NOT YET LOST

Many of us came into 2017 expecting the worst. And in many ways, the worst is what we got.

Protesters outside the capitol early this month

Donald Trump has been every bit as horrible as one might have expected; he continues, day after day, to prove himself utterly unfit for office, morally and intellectually. And the Republican Party — including so-called moderates — turns out, if anything, to be even worse than one might have expected. At this point it's evidently composed entirely of cynical apparatchiks, willing to sell out every principle — and every shred of their own dignity — as long as their donors get big tax cuts.

Meanwhile, conservative media have given up even the pretense of doing real reporting, and become blatant organs of ruling-party propaganda.

Yet I'm ending this year with a feeling of hope, because tens of millions of Americans have risen to the occasion. The U.S. may yet become another Turkey or Hungary — a state that preserves the forms of democracy but has become an authoritarian regime in practice. But it won't happen as easily or as quickly as many of us had feared.

Early this year the commentator David Frum warned that the slide into authoritarianism would be unstoppable "if people retreat into private life, if critics grow quieter, if cynicism becomes endemic." But so far that hasn't happened.

What we've seen instead is the emergence of a highly energized resistance. That resistance made itself visible literally the day after Trump took office, with the huge women's marches that took place on Jan. 21, dwarfing the thin crowds at the inauguration. If American democracy survives this terrible episode, I vote that we make pink pussy hats the symbol of our delivery from evil.

The resistance continued with the town hall crowds that confronted Republican legislators as they tried to repeal the Affordable Care Act. And in case anyone wondered whether the vocal anti-Trump crowds and Trump's hugely negative polling would translate into political action, a string of special elections — capped by a giant Democratic wave in Virginia and a stunning upset in Alabama — has put such doubts to rest.

Let's be clear: America as we know it is still in mortal danger. Republicans still control all the levers of federal power, and never in the course of our nation's history have we been ruled by people less trustworthy.

This obviously goes for Trump himself, who is clearly a dictator wannabe, with no respect whatsoever for democratic norms. But it also goes for Republicans in Congress, who have demonstrated again and again that they will do nothing to limit his actions. They have backed him up as he uses his office to enrich himself and his cronies, as he foments racial hatred, as he attempts a slow-motion purge of the Justice Department and the F.B.I.

In fact, there has been a strange dynamic over the past few months: The worse things look for Trump, the more closely Republicans tie themselves to him. One might have expected recent electoral defeats to give G.O.P. moderates a bit more backbone. Instead, senators like John McCain and Susan Collins, who won widespread praise for standing up against Obamacare repeal during the summer, went along meekly with a monstrously awful tax bill.

And the growing evidence that the Trump campaign colluded with Russia doesn't seem to have induced any prominent Republicans who weren't already anti-Trump to take a stand. Instead, we've seen erstwhile critics like Lindsey Graham become obsequious toadies promoting Trump properties.

So we can't count on the consciences of Republicans to protect us. In particular, we need to be realistic about the likely results of Robert Mueller's investigation.

The best bet is that no matter what Mueller finds, no matter how damning and no matter what Trump does — even if it involves blatant obstruction of justice — Republican majorities in Congress will back up their president and continue to sing his praises.

In other words, as long as Republicans control Congress, constitutional checks and balances are effectively a dead letter.

So it's going to be up to the American people. They may once again have to make themselves heard in the streets. They'll certainly have to make their weight felt at the ballot box.

It's going to be hard, because the game is definitely rigged. Remember, Trump lost the popular vote but ended up in the White House anyway, and the midterm elections will be anything but fair. Gerrymandering and the concentration of Democratic-leaning voters in urban districts have created a situation in which Democrats could win a large majority of votes yet still fail to take the House of Representatives.

And even if voters rise up effectively against the awful people currently in power, we'll be a long way from restoring basic American values. Our democracy needs two decent parties, and at this point the G.O.P. seems to be irretrievably corrupt.
Even at best, in other words, it's going to take a long struggle to turn ourselves back into the nation we were supposed to be. Yet I am, as I said, far more hopeful than I was a year ago. America is not yet lost.

ERRONEOUS ASSUMPTIONS

THE ROOT OF EVERY FAILURE

Introduction

The lawmakers at the lower house of the National Assembly have passed the 2018-2020 Medium Term Expenditure Framework (MTEF) proposed by the Federal Government. The MTEF details the fiscal strategy of the Federal Government, providing information on the allocation of public resources to strategic priorities. Apparently comforted by current oil prices hovering above $60 per barrel (pb), the house altered the oil price benchmark assumption increasing it to $47 per barrel (pb) from an initial $45pb – a rather curious move on their part.

By how much does a $2 (4%) increase in the oil benchmark assumption increase the estimated oil revenue and lower the fiscal deficit? The 2018 budget projects oil revenues at N2.44trn. A 4% rise brings it to N2.54trn – an extra N97.6bn. This would lower the N2.01trn deficit by 4.8% - not significant enough to be worth the trouble of having lower fiscal buffers. Would it have any impact on growth? What happens to savings? Typically, extra revenue earned when oil prices are above the benchmark accrues to the Excess Crude Account (ECA), which is then passed on to the Sovereign Wealth Fund (SWF). The ECA acts as a savings account the government can draw from in times of lower oil revenues, allowing it achieve some sort of "smoothening" in its spending. But somewhat coincidentally, the senate unanimously voted for the abolition of the ECA on the grounds of its alleged mismanagement. It remains unclear what the lawmakers are trying to achieve here. Are there not more effective and sustainable ways of boosting revenues to support government spending without putting savings at risk?

Global Uncertainties & Unknowns

Is a higher oil benchmark assumption justifiable in the face of growing global uncertainties? Analyst consensus is for three interest rate hikes by the United States Federal Reserve Bank in 2018. This will strengthen the US dollar, trigger capital flow reversals from emerging and frontier markets, and depress global commodity prices – including crude oil. US shale producers are getting increasingly cost efficient and keep pushing their break-even prices lower and lower, allowing them pump more -even at lower oil prices. Russian oil producers are still at daggers drawn with their government over the latter's decision to continue with the truce to cap oil production, as it amounts to relinquishing market share to resurging shale oil production. With an election in March 2018, there is no saying for sure what the Russian government will be forced to do. So if anything, the outlook for oil calls for caution as we wade through the waters – but most certainly not a hike in the oil price benchmark.

An Exchange Rate Sensitive Economy

The idea behind its introduction by the Central Bank of Nigeria (CBN) was to satisfy calls to float the currency without a form of formal devaluation and the attendant inflationary pressures that typically arise as a consequence. But as long as multiple exchange rates exit and investors are uncertain of what next the CBN will come up with as an excuse for not letting the naira find its true value, foreign direct investment will remain suboptimal and so will Nigeria's economic recovery.

