FDC Bi-Monthly Update

Volume 8, Issue 1

January 17, 2018

A Financial Derivatives Company Publication

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

Inside This Issue:

FACTORS THAT WILL AFFECT THE PRICE OF OIL IN 2018

Brent oil prices gained 20.5% in 2017, rising to $66.87per barrel (pb) as of December 29th 2017 from $55.47pb on January 3rd 2017. Brent touched $70pb on January 15th. This is 30.3% higher than 2017s average of $53.71pb, and 55.5% higher than Nigeria's 2017 budget benchmark price of $45pb. Is this price sustainable throughout 2018? Will oil prices continue to trend higher? These are the questions everyone is asking, and for a country as dependent on oil revenues as Nigeria, the answers are of the utmost importance.

Just like any other commodity or good, the price of oil is determined by current and expected levels of supply and demand. Thus, to understand factors that will influence future oil prices, we must examine the factors that affect the supply and demand of the oil market.

Factors that affect demand

Global economic conditions: On the demand-side, the economic conditions of big countries can sway the market, and affect the quantity demanded. China, for example, is the world's second largest economy and biggest consumer of oil. The rapid industrialization in the last decade led to an increased growth in the country's demand. However, the more recent switch to services and the reduction in manufacturing has capped and even reduced the country's consumption of oil. Additionally, the Chinese slowdown of 2016 prompted market fear, leading to a massive global investor-sell off. These conditions contributed to the sharp dip in oil prices to less than $30pb in 2016.

Macroeconomic conditions in most world regions are expected to improve in 2018, pushing up global gross domestic product (GDP). India is projected to grow by 7.4% (from 6.7% in 2017), driven by strengthening domestic demand, while continued fiscal support in China will drive a growth of 6.5%. GDP growth rate for Sub-Saharan Africa (SSA) is expected to inch higher to 3.5% in 2018 from 2.6% in 2017, supported by the rebound in commodity prices. All in all, global growth is expected to inch higher to 3.6% from 3.5% in 2017[1]. Economic growth and the subsequent rise in demand are favorable for oil prices.

[1]World Economic Outlook (pdf edition), download link <http://www.imf.org/~/media/Files/Publications/WEO/2017/October/pdf/main-chapter/exesum.ashx?la=en>I MF, page 7.

The prominence of electric vehicles:

In the longer term, as battery electric cars gain more popularity, the demand for petroleum products is expected to wane. By 2019, China will begin to enforce a law to ensure that 10% of all automaker sales are battery electric or hybrid models[2]. European nations such as France, Germany and the UK, are also expected to ban the sale of new traditional cars by 2040. According to Ben Van Beurden, Chief executive at Royal Dutch Shell, a bullish growth in EV sales, combined with aggressive national environmental policies and faster technology innovation, could lead to a significant fall in global demand for oil by the late 2020s.[3] This is because road transportation makes up about 44.8% of global oil consumption.[4]

While this is an important consideration for the market in the long run, it is unlikely to have any notable effect on prices in 2018. Despite the 40% growth in sales, electric vehicles (EV) still only make up 0.2% of global passenger vehicle fleet.[5] Thus, even a bullish growth in EV demand, is unlikely to impact oil demand significantly this year.

Factors affecting supply

Rising US crude: The US is the newest swing producer[6] on the block. It accounts for 16% of the total global output, but accounts for over 70% of oil production growth. US production increased by 61.6% to 14.48mbpd in September 2017, from 8.96mbpd in the corresponding period in 2011.This boom in production, dubbed the shale revolution, contributed to the global supply glut, and forced down the global price of the commodity.

Developments in technology led to improved cost efficiency in oil drilling and fracking, reducing costs and the price of West Texas Intermediate (WTI).[7] On the other hand, Brent Crude[8] continues to strengthen, driven by cut agreements and geopolitical tensions. This has led to a widening of the price spread, making WTI more price-competitive. As of January 2nd, Brent traded at $66.96pb and WTI at $60.35pb, compared to their prices of $56.82pb and $52.37pb in the corresponding period in 2017. This represents a 47% increase in the spread.

[2]Source: Reuters (online) Available at < https://www.reuters.com/article/us-china-autos/china-studying-when-to-ban-sales-of-traditional-fuel-cars-xinhua-idUSKCN1BL01U >
[3]Source: Financial Times (online) Available at < https://www.ft.com/content/3946f7f2-782a-11e7-a3e8-60495fe6ca71>
[4]Source: Statista (online) Available at < https://www.statista.com/statistics/307194/top-oil-consuming-sectors-worldwide/ >
[5]Source: CNBC (online) Available at < https://www.cnbc.com/2017/10/05/electric-cars-could-cut-oil-demand-roughly-equal-to-irans-output.html>
[6]A swing producer has a large share of market output, such that it can influence prices by adjusting levels of production.
[7]WTI is oil produced in North America and is lighter than Brent oil.
[8]Brent crude is extracted from the North Sea near Western Europe; it is used as a pricing benchmark for crude oils from Europe and Africa.

On the quality side, WTI is lighter and sweeter than Brent Crude and is thus more desirable for end users or refiners. For this reason, in pre-2010, WTI was trading at a premium to Brent. However, the Arab Spring[9] introduced supply uncertainties, flipping the premium discount situation. During the period, Brent oil prices gained up to 30%.

The increased competitiveness of US crude has encouraged the shift in demand away from the Organization of the Petroleum Exporting Countries (OPEC) to US crude. This, combined with the falling costs of US production per barrel, provides an incentive for US producers to increase output, and boost market share.

This increase in US oil production presents a risk to oil prices.

The Organization of Petroleum Exporting Countries and its allies*:*

The OPEC cartel supplies 40% of the world's production, and represents 60% of global exports for oil. OPEC is a swing producer in the market, led by de-facto leader- Saudi Arabia. However, with the rise in US output, it appears that OPEC is losing its ability to sway the market. Earlier in the year, in its April report, OPEC urged the US to reduce production levels and to increase market stability. Despite this, US crude production continued to increase. In November 2016, OPEC together with 11 non-OPEC oil producers, such as Russia, committed to make sizeable cuts to their oil production and export levels. The timeline for this was originally June 2017, but was extended to March 2018. At its last meeting for 2017 in November, OPEC and its allies agreed to further extend the deadline to December 2018. Compliance levels have been commendable, with its de facto leader, Saudi Arabia, even cutting more than agreed levels. The market responded to compliance levels within the cartel. The expected reduction in OPEC supply is positive for oil prices.

[9]The Arab Spring was a wave of demonstrations across countries in the Middle East and North Africa; it began in December 2010 in Tunisia.

The unknowns: Unknown events can shake the oil market, but are almost impossible to predict. Unexpected occurrences, such as natural disasters and security problems can lead to a force majeure[10], limiting supply and driving up prices. Geopolitical tensions between oil producers or between regions in an oil producing country can create supply concerns. For example, oil prices received a boost in October/November driven by market concerns over US-Iran tensions and the Kurdistan war in the Middle East.

An unknown event that affects supply will have an impact on prices. Additionally, market expectations influence the direction of prices. If the market anticipates a reduction in supply in the near term, demand will increase now, leading to higher oil prices.

Price: Outlook

In 2017, oil prices gained 20.5% year-to-date. While we don't expect oil prices to record similar gains in 2018, we expect the above factors to introduce a floor to the oil market in the short run, causing oil prices to average higher this year. In 2018, oil prices will be supported by improving economic conditions which boost demand, and OPEC production cuts, which will tighten market supply. Our forecast for the year's average price stands at $59.5pb, approximately 10.8% higher than 2017's average. Risks to this projection include US production, geopolitical tensions and slower-than-expected global growth.

	2018 Oil Price projection
Economist Intelligence Unit	$59pb [11]
Goldman Sachs	$62pb [12]
JP Morgan	$58pb [13]
Energy Information Administration	$57pb [14]
Financial Derivatives Company Think Tank	$59.5pb

Provided domestic production levels remain stable, a higher oil price is positive for Nigeria. Increased oil revenue will support budget plans, reduce the need for borrowing, and boost fiscal spending. An average price of $59pb is 25.5% higher than Nigeria's 2018 budget benchmark of $47pb. This means more funds can be kept aside as savings. This will also lead to an accretion in the external reserves level and enhance the CBN's ability to intervene in the exchange rate market.

[10]A *force majeure* is an unforeseeable circumstance that prevents a company from fulfilling a contract. It is generally a force of nature or catastrophic man-made event that impedes a company from carrying out normal operations. Companies are protected from a force majeure through contract clauses.

[11]Source: EIU (online) Available at <http://gfs.eiu.com/Article.aspx?articleType=cf&articleId=1756226559&secId=0>

[12]Source: Bloomberg (online) Available at <https://www.bloomberg.com/news/articles/2017-12-05/goldman-lifts-2018-oil-price-outlook-on-strong-opec-commitment>

[13]Source: Seeking Alpha (Online) Available at <https://seekingalpha.com/news/3305709-brent-crude-extends-climb-60-j-p-morgan-lifts-2018-oil-price-outlook>

[14]Source: EIA (Online) Available at < https://www.eia.gov/outlooks/steo/>

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THE NIGERIAN ECONOMY: RIDING ON GLOBAL COMMODITIES MARKET WAVES

Commodities, also referred to as primary products, are raw materials extracted from the earth undergoing little or no manufacturing or refining process. Commodities include fuels, agricultural products, minerals, ores, and metals, and they are traded on the commodities market. Of the emerging economies, countries in Africa have remained highly dependent on commodities. More than two-thirds of African countries are over 80% reliant on commodity exports when compared to their total export value, while manufactured goods and services account for the remaining exports. Even more remarkable, Nigeria is over 97% reliant on commodity exports, while services, capital, industrial and other goods account for the rest of exports)[15].