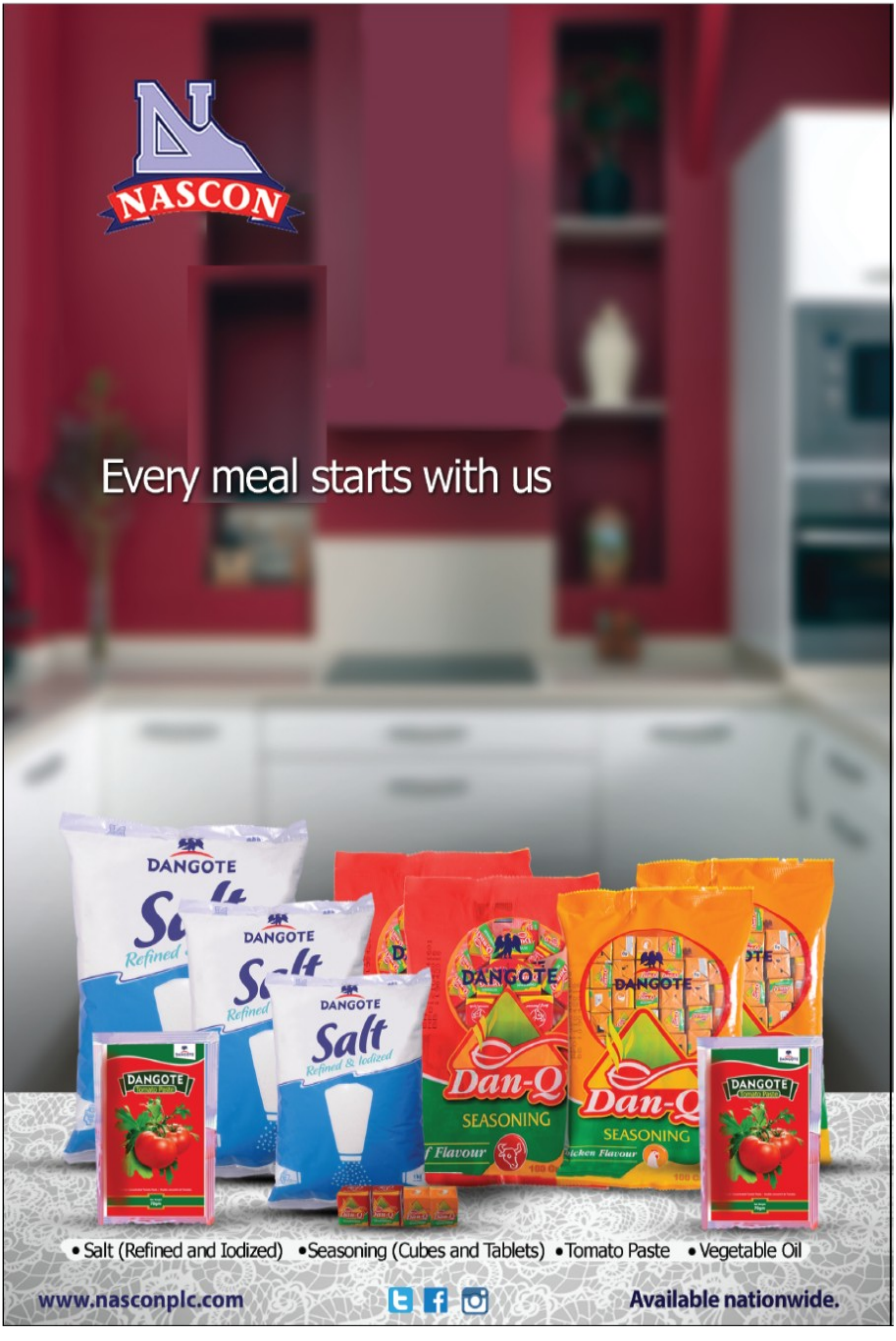
Another benchmark assumption of the MTEF that has seemingly been overlooked, but is probably more important to the economy at this time, is the benchmark exchange rate of N305/$. It is a subsidized rate mainly reserved for payments such as external debt service and IMF subscriptions. Hardly anyone gets foreign exchange at that rate. A number of exchange rates exist. However, the one accounting for the majority of transactions is the Investors and Exporters Foreign Exchange (IEFX) rate. At N360/$, it is clearly closer to the equilibrium value of the naira as the parallel market rate hovers just N3 above it at N363/$.

So what would investors prefer? The answer is a unified exchange rate. But at what rate? N305/$ or N360/$? Which is more likely, practical and politically expedient? The weighted exchange rate is somewhere between N340/$ and N345/$. The exchange rate discussion in Nigeria has become a rather politically sensitive one. The forecast for 2018 is for a depreciation of the exchange rate as increased spending as well as uncertainty related to the upcoming elections pile up pressure on the currency. This underscores the need for exchange rate convergence – at a rate closer to the IEFX window at around N370/$.

Conclusion

This move would be the master stroke many foreign investors are patiently waiting for. An equilibrium rate both bolsters investor confidence at a time when election uncertainty is set to trigger capital outflows, and will give foreign investors more naira for their hard currency. A weaker naira would mean more naira (23% more) accruing per dollar earned, but at the expense of higher import and nominal debt service costs. It would make naira-denominated products more competitive and incentivize domestic production. The pros clearly outweigh the cons.

So while the government is projected to spend more in 2018, it would appear that the law makers are attempting to use a higher oil price benchmark to achieve what an equilibrium exchange rate should do. A weaker exchange rate assumption may not be a silver bullet, but it would be far more beneficial to Nigeria's quest for accelerated economic recovery than a higher oil price assumption could ever be.


NASCON
Every meal starts with us
DANGOTE
Salt
Refined & Iodized
DANGOTE
Tomato Paste
DANGOTE
Dan-Q
SEASONING
• Salt (Refined and Iodized) •Seasoning (Cubes and Tablets) •Tomato Paste •Vegetable Oil
www.nasconplc.com
Available nationwide.

BUOYANT EMERGING MARKETS FACE A TESTING 2018

Big risks are stronger US dollar and a China slowdown that hits global demand

By James Kynge

Emerging markets (EM) this year have been driven by the winds of a coordinated recovery in economic growth, with trade growing strongly, corporate earnings robust and interest rates still low on average across the EM universe.

But whether that environment will propel another year of strong gains for EM assets is another question. The big risks include the potential for a stronger US dollar and a China economic slowdown that could hit global demand for resources, several analysts say.

"The year 2018 may well be the toughest test yet for EM assets since the 2013 taper tantrum," says David Hauner, head of strategy for Eastern Europe, Middle East and Africa at the Bank of America Merrill Lynch in London.

"The clear and present danger is the combination of US monetary tightening and fiscal stimulus, which could conspire to push US nominal and real yields higher," Mr. Hauner adds.

During the 2013 taper tantrum, EM assets were clobbered by a surge in US Treasury bond yields brought about by the Federal Reserve signaling a desire to reduce the amount of money being pumped into the financial system.

The concern now, according to Mr. Hauner and other analysts, is that the proposed US tax reforms — if adopted — could trigger a resurgence in corporate capital flooding back to America, thereby driving up the value of the US dollar. When the dollar appreciates against EM currencies, funds tend to flow out of EM assets and gravitate towards their dollar-denominated counterparts.

However, opinion is divided on how the proposed US tax reform may play out. Arvind Rajan, head of global and macro at PGIM Fixed Income, a fund with $695bn in assets under management, says he does not expect the reforms to prompt a drastic change in US monetary policy as the Fed's preferred price gauge remains well below 2%.

"The passage of the tax bill would marginally increase the number of hikes that we should expect but I don't expect the Fed to strike out in an entirely different direction," he says.

The other main cloud hanging over the generally encouraging outlook for EMs is China's incipient economic slowdown. Consensus Economics, a private group that polls economists' projections, forecasts China's GDP growth next year to moderate to 6.4%, down from the official 6.9% posted in the second quarter of this year.

"Growth momentum [in China] has started to ease since the third quarter and we believe the slowdown is likely to be a sustained trend in 2018," says Shen Jianguang, chief economist at Mizuho Securities in Asia. "This is mainly the result of policy tightening, including financial deleveraging, anti-pollution controls and new curbs on the overheated housing market."

China's slowdown is likely to be expressed mainly in a cooling of its real estate market, with October numbers already showing a significant ebbing of growth momentum in property investment, new home starts and sales. Nevertheless, consumer spending is likely to remain strong next year as incomes continue to rise strongly and the willingness to consume among the younger generation stays buoyant.

So if both of the big risks for EMs — the Fed and a Chinese slowdown — remain contained, investors may feel liberated enough to concentrate on other more positive narratives, say analysts.

"Basically, market turbulence in the first half of the year should be seen as a buying opportunity for emerging markets," Mr. Hauner says.

Chief among these during 2017 has been a strong corporate earnings picture. Earnings per share growth of the companies included in the MSCI EM index — the leading benchmark for EMs equities — are on course to rise 22.4% this year, according to BofA figures, with some countries such as South Korea, Turkey and Mexico showing a strong outperformance with 53.3%, 40.5% and 26.1%, respectively.

BofA is predicting EPS growth to moderate to 12.7% next year, still a robust performance in spite of the obvious slowdown from this year. India, South Africa, China, Indonesia and Chile are among the predicted outperformers next year, the investment bank says.

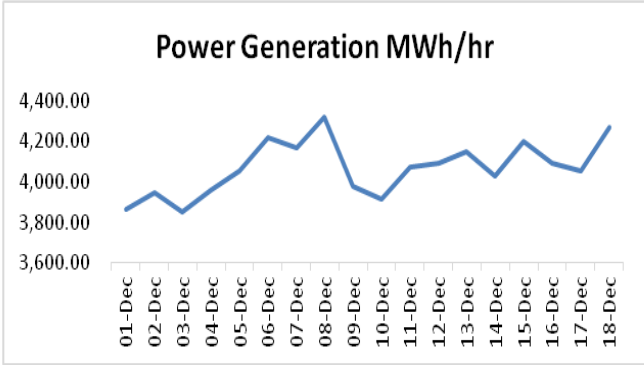
In terms of industry sector, earnings are expected to be strongest in consumer discretionary, healthcare and information technology.

yudala
...All for Yu
Genuine Products Only
FREE DELIVERY
For payments with
mastercard
EFFEKTA
AX-Series
Photovoltaic Inverter
One stop shop for your Company's ICT needs
Phones, Tablets & Accessories | Computing: Laptops, Desktops, Printers, Ink & Toners etc | Electronics: Inverters, UPS etc | Home & Kitchen
Yu buy now pay later
Buy any product from our website
Spread Payment for up to 12 Months
For Details Call: 0700 - 7000000
www.yudala.com
YUDALA STORE LOCATIONS
ADMIRALTY
10, Gabby Ade Street, Admiralty way. 09051306807
THE PALMS
1st Floor, The Palms, Lekki.
CHERUB MALL
Km 18 Lekki-Epe Exp. way, Alpha Beach 07015834226
ABUJA 1
20, Port Harcourt Crescent, Off Fimbiya Street, Area 11, Garki, Abuja.
ABUJA 2
Banex Plaza, Aminu Kano Crescent, Wuse 2, Abuja.
OWERRI
65B Mbaise Road, Owerri, Imo State.
ASABA
339 Nnebisi Road, Opposite Asaba Stadium, Asaba.
ENUGU
134, Upper Chime Avenue, Enugu
1, Market Road, by Harco Filling Station, Off Ogui Road.
WARRI
Shop 42 Delta Mall, Effurun Road, Warri.
KANO
Shop G13, Ado Bayero Mall, Kano.
Dankoli Plaza, 42 Beirut Road, Kano.
IBADAN
Shop UL39, The Palms Shopping Complex, Corner of Liberty Stadium Ring Road, Ibadan.
PORTHARCOURT CITY
8A, Main Aba Road, by Govt. Craft Center, PH City.
UYO
170, Ekot Ekpene Road, Opposite University of Uyo Campus Annex, Uyo.
Call:0700-700-0000
ask@yudala.com

MACROECONOMIC INDICATORS

POWER SECTOR

Power supply reached a 2-year peak of 5156MW (intraday) on December 8th. The average on grid power supply during the review period was 4068.08mw, 6.09% higher than the average of 3834.28MWh/h in November 15 - 30. Trans-Amadi plant has been restored to functionality. The power sector lost a total of N18.95bn within the review period. At the 22nd monthly meeting with key stakeholders in the power sector, the Minister of Power, Works and Housing, attributed the improvement in power generation to collaborative efforts of industry players in the sector. The Federal Executive Council (FEC) awarded $2.8bn for the Nigerian Gas Master Plan (NGMP) designed to run from Ajaokuta – Abuja – Kaduna – Kano. This gas pipeline project is expected to transport additional gas supply from upstream producers to various demand points.



[9]

Outlook

We expect power supply to remain above 4000MW due to improved generation from power plants. As the federal government begins implementation of the Ajaokuta – Kano gas pipeline project, this is expected to improve gas supply logistics to power plants.

MONEY MARKET

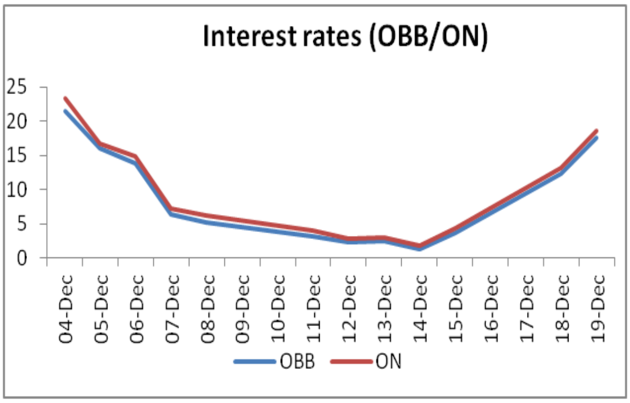
Average opening liquidity position was N222.75bn long (Dec 4th – 19th), significantly higher than N10.86bn long in the previous period (Nov 15th – 30th). Short term interbank rates (OBB, ON) averaged 9.27% p.a. from December 4th – 19th, which was 13.45% lower than the average rates of 22.72% p.a. recorded in the previous period. Specifically, the OBB and O/N rates started off the month of December at 21.5% p.a. and 23.33% p.a, before closing low at 17.5% p.a and 18.67% p.a on December 19th respectively. On Dec 14, OBB & ON dropped to a 7-month low of 1.42% p.a and 1.88% p.a as FAAC disbursements of N532.7bn for November and OMO bill maturities boosted liquidity in the system. In addition the CBN temporarily halted the sale of OMO bills and this also contributed to the excess liquidity.

At the primary market auction, the closing rate for 91-day, 182-day and 364-day were 12.55%, 14.56% and 15.15% per annum (pa) respectively. The DMO has also ended its Treasury bills issue at the primary market for 2017. The next auction will be on January 4, 2018.

At the secondary market, the 91-day NTB rate declined by 575bps to 10.81%p.a on December 12 following the DMO's disclosure of its intention to refinance N198.03bn worth of Treasury bills with Eurobond proceeds.

[9]Source: Advisory Power Team, FDC

The Bills that matured on December 14 were redeemed, rather than rolled over.



10

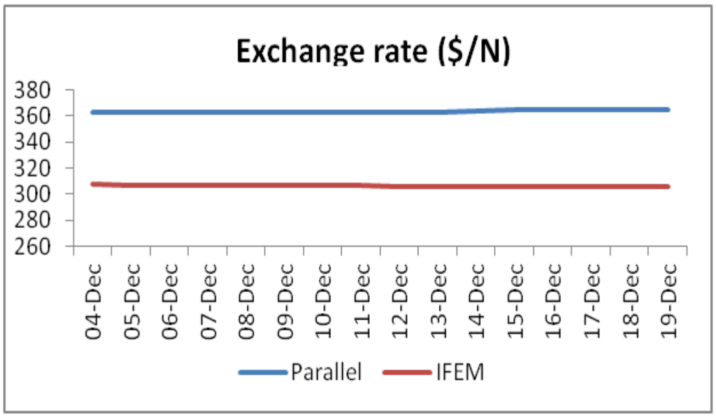
Outlook

As 2017 winds up, we expect to see a slur in activities. The CBN will continue to intervene in the market with OMO bills to maintain the level of liquidity in the system.

FOREX MARKET

Exchange rate

The naira was stable at N363/$ in the first 8 days in December. However, high naira liquidity, and demand from foreign portfolios taking profit heightened the pressure on the currency. This resulted in a 0.5% depreciation to N365/$ as at December 19th. The spread between the parallel and interbank market rates currently stand at N58.8/$ in the review, relative to N57.5/$ at the end of November. At the IEFX window, the naira depreciated to N361.25/$ on Dec 19th from N360.32/$ on Dec 4th. Average volume traded so far in the first half of December was $2.77bn compared to $2.5bn in (Nov 15 – 30)



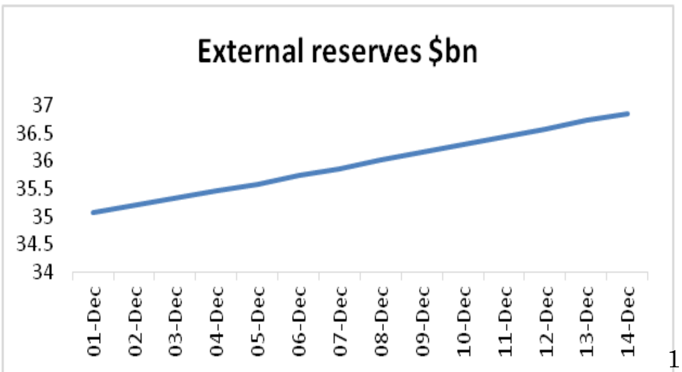
11

Outlook

We expect the naira to remain stable at the parallel market as the supply of foreign currencies typically increases with returning families over the Christmas/end-of-year period. The demand from international investors will limit the anticipated increase in supply from visiting family and friends.