Nigeria mainly trades in fuels, which constitute 96% of export revenue; and agriculture products and other minerals - each represent 1% of export revenue[16]. Considering that the prices of commodities are not solely determined by the Nigerian economy, but by the interplay of demand and supply for commodities in the international market, it becomes imperative to be aware of economic variables that positively or negatively impact commodity prices in the international market. Furthermore, the economic prosperity of our major importers (e.g. India and United States) will have a far reaching effect on our ability to increase export revenue. A boost in the economic performance of Nigeria's export trading partners will be accompanied by an increase in the demand for its goods and services. Conversely, a slowdown in the economies of Nigeria's major trading partners will have a negative effect on the trade balance. This highlights the volatility of Nigeria's commodity traders to the external environment.

Economic Growth Rate of Key Export Trading Partners

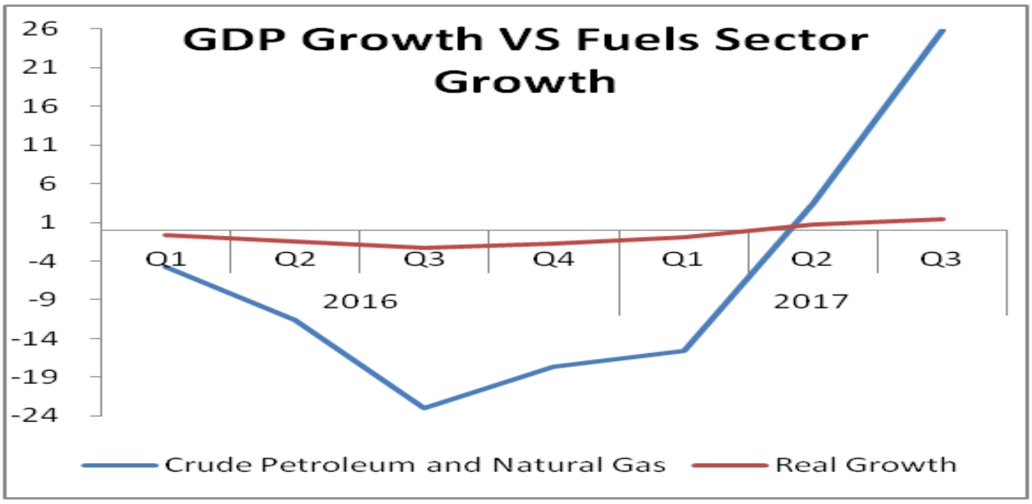
	2016	2017*	2018*
European Union	2%	2.3%	2.1%
India	7.1%	6.7%	7.4%
United States	1.5%	2.2%	2.3%

[17]

[15] United Nations Conference on Trade and Development.2017. *Commodity Dependence Report.*
[16] Ibid.
[17] International Monetary Fund. October, 2017. World Economic Outlook.

Oil remains volatile as always

Nigeria is highly dependent on crude oil, the most important commodity to the Nigerian economy (as an export revenue source). Nigeria produces Bonny light, a high grade of crude oil which is low in sulfur and has a lower environmental impact than most fossil fuels. It is benchmarked against Brent crude, one of the major benchmark prices for crude oil worldwide. Although crude oil contributes just around 10% to Nigeria's GDP, it accounts for 86% of Nigeria's export revenue, making it the main revenue source to financing government's recurrent and capital expenditure[18]. The fragility in oil production and prices was the main trigger for Nigeria into recession in 2016, as the country recorded negative growth in two consecutive quarters. So it was no surprise that Nigeria's exit from recession also coincided with the positive growth of the oil sector in Q2'17 and Q3'17.



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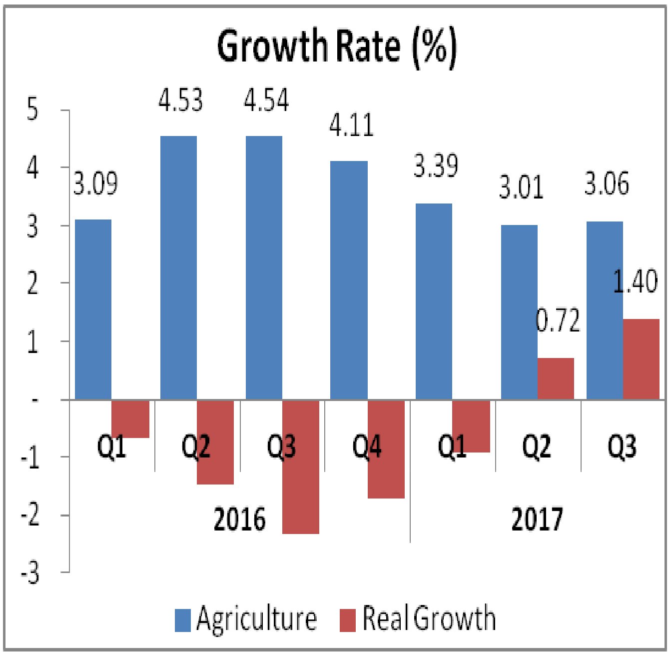
In the last four years, crude oil has witnessed some level of volatility partly due to the slump in demand by highly industrialized economies and to a larger extent, the abundant oil output relative to aggregate demand. Crude oil eventually hit a snag in the second half of 2014. It lost almost half its value to trade at an average of $52.44/barrel in 2015 from $99/barrel in 2014, and hit a decade low of $43.69/barrel in 2016.[20] The fragility led to the strategic alliance of most oil producing countries, in a bid to control output and ultimately control price. This pact, which will lapse by the end of 2018 yielded some desirable results as crude oil prices climbed up to $69.80/barrel as at 11th of January 2018.[21]

[18] The Economic Intelligence Unit. January 2018. *Country Forecast: Nigeria*
[19] National Bureau of Statistics.Q3, 2017. *Gross Domestic Product Report.*
[20] Organization of the Petroleum Exporting Countries. 2017.*Monthly OPEC Report*
[21] Bloomberg. 2017. *https://www.bloomberg.com/energy*

The main threat to maintaining a crude oil price above $60/barrel is a glut in the global supply and rising US crude. First, high crude oil prices act as an incentive to produce more shale oil – which will increase global output and negatively impact price. Second, the non-compliance of pact members or the exit of key stakeholders, such as Saudi Arabia and Russia will negatively affect prices. Although the latter is unlikely, a possible misalignment in objectives among members would disrupt the balance and eventually lead to another glut in global supply and a crash in oil prices.

Agricultural raw materials have seen growth but still have a long way to go

In spite of oil, agriculture remains the backbone of the Nigerian economy, as it contributes about 21% to GDP and is the main provider of income, employing more than two-thirds of the entire labor force. Even during the economic downturn, the agricultural sector was one of the rare sectors to maintain positive growth. Accordingly, the Nigerian government has identified agriculture and processing as one of the sectors that will aid the export revenue diversification initiative of the government, propelling economic growth in Nigeria.



[22]

With abundant arable lands, agriculture in Nigeria has the potential to drive foreign exchange earnings. However, Nigeria has only achieved self-sufficiency in a few crop productions, like, cocoa, rubber and cassava – Nigeria remains the second largest producer of cassava in the world[23]. Ironically, it has been a major importer of staple foods especially wheat, rice, maize - which are consumed in high quantities but could be cultivated in the country (with the exception of wheat). This has adversely affected the economy's current account balance. The tilt towards a more export focused agrarian economy has exposed Nigeria to the interplay of global demand and supply in agricultural commodities.

[22]National Bureau of Statistics.Q3, 2017. *Gross Domestic Product Report*.
[23]The Economic Intelligence Unit. 2017. *Pocket Handbook: World in 2018*

Cocoa production, which is used to produce chocolate, has been Nigeria's leading food foreign exchange earner. The sector contributed 0.19% to total export value for Q3'17.[24] Cocoa production benefited from favorable weather conditions during the year, eventually leading to a glut in supply. Cocoa yields also improved in Nigeria, but Nigeria lags behind its West African counterparts, Ivory Coast and Ghana, which account for more than 50% of global supply.[25] The glut in cocoa output saw cocoa prices decline from $3,390 in December 2015 to a low of $1,809 in December 2017.[26] EIU's 2018 outlook for cocoa establishes that global output is likely to remain in excess of demand, so cocoa prices will hover around current prices. However, there is also the opportunity to engage in cocoa powder and butter processing, which generates more income compared to raw cocoa exportation, given the competitive rivalry in raw cocoa exportation.

Sesame seed, popular for its oil, is another foreign exchange earner that has gained traction due to interests from Europe and East Asia. In Q3'17, sesame seed exportation closely followed cocoa, contributing 0.16% to total export value. Sesame seeds are used to cook and also for health benefits. Sesame seed is widely used for baking, medicine, animal feeds and oils in key regions like India, China and Turkey. Considering its health benefits, the growing preference for organic foods will likely see the global sesame seed market soar. This would further bolster Nigeria's trade in sesame seeds, and an opportunity for investors to widen its customer base, leveraging on its labor and arable lands.

Moving forward with commodities in 2018

According to the EIU, the commodities market outlook for 2018 will be mixed. Average oil prices will rise by 7%, owing to the pact between OPEC and Russia. Russia is likely to maintain this agreement in the short term as the country recovers from 2 years of recession. Agricultural prices will remain weak in early 2018, owing to bumper harvest. Weather conditions are expected to be favorable during the year. However, the uptick in world population and average income levels will absorb some of this excess supply, mitigating the adverse effect of the glut.[27]

[24]National Bureau of Statistics. 2017. *Foreign Trade Statistics Q3, 2017*
[25]International Cocoa Organization. *Quarterly Bulletin of Cocoa Statistics, Vol. XLIII, No. 1, Cocoa year 2016/17*
[26]Bloomberg. 2017. *https://www.bloomberg.com/markets/commodities*
[27]The Economic Intelligence Unit. January 2018. *World commodity forecasts: food, feedstuffs and beverages*

Consequently, Nigerian investors in the commodities value chain need to diversify their portfolio, either vertically or horizontally. Vertical diversification would support a shift from the production and distribution of raw materials to refining and processing these raw materials, and manufacturing final products. Horizontal diversification would entail embarking on new product development outside of respective commodity portfolios. Horizontal diversification is particularly important for investors in fuel commodities, as the world moves to embrace alternative energy sources that are more ecologically sustainable, i.e. renewable energy. This will reduce the relevance of fossil fuels, and negatively impact prices.

To further bolster economic growth, Nigeria needs to strive in the development of other revenue sources like manufacturing, agro-processing and services, so as not to be caught in the evolution of renewable energy. Maintaining status quo will be unfavorable to Nigeria's long term economic development, as our overreliance on commodities will at best lead to a meek economic growth. The federal government of Nigeria, through its ministries, department and agencies (MDAs), has moved to intensify its revenue earning potential by attracting investors, through foreign portfolio and direct investments in industrial and infrastructural development. Its ability to facilitate trade beyond commodities without being complacent will be a key decisive factor in accelerating sustainable economic growth in Nigeria.

Despite a tepid recovery in 2017, Nigeria has been poised to grow by only 2.1% in 2018, based on stable crude oil production and price, and a boost in non-oil earnings of the economy.[28] However, with limited funds at its disposal, Nigeria needs to be efficient, in taking decisions on 'what to produce', 'how to produce', and 'for whom to produce', in order to pull off this feat.

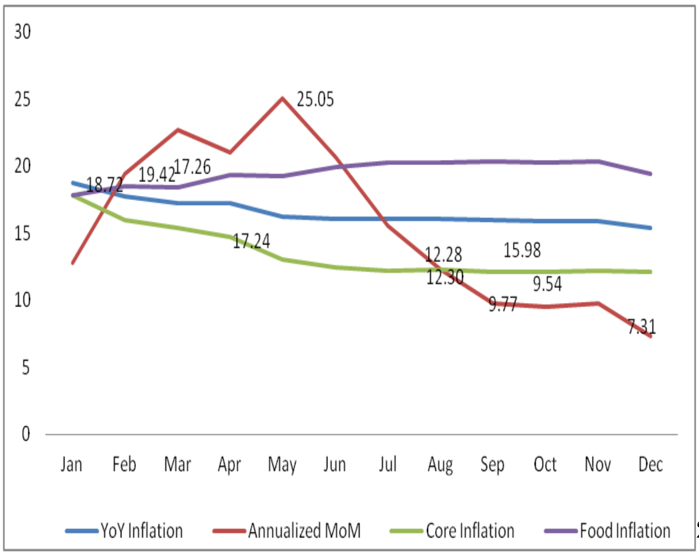
[28]ibid

INFLATION DIPS SHARPLY TO 15.37%, DESPITE THE FUEL SCARCITY

The December inflation data, showing a decline to 15.37% came as a surprise to some analysts, not only in its direction but its magnitude. Cumulatively, Nigeria's inflation rate declined by 3.35% in 2017. This steep decline in inflation can be attributed to a bountiful harvest and stronger currency. Month-on-month (MoM) inflation also declined to 0.59% (7.31% annualized) from 0.78% (9.77% annualized) in November.

Food and core inflation moved in tandem with headline inflation. Core inflation recorded a marginal decline of 0.1%, while food inflation fell at a faster pace of 0.89%.

The easing of these inflation components can be attributed to an increase in aggregate output. In addition, the positive effect of a stable exchange rate and high PMI data more than compensated for the supply shocks during the period.



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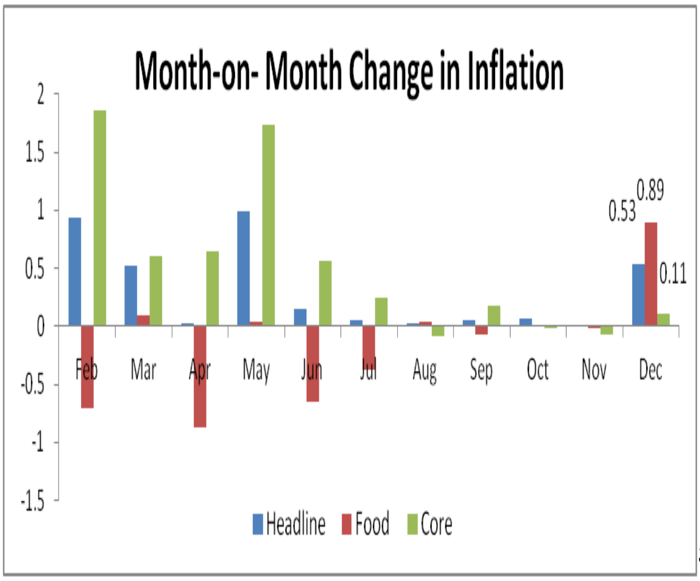

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Breakdown of inflation data

Food Inflation

Food inflation eased by 0.89% to 19.42% in December 20.30% in November. This is the sharpest decline recorded in food inflation in 2017. Month-on-month, the sub index also declined to 0.58%, easing by 30bps compared to November. Domestic food inflation continues to benefit from the decline in beverages and tobacco prices. Conversely, imported food inflation maintained its upward spiral for the third consecutive month, increasing to 15.90% in December from 15.79% in November. But domestic food prices remained resilient to ease this inflationary pressure.

[29]Source: NBS, FDC Think Tank
[30]ibid

Core Inflation

The core inflation, which is inflation less seasonality, eased marginally to 12.10% in December from 12.20% in the previous month. Clothing, household consumables and utilities were the main drivers for the slowdown in core sub-index. However, NBS' statistics shows that transport costs increased during the period, as the average price of Petrol and Diesel increased by 17.10% and 3.29% respectively to N171.8/ltr and N205.81/ltr.

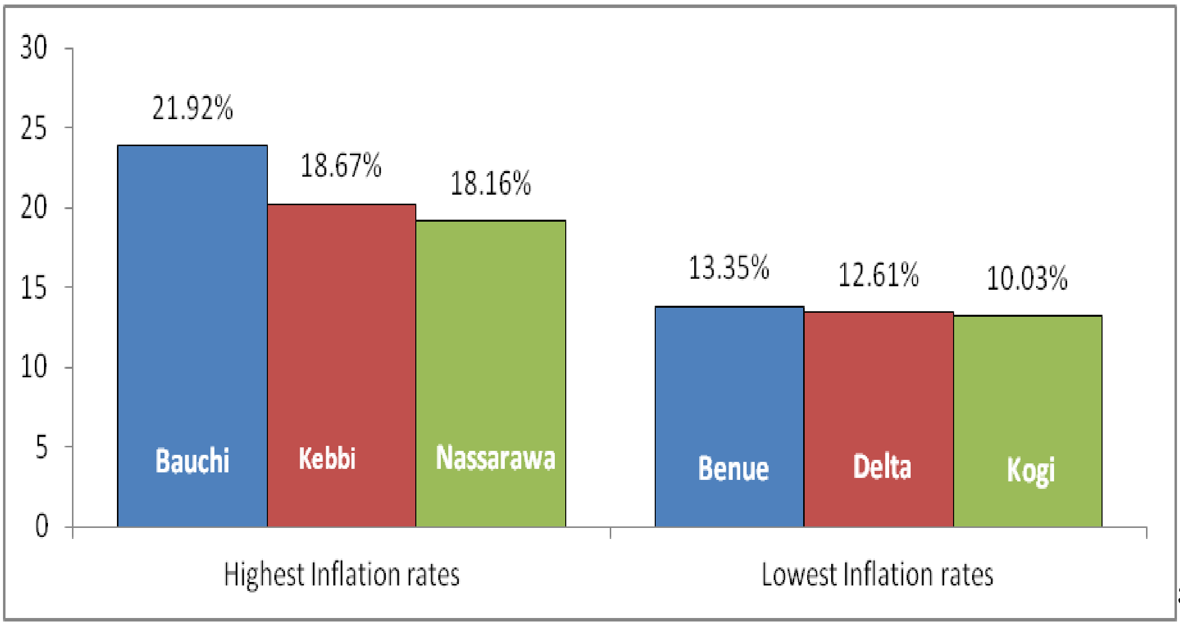
Rural and Urban sub-index

For the first time since May 2017, urban and rural sub indexes moved in the same direction. The urban index declined to 15.78% in December from 16.27% in November. The rural index declined further to 15.02% in December from 15.59%.