External Reserves

The CBN governor disclosed that Nigeria's external reserves hit a four year high of $38.2bn. However, the data on the bank's website puts the reserves level at $36.85bn as at November 14th, up 5.07% ($1.78bn) from $35.07bn on December 4th. The proceeds from the Eurobond issuance coupled with high global oil prices and stable domestic output have contributed to the accretion in the external reserves. The reserves import and payment cover is 10.24months.



12

[10] Source: FMDQ, CBN, FDC
[11] Source: FMDQ, CBN, FDC
[12] Source: CBN, FDC

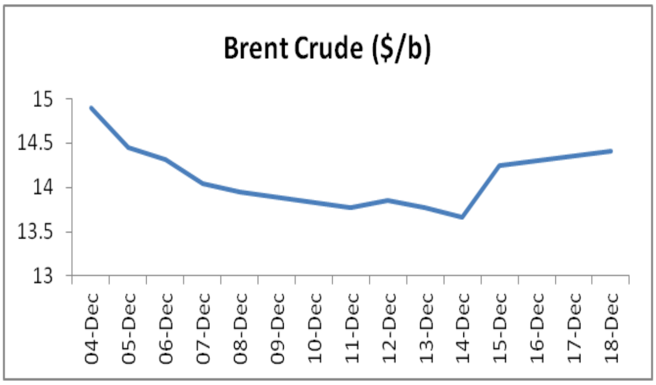
Outlook

Increased activities in the IEFX window, stable domestic oil production coupled with oil price above $60pb will continue to give support to external reserves.

COMMODITIES MARKET - EXPORT

Oil Prices

Oil prices remained well above $61pb in the first half of December. Average oil prices were $63.12pb (Dec 4 – 19), 0.47% higher than $62.82pb in the period of November 15 – 30. Specifically, oil price increased to $63.80pb on Dec 19 from $62.45pb on Dec 4 due to the closure of the Forties pipeline in the UK due to cracks. On Dec 12, Brent crude price spiked above $65pb in an intraday trade due to the Forties North Sea pipeline closure which is UK's largest with a capacity of 450,000 bpd. This cut supplies of about 575,000bpd from the UK to the EU and US. Coupled with this was a drawdown in US crude inventories by 7.38mbpd (EIA).



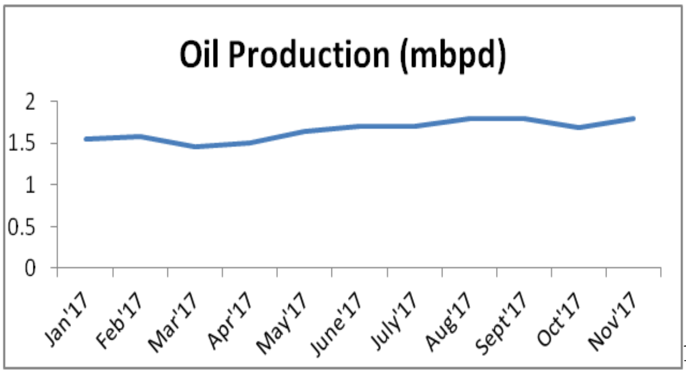
[13]

Outlook

Oil prices are likely to remain above $63pb. However, gains will be capped by growing US supplies. US oil production continues to threaten oil prices as shale producers are becoming more optimistic about oil prices. This optimism is due to the decision by OPEC and non-OPEC members to extend oil output cuts to 2018 year-end.

Oil Production

OPEC's report showed that Nigeria's oil production increased by 5.66% to 1.79mbpd in November, from 1.69mbpd in the previous month. So far, Nigeria's oil production has remained relatively stable with no disruptions to major oil facilities. Oil production figures for December 2017 are yet to be released. At the latest OPEC meeting in Vienna, the cartel decided to retain the cap on Nigeria's oil production at 1.8mbpd. However, the 2018 budget pegged oil production at 2.3mbpd and crude oil benchmark price was reviewed upwards from $44.5pb to $47pb.



[14]

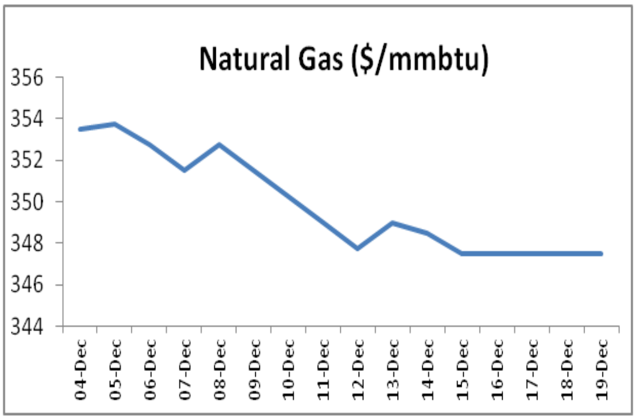
Outlook

In the coming month, we expect domestic oil production to stay within OPEC's cap of 1.8mbpd pending any output disruption.

[13]Source: Bloomerang, FDC
[14]Source: Bloomerang, FDC

Natural Gas

Natural gas traded at an average of $2.77/mmbtu during the review period. This represents an 8.88% decline in prices compared to the previous period in November. The decrease was primarily stirred by higher Chinese demand from industries and for winter heating. According to the National Development and Reform Commission (NDRC), china's natural gas consumption surged 18.9% y-o-y to 209.7bn cubic meters between January to November. In a bid to curb air pollution in the 2nd largest economy, there was a rapid switch to gas usage instead of coal for heating.



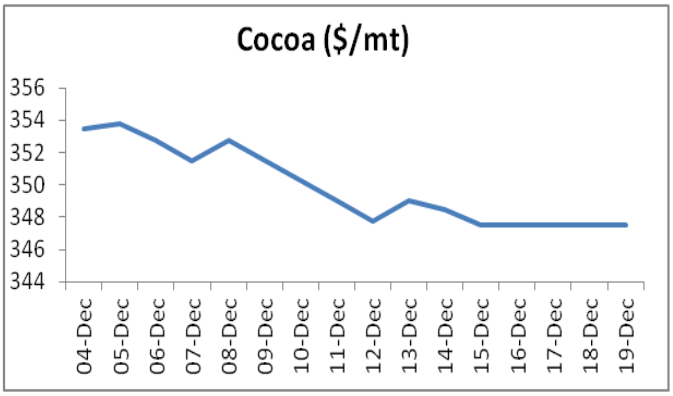
[15]

Outlook

We expect gas prices to continue its bullish trend in coming weeks as the temperature continues to drop in colder regions.

Cocoa

Cocoa prices decreased by 4.04% to $1,922/mt on December 19th from $2,003/mt on December 4th. Average cocoa price in the review period (Dec 4 – 19) fell by 9.15% to $1,907/mt from $2,099/mt in (Nov 15 – 30). Prices declined due to expectations of higher output from top growing region, West Africa.



[16]

Outlook

Improved production outlook in West Africa remains a bearish factor for cocoa prices. A surplus in cocoa production is expected to continue this season due to favorable weather conditions.