State by State breakdown

According to the NBS, Kogi state had the lowest level of inflation of 10.03% in December, owing to lower disposable income. In a similar vein, Delta (12.61%), Benue (13.35%) and Kwara (13.46%) were among the states with the slowest rise in headline inflation.

For the third consecutive month, Bauchi recorded the highest inflation rate of 21.92% in December, though much lower than November's rate of 23.63%; closely followed by Kebbi, with an inflation rate of 18.67%, and Nassarawa state (18.16%).



[31]

Similar to the prior month, the NBS' report showed that eight out of the 10 states that recorded the highest levels of inflation are located in the northern region of Nigeria. Five of the 10 states with the lowest inflation rates were from the South-South and South-East regions.

[31]Source: NBS, FDC Think Tank

Sub-Saharan Africa

With the exception of Ghana, most countries in SSA recorded a decline in headline inflation. On the other hand, Ghana reduced its benchmark interest rate four times in 2017 to boost its non-oil sector. It recorded a remarkable boost in GDP growth, with a growth rate of 9.3% in Q3'17. However, the country continues to experience rising prices in housing, transport and clothing and footwear.

Country	Inflation (%)		Policy rate (%)	
Nigeria	15.37	↓	14	↔
Angola	24.7*	↓	18	↑
Kenya	4.50	↓	10	↔
South Africa	4.6	↓	6.75	↔
Ghana	11.8	↑	20	↓

[32]

Outlook

Outlook for headline inflation is mixed. January is usually characterized by a general slowdown in activities and a decline in consumers' disposable income. However, we expect increased liquidity stemming from FAAC disbursements (higher oil proceeds) and capex disbursements by the government. This is coupled with the lingering fuel scarcity could exacerbate inflationary pressures.

The sharp decline in December's inflation will mount immense pressure on the committee to take an accommodative stance on the MPR, as it will be difficult for any hawk to argue against easing rates at this time.

[32]Source: FDC Think Tank; *: October inflation rate

Global Perspective: *Culled from* **Bloomberg**[33]

WHY AFRICA'S TOP OIL PRODUCER IS LOW ON GASOLINE

Nigeria, Africa's biggest oil producer and a member of OPEC, has suffered fuel shortages over the past few weeks. They complicated transport and hurt economic activity and, in the words of President Muhammadu Buhari, ensured that for many Nigerians the Christmas holidays were "anything but merry and happy." His administration says it's working overtime to end the queues that have formed at gasoline stations throughout much of the country. Nigeria is about the only major African economy to experience frequent fuel scarcities.

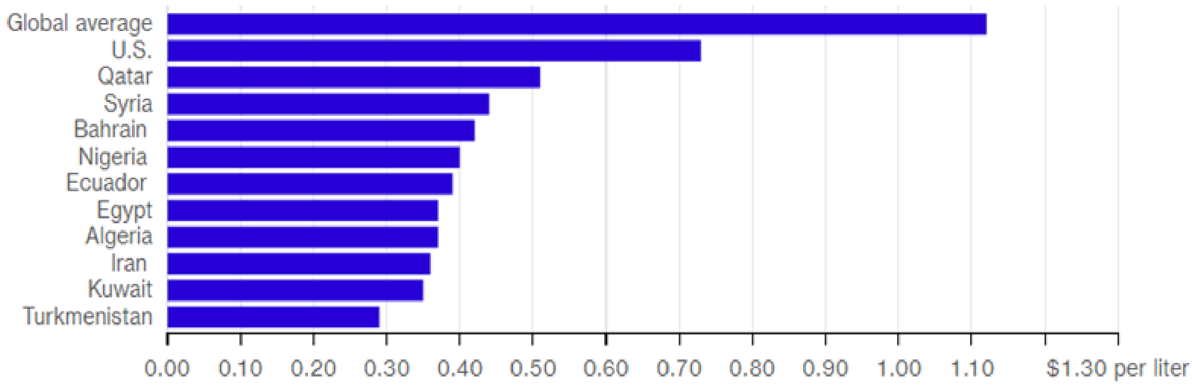
1. What's the reason for the shortages?

Part of the problem is that, despite pumping 1.8 million barrels a day of crude, Nigeria has to import almost all its fuel because of the decrepit state of its refineries. But in that, it isn't alone: Most countries in Africa lack refineries. A bigger problem is that Nigeria caps gasoline prices, often at levels below retailers' costs. The cap today is set at 145 naira, or $0.40, a liter, which would translate to $1.52 per gallon. That makes the west African nation one of the 10 cheapest places in the world to buy gasoline and compares to a global average of $1.12 and a U.S. average of $0.73 per liter, according to GlobalPetrolPrices.com.

[33]Source: Bloomberg. Available at <https://www.bloomberg.com/news/articles/2018-01-08/why-africa-s-top-oil-producer-is-low-on-gasoline-quicktake-q-a>

Cheap Fuel

Nigeria is among the world's 10 cheapest places to buy gasoline



Source: www.GlobalPetrolPrices.com; excludes Venezuela, which has world's cheapest prices, depending on the exchange rate used

2. Does that mean fuel retailers can't make money?

They could when the current cap was set, in May 2016. Back then, Brent crude traded at less than $50 a barrel. It's since risen about 40%, to $68, which has made it more expensive for retailers to buy refined fuel. Neither does it help that Nigeria bases the cap on its official exchange rate of 305 naira per dollar, which few retailers can access, given that the market rate is almost 20% weaker at 360. Many have stopped importing, leaving that job almost entirely in the hands of the state oil company, the Nigerian National Petroleum Corp., a task it is struggling with and was never designed to do on such a scale.

3. What's being done to solve the problem?

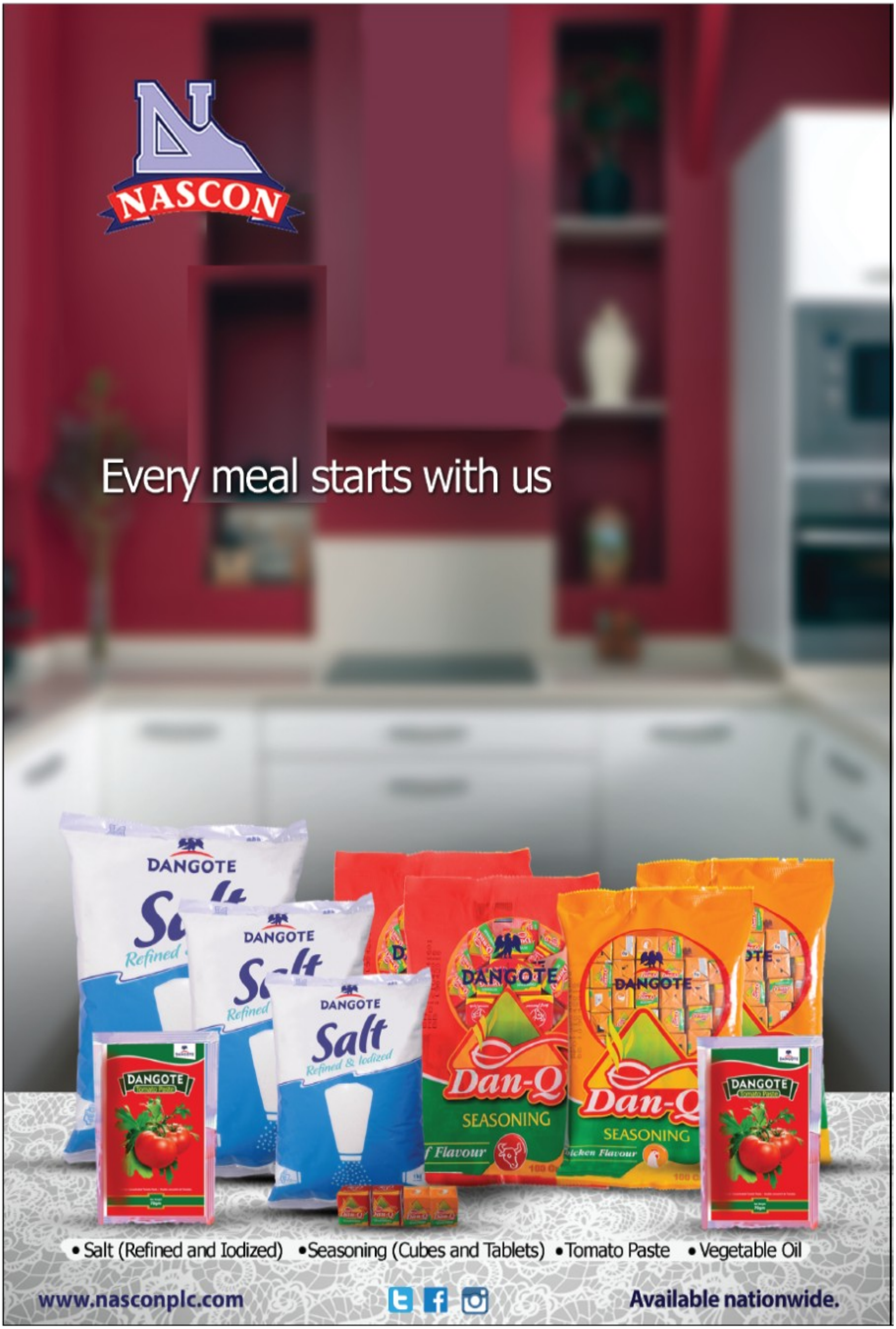
Maikanti Baru, the head of NNPC, and other Nigerian officials including Emmanuel Kachikwu, minister of state for petroleum resources, say they're clamping down on anyone hoarding fuel or selling it above sanctioned prices. They've ramped up the amount of gasoline sent to depots across the country and called for Nigerians to cease panic buying. They've said the shortages will be over soon and that increased demand in the run-up to Christmas was to blame. But one thing they and Buhari are adamant about is that prices won't be increased. Queues at service stations have eased in Lagos, the main commercial hub, and Abuja, the capital. But the shortages are still severe in many other cities, including Kano in the north.