IMPORTS

Wheat

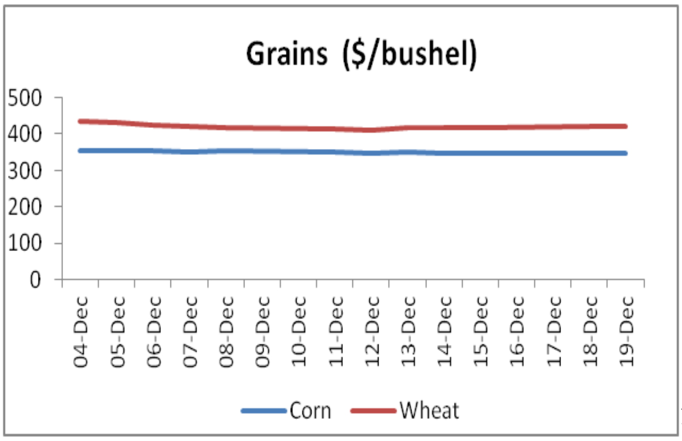
Wheat prices gained 3.68% to $4.19/bushel on December 19th from $4.35/bushel on December 4th. Average wheat prices declined by 3.44% between (Dec 4 – 19) to $4.21/bushel from $4.36/bushel in (Nov 15 – 30). Concerns of unfavorable weather hurting crops and increased shipments to buyers' nudged prices upwards. Top global wheat importer, Egypt bought 295,000 tons of wheat from Russia and Romania. The USDA reported that private exporters sold 130,000 tons of soft red winter wheat to an unknown destination for delivery in 2017/18 marketing year. In addition, US exporters will sell 120,000 tons of hard red winter wheat to Algeria.

Corn

In the review period, corn futures declined by 1.7% to $3.47/bushel on December 19th from $3.53/bushel on December 4th. Expected

[15]Source: Bloomerang, FDC
[16]Source: Bloomerang, FDC

rains in eastern Argentina and southern Brazil pressured prices. Informa Economics (a private analytics firm) reduced its 2018 corn planting forecast to 89.67mn acres.



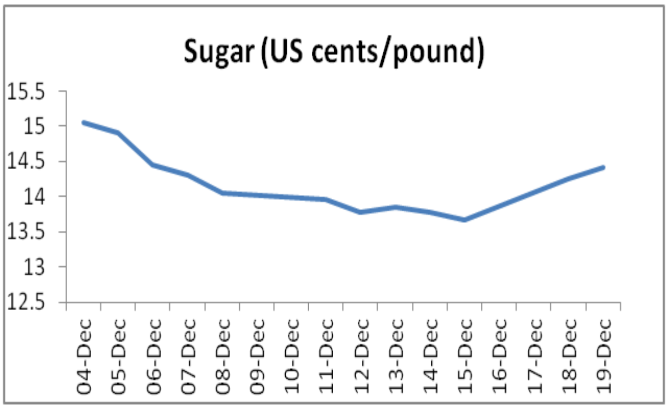
17

Outlook

Despite increased wheat shipments, rising inventories and increased US production will limit gains. Favorable weather conditions in major growing regions will be bearish for corn futures

Sugar

On December 19th, sugar prices decreased by 4.31% to $0.1441/pound from $0.1506/pound on December 4th. Sugar prices are down as fundamentals point to large supplies in 2018.



18

Outlook

Sugar deficit will remain while short term fluctuations in demand and supply estimates will determine price movements

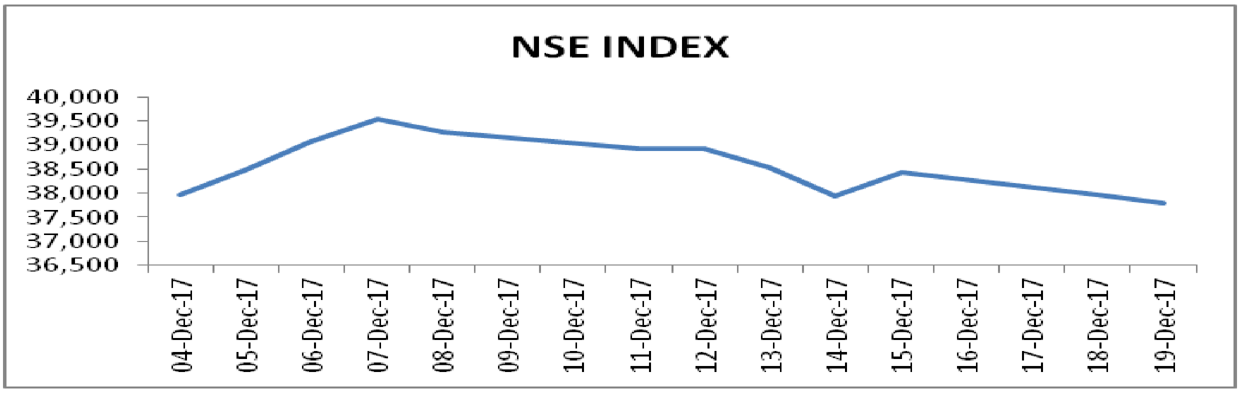
[17] Source: Bloomerang, FDC

[18] Source: Bloomerang, FDC

STOCK MARKET UPDATE

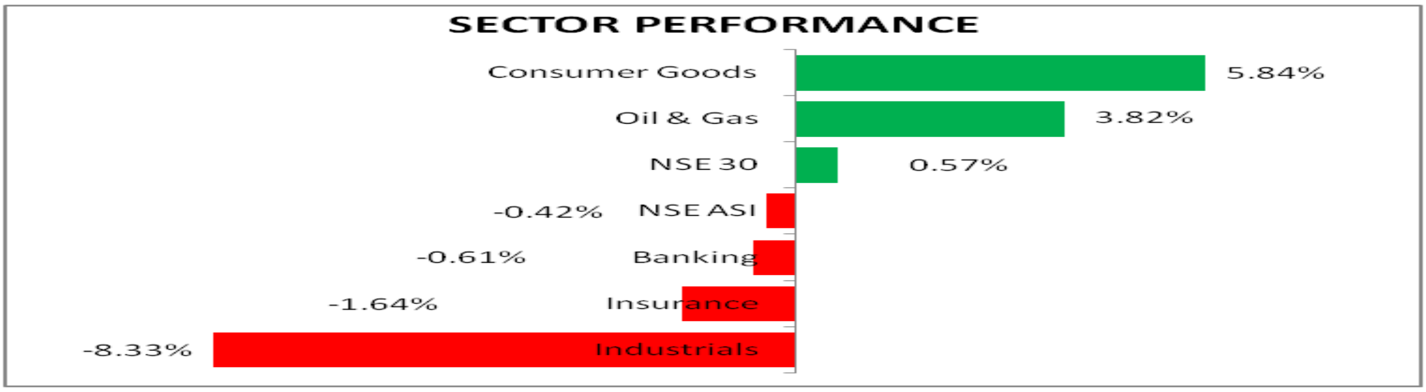
Negative investor sentiment, particularly on large cap stocks saw the NSEASI lose 0.73% to close at 36,617.47 points in the review period. The YTD return on the index declined to 36.25%, while market capitalization closed at N12.68trn. Market PE ratio stood at 12.65x.

The Nigerian Stock Exchange (NSE) performance in the review period in December remained bearish, as the NSE ASI recorded a marginal decline of 0.42% to 37,784 points. Market capitalization on the other hand appreciated by 1.74% to close at N13.45trn from N13.22trn in November. This was mainly due to the introduction of additional shares from consolidation activities concluded during the period. Consequently, YTD return on the index declined to 40.59%, while market capitalization maintained a YTD growth of 45.45%.



[19]

The market is currently trading at a price to earnings (P/E) ratio of 12.63x, a marginal increase over November's P/E ratio of 12.62x. Surprisingly, market breadth was positive at 1.26x, as prices of 39 stocks increased, while 31 declined. However, this showed a relapse compared to the bullish market sentiment of 1.83x in November, where 53 stocks gained against losses recorded in 29 stocks.



[20]

With the exception of consumer goods and oil & gas indices, all sectors recorded a decline compared to the previous month. The NSE 30, which is a key driver of the NSE ASI grew marginally by 0.57%, but sell pressures from large capitalized stocks dragged the industrial (-8.33%) and banking (-1.64%) sectors consequently leading to the marginal decline of the index.