4. What would be so bad about raising the price of gas?

Fuel prices are a hugely sensitive issue in Nigeria. Given the poor state of schools and hospitals, many citizens feel that cheap fuel is about the only benefit they get from their government. When Goodluck Jonathan, Buhari's predecessor, tried to end subsidies and hike prices in 2012, nationwide protests crippled the country, forcing him to backtrack. Buhari, 75, who won elections in 2015 by appealing to Nigeria's poor masses, increased prices the following year only after weeks of shortages forced his hand. He will be loathe to do it again, especially with elections coming up in early 2019 and his popularity already dented by a weak economy and rising unemployment.

5. What's the damage to Nigeria's economy?

Previous fuel crises were bad enough to hit gross domestic product. A bigger impact might be on inflation, given the resulting increase in transport prices. Buhari's team met with officials on Jan. 2 to figure out a long-term plan to prevent any future shortages, but he's unlikely to find solutions in the absence of allowing fuel prices to rise -- at least until current efforts to revamp old refineries and investments in new ones start paying off.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MACROECONOMIC INDICATORS

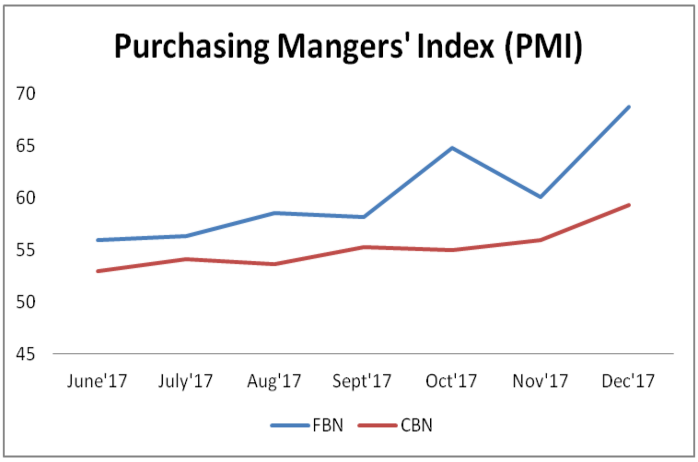
PURCHASING MANAGERS INDEX (PMI)

The PMI reached record level in December, at 68.7, according to First Bank Nigeria (FBN) Quest. This is significantly higher than November's figures of 60.1, and the highest level of PMI on FBN records. The FBN PMI has stayed above the expansion threshold of 50 for the tenth consecutive month.

The Central Bank's Purchasing Managers' Index (PMI) posted a softer expansion of 59.3 in December compared to 55.9 in November. This is the ninth consecutive month that the CBN PMI has recorded an expansion.

This movement was primarily driven by the increase in inventory build-up, in anticipation for the Christmas season. It is also reflective of the improvements in business confidence and environment driven by forex stability and availability.

Overall, this implies that the manufacturing sector is in a much better place. PMI is a coincidental indicator, thus a positive trend confirms that the economic recovery is gaining momentum.



[34]

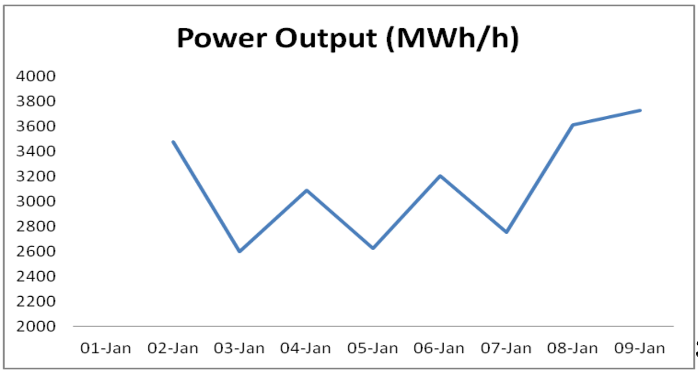
Outlook

The PMI is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment. A reading above 50 is indicative of an expansion in the manufacturing sector, while a reading below 50 shows a contraction in activity. We expect the PMI to ease this month, as is typical for the beginning of the year. This is because manufacturers are unlikely to have run out of December stocks. Additionally, a decline in consumer demand will also affect inventory levels.

POWER SECTOR

Average power output from the national grid was 3,228MWh/h in the period January 1st-9th. This is 20% lower than the average of the corresponding period in December. This significant dip in output was caused by a fire outbreak on the Escravos pipeline system, which supplies gas to major gas plants across the country. This led to a nationwide black out in the first few days of the year. Average power output plunged to 2,596MWh/h on January 3rd, but has since recovered to 3,725MWh/h on January 9th.

[34]Source: FBN Quest, CBN



[35]

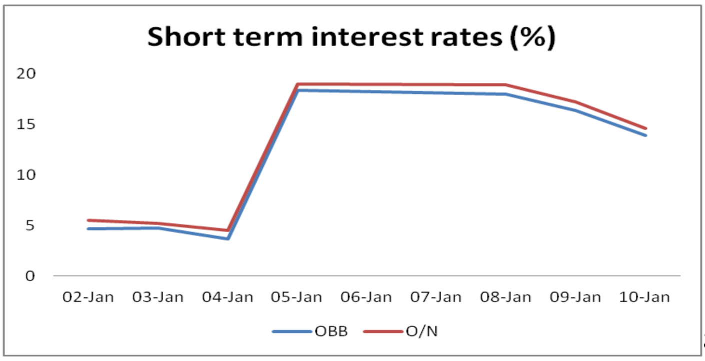
Outlook

The Escravos pipeline has been repaired and the national grid has been restored. We expect an improvement to an average of 3,500MW-4,000MW.

MONEY MARKET

Average opening position of the interbank market was N332.7bn long from January 2nd-10th, compared to N10.93bn short in the corresponding period in December. The DMO resumed its sale of Treasury Bills with a total issuance of N162bn. The yields on all tenors declined compared to the first auction in 2017 and the last auction in November 2017. The 91, 182 and 364- day T/Bills closed at 12.55%, 13.92% and 14.3% respectively. In the secondary market, T/bills lost an average of 0.49% between January 2nd-10th. 91-day bills rose 11bps to 13.52%, while 182 days and 364 days fell to 13.89% and 13.63% respectively. Compared to December 2017, secondary T/bill rates declined by an average of 2.35%.

Average NIBOR (OBB, O/N) was 11.75% pa between January 2nd-10th, compared to 11.55% pa in the corresponding period in December. The OBB and O/N rates reached a period-high of 18% pa and 19% pa respectively on January 5th. This was as a result of the OMO auction of N260bn that mopped up liquidity.



[36]

Outlook

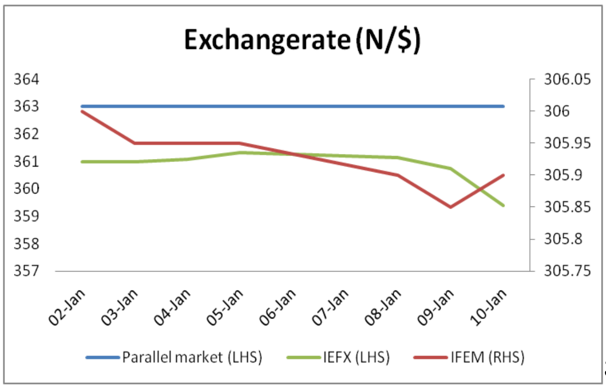
We expect the level of liquidity to be determined by the CBN's continued mopping up activities and funding for forex interventions. Interbank interest rates' movement will be influence by the liquidity position in the market.

FOREX MARKET

Exchange Rate

The naira traded flat at the parallel market during the period to close at N363/$ on January 10th. The IEFX rate appreciated marginally by 0.07% to N360.73/$. The IFEM rate also recorded marginal gains to close at N305.85/$ from N306/$ on January 2nd. Higher oil prices and Eurobond proceeds have supported the relative stability in the exchange rate.

[35]Source: FGN
[36]Source: FMDQ



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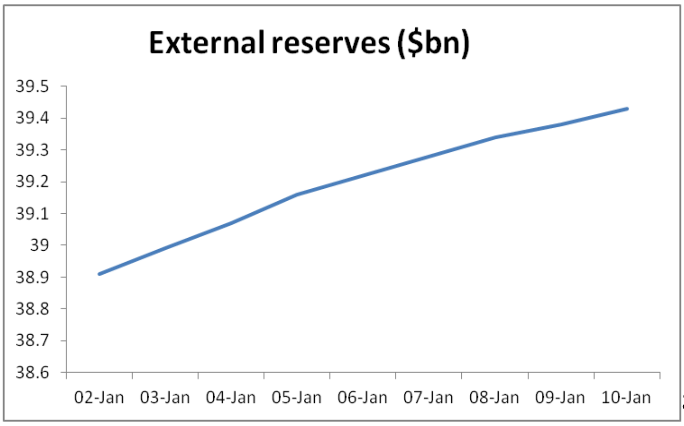
Outlook

The naira has traded flat at N363/$ so far this year. We expect this trend to continue barring any significant liquidity injections that will trigger demand pressure on forex.

EXTERNAL RESERVES

The Central Bank's most recently published gross external reserves figure was $39.43bn on January 10th. This is the highest level since October 2014 and represents a 9.5% accretion, when compared to the corresponding period in December. News reports, however, claim that reserves have climbed past the threshold to a 4-year high of $40.4bn. This positive trend continues to be supported by strong oil proceeds and Eurobond proceeds.



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Outlook

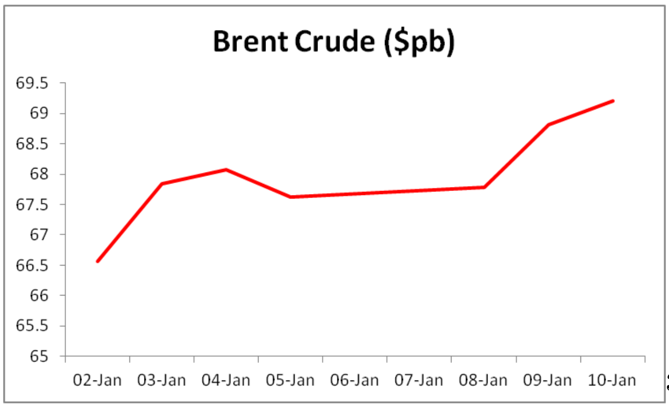
The pace of accretion in the gross external reserves is expected to continue in January. Risks to this outlook include a reversal in the oil price rally, a fall in domestic oil production and/or heightened forex demand pressure.

COMMODITIES MARKET - EXPORTS

Oil Prices

During the period, oil prices rose by 3.95%, to $69.2pb on January 10th, compared to $66.57pb on January 2nd. The average price for the period was $67.98pb, compared to $62.56pb in the corresponding period in December. This bullish momentum has been primarily supported by market concerns over a possible re-introduction of US sanctions against Iran. Additionally, a pipeline explosion in Libya, as well as violent protests in Iran, has increased market expectations for a tightening in global supply.

[37] Source: FMDQ, CBN, FDC Think Tank
[38] Source: CBN



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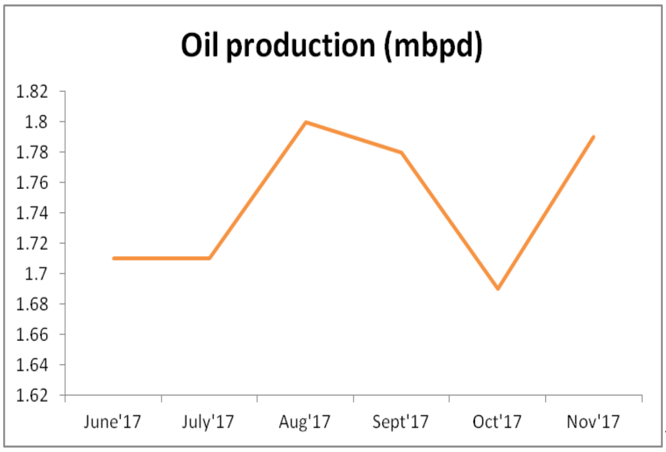
Outlook

Oil prices are expected to ease in the coming weeks, pending the re-opening of UK Forties pipeline and Libya Waha Oil pipeline, following repairs. We project a price range of $66-67pb by January-end.

Oil Production

In November, Nigeria's domestic oil production expanded by 5.92% to 1.79mbpd, from 1.69mbpd in October. Stability in the Niger Delta region, driven by government engagement initiatives, is the main reason for this uptick in output.



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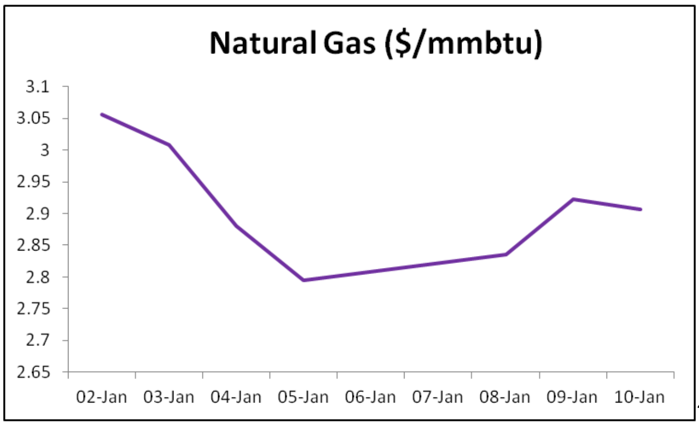
Outlook

Nigeria currently has an OPEC cap of 1.8mbpd, which means its production ought not to surpass this level. The calm in the Niger Delta will continue to positively affect Nigeria's oil production which we forecast will remain elevated at an average of 1.75mbpd-1.79mbpd.

Natural Gas

Natural gas lost 10%, to close at $2.93/mmbtu on January 10th, from $3.06/mmbtu. Prices are steadily reversing gains made in December-end. In the last trading week of December, natural gas gained 13.89% to $2.95/mmbtu. This price movement was primarily stirred by a boost in US production.



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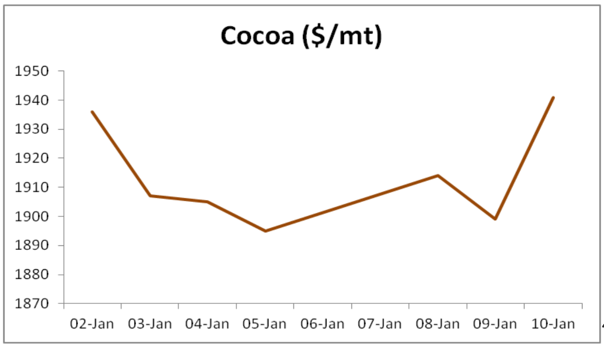
Outlook

Gas prices are expected to post gains in coming weeks as colder weather drives up demand for heating. Weather forecasts show expectations of an arctic blast in the US.

[39]Source: Bloomberg
[40]Source: OPEC
[41]Source: Bloomberg

Cocoa

Cocoa prices weakened by 0.21% to $1,932/mt on January 10th, from $1,936/mt on January 2nd, due to market expectations of lower demand and higher global output.



[42]

Outlook

The bearish cocoa market has reached its floor, thus we expect prices to record increases in January, supported by an uptick in European demand.

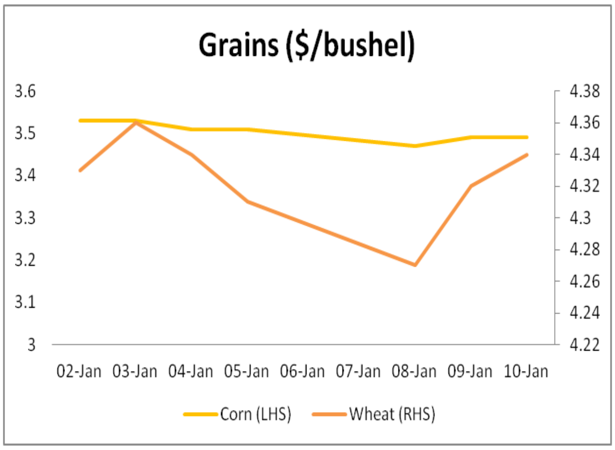
IMPORTS

Wheat

Wheat prices gained 0.23% to $4.34/bushel on the back of extreme winter in the US, which is threatening production.

Corn

Corn prices decreased by 1.13% to $3.49/bushel from $3.53/bushel. This was driven by an uptick in global stocks in the first trading week of 2018.



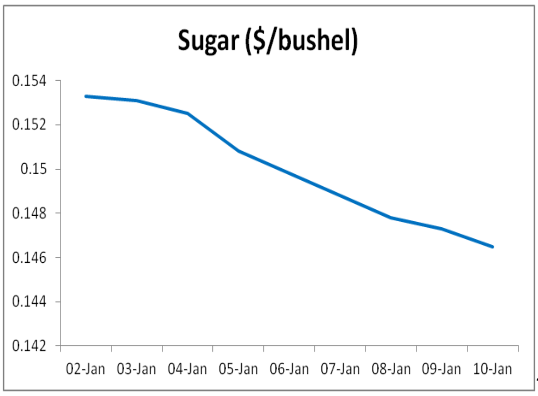
[43]

Grains- Outlook

The US department is expected to release a report reviewing the grains market in 2017, and projecting movements for 2018. The report will cover price, stocks, supply and demand. Global wheat supply will be affected by extreme weather in producing belts in Australia and the US. The increase in the price of oil has driven the demand for ethanol- a fuel substitute; this will push up the demand for corn. These developments will move the prices of wheat and corn upwards in the short term.