[19]Source: NSE

[20]Source: NSE

The oil and gas index's boost was due to significant gains recorded by Seplat plc (9.10%) and 11 (formerly Mobil Oil) plc (6.48%). The consumer goods index's impressive performance was also due to considerable gains of Nigeria Breweries plc (7.48%) and Nestle Nigeria plc (11.33%), the large capitalization stocks.

The decline in market performance was due to profit taking activities of investors in stocks that recorded significant share price gains. In addition, the most capitalized stock on the market moved to meet the stock exchange's free float requirement, selling over 500 million shares below market price. As a result, the company stock closed on a negative note weighing in on the NSE ASI.

The best performing stocks were NEIMETH INTERNATIONAL PHARMACEUTICALS (29.31%), UNION BANK OF NIGERIA (25.48%), FBNH (23.67%) and DANGOTE FLOUR MILLS (16.50%).

Top Gainers

Symbol	Dec 19 '17 (N)	Nov 30 '17 (N)	Change	% Change
NEIMETH INTERNATIONAL PHARMACEUTICALS PLC	0.75	0.58	0.17	29.31%
UNION BANK OF NIGERIA PLC	7.78	6.2	1.58	25.48%
FBN HOLDINGS PLC	8.83	7.14	1.69	23.67%
DANGOTE FLOUR MILLS	12	10.3	1.70	16.50%

The worst performing stocks during the period were INTERNATIONAL BREWERIES (-13.40%), NIGERIA AVIATION HANDLING COMPANY (12.79%), LAFARGE AFRICA (-12.69%), CAVERTON (11.19%).

Top Losers

Symbol	Dec 19 '17 (N)	Nov 30 '17 (N)	Change	% Change
INTERNATIONAL BREWERIES PLC	51.96	60	- 8.04	-13.40%
NIGERIAN AVIATION HANDLING COMPANY PLC	3.75	4.3	- 0.55	-12.79%
LAFARGE AFRICA PLC	43.48	49.8	- 6.32	-12.69%
CAVERTON OFFSHORE SUPPORT GROUP	1.27	1.43	- 0.16	-11.19%

Outlook

We expect profit taking activities to persist into the New Year, as foreign investors liquidate their positions. In addition fund managers are rebalancing their portfolios. These activities alongside a slur in business activities during Christmas and in early January, will weigh on the stock market's performance.

Who We Are

Avant-garde Academia Limited

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.

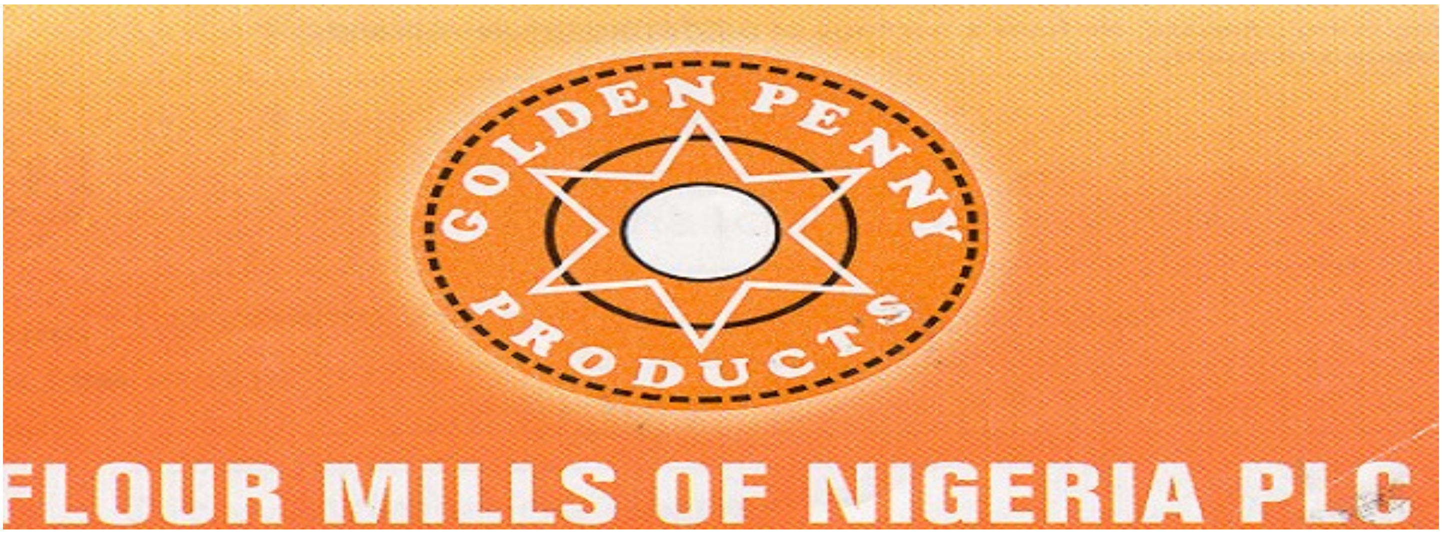
To attend one of our events, kindly contact or visit us at

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

CORPORATE FOCUS - FLOUR MILLS NIGERIA PLC



Analyst Recommendation: Buy

Market Capitalization: N89.72bn

Recommendation Period: 365 days

Current Price: N31.45

Industry: Food, Beverage and Tobacco

Target Price: N43.91

ANALYST'S NOTE

The Nigerian food and beverage industry continues to face challenges due to increasing input costs and low improvements in consumer confidence despite an improving economy. Sales and profit margins have been dampened by accelerating food prices and weak labor market dynamics (high unemployment and underemployment). Moreover, high inflation rates (food inflation at 20.31%), foreign exchange (forex) shortages and high interest rates, which have plagued the country, continue to affect the industry adversely. Consumers' personal incomes have been under pressure and did not keep up with inflation in 2016 driven primarily by the significant fall in global oil prices and distortion of production in the Niger Delta region. We expect cautious spending to prevail and consumption to be largely determined by price. Despite these economic challenges, Flour Mills Nigeria (FMN) Plc recorded a 9.82% increase in its top-line earnings in Q2'18 driven primarily by an increase in price and sales volume growth, primarily in the food business and its commitment to the Backward Integration Plan (BIP)[21]. FMN's investment in the BIP, its decision to restructure its balance sheet, the capacity expansion and diversification plan will enhance its profitability and further improve growth. Our valuation is derived using intrinsic valuation and its share price is currently undervalued. Accordingly, we place a BUY rating on FMN.

[21] Backward Integration Plan (BIP) is a government incentive put in place to promote the sourcing of raw materials in-house and stop the importation of raw materials by 2020

Earnings growth driven by impressive sales and improved cost management

FMN reported positive top-line and bottom-line earnings for the fourth consecutive quarter. It recorded a revenue of N149.47bn in Q2'18 (fiscal year end March 31, 2018), a 9.82% increase compared to N136.10bn in Q2'17. The company also posted revenue of N298.44bn in H1'18, a 16.89% increase of N43.14bn compared to the previous year. This rise was driven by sales volume growth and price increases despite the continuous gridlock in Apapa, Lagos that has delayed deliveries. The food segment was the major driver of growth accounting for 78.1% of total revenue in H1'18. The packaging business was the second highest contributor to earnings as it accounted for 3.3% of total revenue in H1'18.

Profit before tax (PBT) increased by 53% to N13.48bn in H1'18. This was driven by a decline in selling and distribution expenses, reduced power costs, the relative stability of forex and a sharp improvement in net operating gains. The food segment was the highest contributor to the margin as profit increased by 168.57% to N16.92bn in H1'18. However, the agro-allied business segment dampened overall profit as the segment recorded a pre-tax loss of N6.17bn in H1'18, due to higher input costs for the oil and fats business and an increase in cost expenses incurred by operations on the Sunti sugar cane farm.

INDUSTRY AND COMPANY OVERVIEW

Flour Mills Nigeria was incorporated on September 29th, 1960 as a private limited liability company and was converted to a public limited company in November 1978. Excelsior Shipping Company Ltd currently holds a 52.18% stake in FMN. While the company's major business activity is flour milling, it diversified into various business ventures over the years. Flour Mills pioneered flour milling in Nigeria through its first mill in Apapa in 1962, with a capacity of 500 metric tons/day. Now, its Apapa milling complex is the largest single site mill in the world with over 8,000 metric tons capacity. The food segment comprises approximately 79% of the company's revenue base. The company's food basket consists of semovita, pasta, noodles, snacks, margarine, vegetable oils, refined sugar, masavita and cereals.

Flour Mills diversified into woven polypropylene sack manufacturing in 1978 through its investment in BAGCO. With two plants in Kano and Lagos, the company engages in the packaging of flour, cement, grains, salt, fertilizers, detergent and farm harvests. It also exports polymer bags to other African countries and the US. Flour Mills also diversified into its agro-allied business in 1978 through its investment in a 10,000 hectare Kaboji farm close to Niger state. It processes locally grown soybean, palm fruit, cassava, maize and sugarcane and it stores and distributes agro-inputs (fertilizers).

Flour Mills invested greatly in support services, which deal with the manufacturing and marketing of packaging materials, power generation, transport logistics and port operations. It is important to note that the company diversified into cement through a large cement terminal in Apapa under Burham Cement and invested in United Cement Manufacturing Company Ltd (UNICEM) in 2012. However, the investment into cement was disposed of in 2015 to enable the company focus on its food and agro allied businesses.

The leading players in the food industry include Flour Mills, Dangote Flour Mills, Honeywell and Olam International.

The company's growth can be seen through the increase in its total assets and revenue during the years. Between 2013 and 2017, revenue increased by 14.8% and total assets by 14.6%. A snapshot of FMN's latest annual financials is shown below.

Income Statement for Flour Mills of Nigeria Plc FY March					
N'000	**2013**	**2014**	**2015**	**2016**	**2017**
Revenue	301,941,329	325,790,187	308,756,526	342,586,459	524,464,448
Cost of Sales	(263,931,207)	(288,485,692)	(273,389,567)	(304,961,737)	(457,775,380)
Gross Profit	**38,010,122**	**37,304,495**	**35,366,959**	**37,624,722**	**66,689,068**
Other Gains and Losses (Other Income)	5,407,308	3,873,953	(685,050)	(7,720,517)	(1,488,216)
Selling and Distribution Expenses	(10,066,912)	(6,081,666)	(4,184,382)	(5,003,801)	(5,341,148)
Administration Expenses	(15,204,512)	(15,721,482)	(20,281,760)	(15,848,261)	(18,419,807)
Operating Profit	**18,146,006**	**19,375,300**	**10,215,767**	**9,052,143**	**41,439,897**
Investment Income	5,464,686	5,027,713	2,303,588	1,103,475	1,562,304
Finance Costs	(11,407,268)	(16,101,379)	(18,703,526)	(22,397,762)	(32,529,354)
Share of Loss in Associate Company	(1,037,993)	(73,651)	(381,012)	-	-
Gain on Disposal of Investment in Associate	-	-	14,289,953	23,731,422	-
Profit Before Tax	**11,165,431**	**8,227,983**	**7,724,770**	**11,489,278**	**10,472,847**
Income Tax Credit/(Expense)	(3,438,760)	(2,860,108)	738,292	2,931,006	(1,636,395)
Profit After Tax	**7,726,671**	**5,367,875**	**8,463,062**	**14,420,284**	**8,836,452**
Profit from Discontinued Operations			11,280	-	
Profit for the Year	7,726,671	5,367,875	8,474,342	14,420,284	8,836,452

Balance Sheet for Flour Mills of Nigeria Plc FY March					
N'000	**2013**	**2014**	**2015**	**2016**	**2017**
Property, Plant and Equipment	144,346,381	169,287,517	208,940,475	211,588,076	216,866,184
Intangible assets	672,908	554,905	496,248	735,330	208,370
Goodwill	4,148,022	4,148,022	4,148,022	4,148,022	4,148,022
Investment properties	-	-	-	2,023,379	1,929,196
Investment in subsidiaries	-	-	-	-	-
Investment in associates	2,058,203	7,790,094	-	-	-
Other financial assets/investments	24,948	135,456	114,716	45,696	24,140
Deferred charges/Deferred tax assets	311,072	-	411,431	66,022	1,846,674
Long-term loans receivable	19,717,445	11,457,561	3,904,188	-	989,022
Biological assets		609,112	58,509	352,020	29,131
Deposit for shares	-	-	-	-	
Other long term assets		1,734,837	1,583,075	1,703,939	1,679,252
Non-current assets	**171,278,979**	**195,717,504**	**219,656,664**	**220,662,484**	**227,719,991**
Inventories	64,366,539	63,683,942	68,426,003	58,698,768	117,296,162
Biological assets	696	144,885	399,081	182,613	558,480
Trade and other receivables	19,467,295	15,478,510	15,373,448	18,966,168	21,403,132
Prepayments	1,710,231	4,004,007	3,060,090	13,625,250	69,851,473
Non-current assets held for sale	-	-	3,514,035	-	755,516
Due from related companies	1,585,988	3,331,669	1,699,790		
Cash and bank balances	21,837,482	16,825,163	31,131,719	33,213,043	45,018,503
Current assets	**108,968,231**	**103,468,176**	**123,604,166**	**124,685,842**	**254,883,266**
Total Assets	**280,247,210**	**299,185,680**	**343,260,830**	**345,348,326**	**482,603,257**
Share capital	1,192,842	1,192,842	1,312,126	1,312,126	1,312,126
Share premium	36,812,540	36,812,540	36,812,540	36,812,540	36,812,540
Fixed assets revaluation exercise	-	-	-	(89,760)	(111,316)
Capital reserve	6,838,833	281,201	281,201	-	-
Retained earnings	36,134,594	41,636,076	45,946,617	54,900,934	60,450,685
Equity attributable to owners of the company	**80,978,809**	**79,922,659**	**84,352,484**	**92,935,840**	**98,464,035**
Non-controlling interest	2,914,853	3,636,773	3,057,910	2,829,934	4,080,309
Total Equity	**83,893,662**	**83,559,432**	**87,410,394**	**95,765,774**	**102,544,344**
Borrowings	39,863,248	48,614,076	55,260,645	48,009,715	50,879,043
Unsecured fixed rate bond	23,211,894	16,484,216	-	-	-
Deferred revenue	3,372,148	3,136,133	7,182,184	7,093,966	8,618,213
Deferred tax liabilities	10,926,660	11,117,827	9,607,954	5,768,040	7,819,480
Retirement benefit obligation	4,453,271	3,673,114	3,245,308	4,077,811	3,676,418
Long service award		1,317,571	1,340,140	1,593,819	1,568,859
Non-current liabilites	**81,827,221**	**84,342,937**	**76,636,231**	**66,543,351**	**72,562,013**
Borrowings	53,877,818	76,443,426	113,940,442	100,830,460	141,702,267
Unsecured fixed rate bond	11,324,384	10,424,384	19,248,115	-	-
Deferred revenue	607,220	865,738	1,472,527	1,076,024	2,089,158
Trade and other payables	45,503,625	38,116,032	42,560,787	50,416,914	94,567,170
Due to related companies	45,645	34,381	22,290	-	-
Provisions	230,537	16,109	47,126	-	-
Current tax liabilities	2,747,305	2,666,511	1,802,610	1,336,015	2,136,490
Customer Deposits	-	-	-	11,029,933	12,453,166
Dividend payable	189,793	92,297	120,307	1,936,869	2,032,098
Bank Overdraft				16,412,986	49,023,812
Derivative Liabiities	-	-	-	-	3,492,739
Current liabilites	**114,526,327**	**128,658,878**	**179,214,205**	**183,039,201**	**307,496,900**
Total liabilites	**196,353,548**	**213,001,815**	**255,850,436**	**249,582,552**	**380,058,913**
Total equity and liabilites	**280,247,210**	**296,561,247**	**343,260,830**	**345,348,326**	**482,603,257** [22]

[22] Source: Flour Mills Nigeria Plc Annual Reports

Capable of capitalizing on potential growth opportunities in the food industry

FMN's management's ability to sustain returns, drive growth and remain a major player in Nigeria's food industry in a period of fragile economic growth can be attributed to its series of acquisitions, capacity enhancement projects and effective cost management strategy. Its ability to sustain returns is evident as it maintained revenue growth during a period when many companies were challenged with tepid sales and enhanced shareholder value.