Sugar

Sugar prices were down 3.52% to $0.1477/pound from $0.153/pound, as market expectations for higher global surplus increased



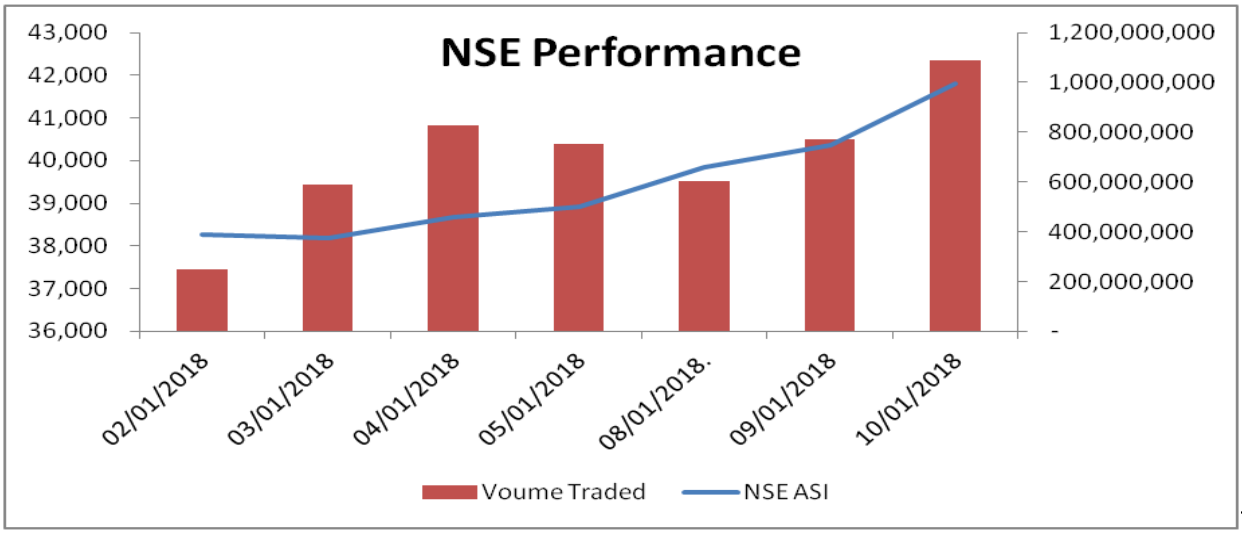
[44]

Outlook

Higher oil prices could lead to more sugar cane being diverted into ethanol production. This will push up demand and consequently the price of sugar.

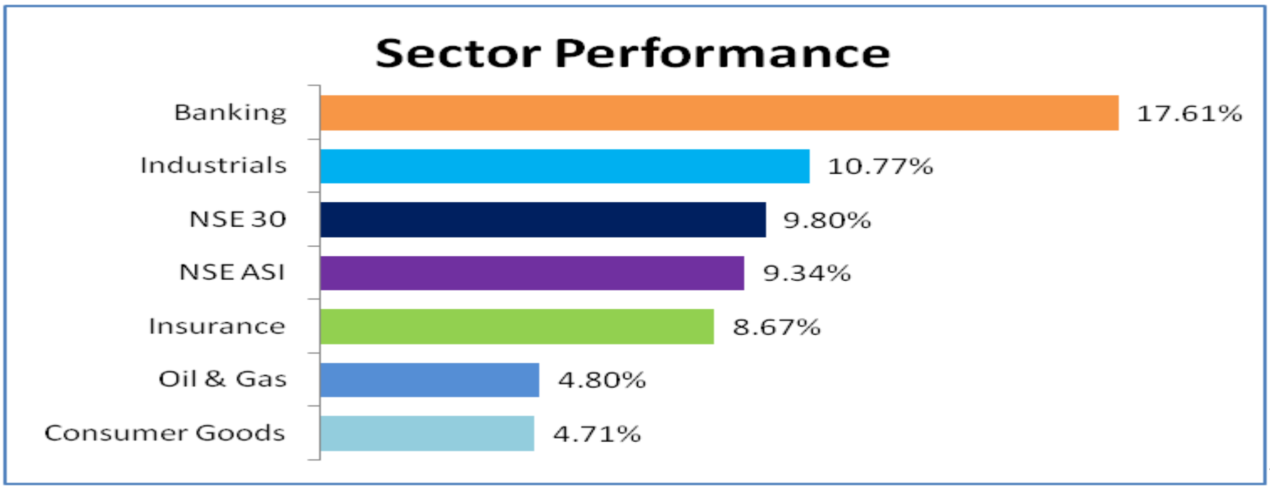
[42] Source: Bloomerang
[43] Source: Bloomerang
[44] Source: Bloomerang

The Nigerian bourse started the year on a good note, as the NSE ASI rose astronomically by 9.34% to 41,816.11 points in just seven trading days of the first half of January. In line with the ASI, market capitalization rose by 9.33% to N14.88trn, gaining N1.27trn over the previous period. This sustained rally can be attributed to investors' bargain-hunting of undervalued stocks, as portfolio managers rebalance respective portfolios. The market is currently trading at a price to earnings (P/E) ratio of 13.36x, an improvement over December's P/E ratio of 12.76. In a similar vein, market breadth was positive at 9.29x, as prices of 65 stocks increased, while 7 declined. This showed a remarkable improvement over the last period - December's market breath was 1.08x, as 39 stocks gained against losses recorded in 36 stocks.



[45]

Market activity increased during the period, compared to December 2017, as average volume trade increased by 43.71% to 697 million units. On the other hand, the average value of transactions during the period declined by 41.02% to N7.88bn compared to N13.36bn in the previous period. Financial services stocks accounted for 68.42% of total volume transactions during the period, but only accounted for 36.67% of transaction value.



[46]

[45] Source: NSE

[46] Source: NSE

All indices advanced during the period, with the banking sector index performing the best, gaining 17.61%. The gains recorded by the banking sector index are due to price appreciations recorded by FCMB Group Plc (59.46%), Diamond Bank Plc (54.67%), Sterling Bank Plc (53.70%) among others. Of all the stock market indices, the consumer goods index recorded the least growth of 4.71%. This can be attributed to profit taking activities on high priced stocks in the sector.

The bull run of the NSE market can be attributed to investors' renewed interest in equities, as the declining interest rate environment has made government securities unattractive to most investors.

The best performing stocks were mainly from the banking sector, as Eterna Plc was the only non-banking stock among the top five gainers for the period under review.

Top Gainers

Symbol	Dec 30 '17 Price	Jan 10 '17 Price	Change	% Change	PE Ratio
FCMB GROUP PLC	1.48	2.36	0.88	59.46%	6.85
DIAMOND BANK PLC	1.50	2.32	0.82	54.67%	9.11
STERLING BANK PLC.	1.08	1.66	0.58	53.70%	8.64
ETERNA PLC.	4.06	5.96	1.90	46.80%	4.27
SKYE BANK PLC	0.50	0.73	0.23	46.00%	-

The worst performing stocks for the period were 11 Plc (-7.50%), Nestle Nigeria Plc (-6.78%), DN Meyer Plc (-4.29%), while Omoluabi Mortgage Bank Plc and Trans-nationwide Express Plc lost -4.00% and -3.85% respectively.

Top Losers

Symbol	Dec 30 '17 Price	Jan 10 '17 Price	Change	% Change	PE Ratio
11 PLC	194.60	180.00	- 14.60	-7.50%	9.27
NESTLE NIGERIA PLC.	1,555.99	1,450.46	- 105.53	-6.78%	37.79
DN MEYER PLC.	0.70	0.67	- 0.03	-4.29%	-
OMOLUABI MORTGAGE BANK PLC	0.75	0.72	- 0.03	-4.00%	37.45
TRANS-NATIONWIDE EXPRESS PLC.	0.78	0.75	- 0.03	-3.85%	-

Outlook

We expect the bullish market sentiment to continue as investors cherry-pick stocks with strong fundamentals, in anticipation of an impressive full-year 2017 earnings report and robust dividend policies. This is coupled with the anticipated decline in MPR in Q1'18, which will have a significant effect on the bourse, affirming a declining interest rate environment. However, a possible reversal in the rising trend of crude oil prices will pose a major threat to this rally, due to the positive correlation between crude oil prices and Nigeria's stock market 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 - GLAXOSMITHKLINE CONSUMER NIGERIA PLC

GlaxoSmithKline
Consumer Healthcare

Analyst Recommendation: *SELL*

Market Capitalization: *N25.84billion*

Recommendation Period: *365 days*

Current Price: *N21.61*

Industry: *Healthcare/ Consumer Goods*

Target Price: *N16.64*

Analyst's Note

GlaxoSmithKline Consumer Nigeria Plc (GSK Nigeria Plc) reported a marginal increase in its top line in the ninth month of 2017 (9M'17). The company's revenue grew by 6% to N11.49bn from N10.81bn in 9M'16. Its two business segments, consumer healthcare and pharmaceutical products, posted a top line of N7.42bn and N4.07bn respectively. However, only its pharmaceutical segment made a profit during the period. The consumer healthcare segment, like the previous period, posted a loss of N1.21bn, which ultimately cancelled out the N600mn profit of the pharmaceutical segment.

This sub par performance can be attributed to the management's inability to scale-down cost in line with current operations since its sale of its drinks segment to Suntory Beverage & Food Ltd (SBF). Its suboptimal performance could also be attributed to GSK Nigeria's loss of economies of scale. In the 9M'17 period, the company's administration, selling, and distribution costs increased by 13%, with revenue only growing by 6% during the same period.