Mr. Paul Gbededo is the Group Managing Director and Chief Executive Officer (CEO) of FMN Plc. He obtained a Graduateship of the Plastic and Rubber Institute and Associateship of the National College of Rubber Technology from the Polytechnic of North London UK in 1980. He holds an MSc Degree in Polymer Technology from Loughborough University of Technology, UK. He joined Flour Mills in 1998 as the General Manager in charge of Golden Fertilizer and has since gained over 30 years of extensive experience in the Flour Mills industry.

Mr. John George Coumantaros is the Non-Executive Chairman of the Board of Directors since September 2014. He has a BA in History from Yale University. He has over 30 years' extensive experience in international trade, logistics, manufacturing and industry. He joined Flour Mills in 1984 and was appointed to the board as a Non-Executive Director in 1990. Mr. John Coumantaros is an experienced and successful entrepreneur on the board of several international companies such as Oxbow Carbon LLC (an international energy company) and ELBISCO (a fast moving consumer food business in Greece). Mr. John Coumantaros took over from Mr. George Coumantaros, the founder of the company. George Coumantaros led the company through its inception in 1962 when it produced 600 metric tons/day to its current milling capacity of over 8,000 metric tons per day.

Management plans to restructure and streamline its business operations to focus on core businesses, manage costs, improve and re-engineer its existing product range. To further improve sales, redistribution activities and personnel, management intends to focus on innovation and development of new strategies by making its products more visible and available at various points of sale.

Group Managing Director and Chief Executive Officer (CEO) of FMN Plc

Mr. Paul Gbadedo

Non-Executive Chairman of the Board of Directors

Mr. John George Coumantaros

In order to boost growth in the food business segment, management is focused on enhancing marketing activities by pushing the brands' presence into newer outlets and strengthening Flour Mills market share. In its agro-allied business, management is determined to improve execution capacity in its involvement in the BIP by integrating its core value chains, sugar sweeteners, edible oils, feeds, proteins and cassava starch. To drive this, the company initiated a multi-million naira wheat seed out-grower scheme in partnership with local and Chinese consultants. It will be implemented in three Northern states – Gombe, Jigawa and Kano. Through the program, the company will provide high quality wheat seeds, assorted farming inputs and implements for land preparations to five farmers from each participating state. This will ultimately provide returns and conserve forex expended on wheat importation by maximizing local inputs used in production.

On December 8th, 2017, Flour Mills filed an application with the Nigerian Stock Exchange (NSE) to raise N39.86bn ($127mn) from its existing shareholders through a rights issue by selling 1.47bn ordinary shares of 50 kobo each at N27 per rights issue. It would offer nine new shares for every 16 existing shares held through a shelf programme in three tranches. The company's decision to raise funds via rights issue is aimed at restructuring its balance sheet, using proceeds to reduce its debt burden, reduce high interest rates paid on borrowings and replenish working capital. The company also plans to raise approximately N70bn capital through the Medium Term Notes (MTN) to refinance short term debts.

THE BULLS SAY

- ◊ Leading player in the Nigerian flour mill industry
- ◊ Rich product portfolio which ensures sustainability of revenue
- ◊ Renowned brand value
- ◊ Proposed upward review of minimum wage could bolster consumer spending
- ◊ Talented and experienced management team proficient in technical and marketing skills
- ◊ The company benefits from cheaper raw materials and reduced production cost through its Investments in the backward integration program
- ◊ Favorable government policies towards firms invested across Nigeria's agricultural value chains

THE BEARS SAY

- ◊ Intense competition from other leading players such as Dangote Flour Mills Plc, Honeywell Flour Mills Plc and Olam International as well as smaller local flour mills
- ◊ High and rising finance costs could threaten earnings growth
- ◊ Persistent forex challenges could lead to higher cost of imported raw materials affecting earnings negatively
- ◊ Persistent macroeconomic headwinds have affected consumer demand for goods
- ◊ Shift of market preference to low-priced products
- ◊ Poor infrastructure increases operating costs

Risks and Outlook

Growth potential constrained by fragile macroeconomic fundamentals

The key risks that could prevent FMN from achieving its strategic goals include market risk (forex, interest rate and commodity price risk), credit, liquidity, and capital risks amid security challenges in the country. To protect against these, Flour Mills' Risk Management Committee, in co-operation with the group's operating units, identifies and evaluates risks under the company's risk policies approved by the board of directors.

The company is exposed to fluctuations in US dollars (USD) on purchases of raw materials. Although there have been recent improvements in the availability of forex in the country through the introduction of the Investor's and Exporter's Foreign Exchange window (IEFX), the company mitigates forex risk by its involvement in the BIP of agro-allied products. This reduces dependence on imported inputs and exporting of products to neighboring countries.

The company has put various strategies in place to control interest rate risks. It maintains a centralized treasury department, carrying out group borrowing to obtain lower interest rates. In addition, the company is exposed to commodity price risks as it needs to purchase specific quantities and qualities of raw materials to meet its milling requirements. These raw materials include wheat, rice and cassava flour. Management mitigates this risk partly by buying raw materials three months in advance.

FMN addresses credit risk by setting credit limits and dealing primarily with credit worthy counterparts. The company transacts with corporate entities that are rated the equivalent of an investment grade or above. The company manages its liquidity risks by maintaining adequate reserves, banking facilities and reserve borrowing facilities.

FMN's debt burden (capital) is also a key risk. The company maintains an efficient capital structure by adjusting the amount of dividends paid to shareholders, issuing new shares through right issues or selling investments in order to optimize its cost of capital and provide maximum returns for its shareholders. The company's plan to raise N39.86bn equity capital will help deleverage its balance sheet, thereby reducing interest expenses.

Despite the severity of the risks facing Flour Mills, the solid risk management in place, alongside its backward integration agricultural projects, growth and its productive use of debt to fund expansion shows that the company has a viable investment plan. As such, it is a company with prospects to enhance shareholder value.

APPENDIX - Valuation

We derived our valuation for FMN by using the Discounted Cash Flow (DCF) methodology. Our fair value estimate for FMN is **N43.91**, which is a 39.6% upside on its current share price of N31.45 as at December 15, 2017. The discount rate [weighted average cost of capital (WACC)] of 12.3% is derived using a 16.2% risk free rate [the yield for a 10-year Federal Government of Nigeria (FGN) bond maturing in March 2027], a beta of 1.0656 an after-tax cost of debt of 7.8%, and a market risk premium of 6.4%. The calculated long-term cash flow growth rate to perpetuity is 5.0%.

DCF Valuation			
N'000	2018E	2019E	2020E
EBIT	46,222,344	48,550,147	52,488,386
Less: Taxes	(13,866,703)	(14,565,044)	(15,746,516)
EBIAT	32,355,641	33,985,103	36,741,870
Plus: Depreciation & Amortization Expense	65,966,371	73,592,913	82,927,325
Less: CAPEX	(86,831,176)	(96,899,064)	(107,153,911)
Change in Working Capital	(31,169,403)	(17,548,378)	18,520,392
Free Cash Flow (FCF)	(19,678,566)	(6,869,426)	31,035,677
WACC	12.3%	12.3%	12.3%
Present Value (PV) of FCF	(15,609,471)	(4,853,026)	19,527,682
Terminal Value @ Perpetual Growth Rate (2020)	**2018**	**2019**	**2020**
Terminal Value as of 2020			447,626,371
Present Value of Terminal Value	316,233,428		

DCF Calculation	Valuation
PV of Explicit Period	(934,814)
PV of Terminal Value	316,233,428
Enterprise Value	315,298,614
+ Cash	45,018,503
- Borrowings	(245,097,861)
Equity Value	115,219,256
Share Price	***43.91***
Shares Outstanding ('000)	2,624,253