A comparison between the Q2'17 and Q3'17 results shows that revenue grew by 12%, but cost of production soared by 32%, eventually causing a 2379% decline in profit during the period. Also, investment income, which has been a major contributor to GSK Nigeria's bottom line, recorded a 44% decline to N200mn.

This could imply that the proceeds from the sale of its drinks segment may be gradually narrowing.

The dwindling fortune of GSK Nigeria since the start of Nigeria's economic woes in 2016 has made operations burdensome. GSK Nigeria resolutely sold more than 50% of its business to scale down and better manage its operations. Also, Winster Pharmaceutical limited, GSK Nigeria's only wholly owned subsidiary is not considered a going concern as its only product, Cafenol, was sold to a third party in 2012. This does not portray efficiency, as there will be costs associated to maintaining this subsidiary.

Another cause for concern during our evaluation of GSK Nigeria is its key customer risk profile. According to GSK Nigeria's FY'16 results, the pharmaceutical segment has a major customer that accounts for at least 55% of sales. This key customer risk makes the company more volatile to the operations of this customer.

GSK Nigeria has had an almost flat year, although its share price performance was bullish during the year 2017. Its 38.53% year-to-date (YTD) return can be attributed to the leverage of its parent company, GlaxoSmithKline Plc UK (GSK Plc UK) on the Nigerian brand. Its peers, Fidson Healthcare Plc and May & Baker Nigeria Plc quoted on the Nigerian Stock Exchange (NSE), have YTD returns of 192.19% and 165.31% respectively. Thus, GSK Nigeria is a company with little upside, hence we recommend a SELL.

INDUSTRY OVERVIEW

Nigeria's healthcare industry is highly fragmented with ample room for growth. The healthcare industry can be broadly categorized into consumer healthcare and pharmaceutical segments. The consumer healthcare segment consists of products including drugs administered over-the-counter. Pharmaceuticals are mainly prescription drugs and vaccines.

On the pharmaceutical side, the wide disparity across income earners has popularized generic drugs among the low-income earners. These generic products, mostly imported from India, maintain the same chemical composition as the branded drugs, but do not invest in extensive research and development like the established brands, such as GSK. Established brands charge a premium on patented drugs while generic drug companies take advantage of the breakthroughs of the established brands. This has intensified competitive rivalry in the industry. Established brands in this segment include Pfizer, Novatis, Roche, Sanofi, which are multinationals; indigenous companies include Emzor, Neimeth and Fidson pharmaceuticals.

On the consumer healthcare side, a growing health consciousness among the Nigerian populace is driving mass-market appeal to consumer healthcare products such as over-the-counter medicine and products. This is coupled with the lax regulatory monitoring in the segment, which has seen a large influx of imported consumer healthcare goods. This has also intensified competitive rivalry in the industry among these non-regulated products. Numerous players in this segment have moved to broaden their market segments with most adopting electronic channels to market and sell their products. The products in this segment have been highly commoditized and the key form of differentiation has been through packaging and branding. Brands in this segment include, Reckitt Benckiser, Procter & Gamble, Unilever, Johnson & Johnson among other pharmaceutical brands

The key success factor in the healthcare industry lies in the ability of companies to innovate and capitalize on patents from breakthroughs in research and development. The opportunity in the industry lies in these breakthrough drugs that command higher margins and are well differentiated. Pharmaceutical companies with approved breakthrough innovations enjoy exclusive utility patents over the patent period.

COMPANY OVERVIEW

GSK Nigeria has two reporting business segments: consumer healthcare and pharmaceuticals. Consumer healthcare segment comprises of oral care products, over-the-counter medicines and nutritional healthcare products. The pharmaceutical segment on the other hand comprises of prescription medicines, and vaccines.

Consumer Healthcare

- **Oral Care**
  - Macleans
  - Sensodyne
- **Over-the-counter**
  - Panadol
  - Andrew Liver Salt
- **Nutritional Healthcare**
- Horlicks

Pharmaceuticals

- **Prescription Drug**
- **Vaccines**

GSK Nigeria was incorporated in Nigeria on June 23, 1971 under the name Beecham limited. In 2001, Glaxo Wellcome Plc and SmithKline Beecham merged to form GlaxoSmithKline to focus on pharmaceuticals, vaccines and consumer healthcare. GSK Nigeria is 46.4% owned by Setfirst limited and SmithKline, which are both wholly owned by GSK Plc UK. The remaining 53.6% is owned by various Nigerian Shareholders.

In Q3'17 GSK Nigeria completed the sale of its drinks business to SBK, a Japanese soft drink company. The sale of Lucozade and Ribena value chain reduced GSK Nigeria's operation by more than 50%. However, the reasons for the divestment from its drink business are to focus on consumer health like its parent company, GSK Plc UK, and drive improved margins and sustainable growth in Nigeria.

In order to penetrate the market and gain market share, GSK Plc UK marketed more of its product by selling directly to consumers rather than through retailers. However, GSK Nigeria relies on the retail channel to market its products. But the increasing use of e-channels to sell its products may be a step in the direction of the parent.

GSK Nigeria has also faced challenges in the payment of dividends to foreign investors due to difficulty in sourcing foreign exchange (forex). This does not instill confidence in the management team as prompt dividend payments are of paramount importance to any shareholder. Another cause of concern are litigation cases against GSK Nigeria, which could result into an outflow of funds if probable. This will have an adverse effect on retained earnings of GSK Nigeria and ultimately distort its valuation.

Income statement for GSK Nigeria Plc					
N'000	**2012**	**2013**	**2014**	**2015**	**2016**
Revenue	25,308,159	29,183,675	30,521,127	30,634,708	14,384,785
Cost of sales	(15,080,461)	(17,581,625)	(19,719,655)	(20,308,465)	(5,418,374)
Gross Profit	**10,227,698**	**11,602,050**	**10,801,472**	**10,326,243**	**8,966,411**
Investment income			59,487	33,903	171,556
Other income/gains & losses	135,408	82,460	(838,285)	(612,994)	(5,999,708)
Selling and distribution expenses	(4,936,641)	(5,338,249)	(5,638,691)	(5,699,512)	(2,255,043)
Administration expenses	(1,414,112)	(2,086,869)	(2,179,560)	(2,886,423)	(1,182,078)
Royalty fee recovery/(expense)			552,908	-	484,861
Other operating expenses	(36,736)	(104,450)			
Operating Profit	**3,975,617**	**4,154,942**	**2,757,331**	**1,161,217**	**185,999**
Finance income	196,199	160,401			
Finance cost	(151)	(514)	(5,115)	(3,703)	(108)
Profit Before Tax	**4,171,665**	**4,314,829**	**2,752,216**	**1,157,514**	**185,891**
Tax credit/(Tax expense)	(1,348,139)	(1,395,659)	(903,374)	(192,467)	2,192,254
Profit After Tax	**2,823,526**	**2,919,170**	**1,848,842**	**965,047**	**2,378,145**

Balance sheet for GSK Nigeria Plc					
N'000	**2012**	**2013**	**2014**	**2015**	**2016**
Property, plant and equipment	8,835,060	12,121,857	13,419,394	13,751,342	2,112,922
Investments in subsidiary					
Deferred tax asset					637,836
Other assets			63,266	122,900	10,973
Non-Current Assets	**8,835,060**	**12,121,857**	**13,482,660**	**13,874,242**	**2,761,731**
Inventories	4,555,302	5,616,340	7,589,550	7,418,238	4,440,834
Trade and other receivables	3,498,073	4,054,910	4,977,242	6,236,265	5,374,710
Prepayments and other assets	538,300	502,901	246,904	162,645	396,531
Cash and bank balances	4,365,986	3,917,655	1,696,512	3,638,323	15,215,273
Current Assets	**12,957,661**	**14,091,806**	**14,510,208**	**17,455,471**	**25,427,348**
Total Assets	**21,792,721**	**26,213,663**	**27,992,868**	**31,329,713**	**28,189,079**
Ordinary share capital	478,351	478,351	478,351	597,939	597,939
Share premium	51,395	51,395	51,395	51,395	51,395
Currency translation reserve					
Retained earnings	10,133,314	11,815,968	12,418,498	12,535,880	16,395,081
Equity Attributable to Owners of the Company	**10,663,060**	**12,345,714**	**12,948,244**	**13,185,214**	**17,044,415**
Non-Controlling Interest					
Total Equity	**10,663,060**	**12,345,714**	**12,948,244**	**13,185,214**	**17,044,415**
Retire benefit obligation	128,162	136,109	130,975	169,245	302
Deferred tax liabilities	1,490,927	1,950,422	1,692,834	1,843,865	
Loans and borrowings					
Non-Current Liabilites	**1,619,089**	**2,086,531**	**1,823,809**	**2,013,110**	**302**
Bank overdrafts					
Trade and other payables	8,297,445	10,789,451	11,891,919	15,725,770	9,177,856
Income tax	1,213,127	991,967	1,328,896	405,619	1,966,506
Current Income tax payable					
Borrowings					
Current Liabilites	**9,510,572**	**11,781,418**	**13,220,815**	**16,131,389**	**11,144,362**
Total Liabilites	**11,129,661**	**13,867,949**	**15,044,624**	**18,144,499**	**11,144,664**
Total Equity and Liabilites	**21,792,721**	**26,213,663**	**27,992,868**	**31,329,713**	**28,189,079**

MANAGEMENT

GSK Nigeria's management team is led by Dayanard Thandalam Sriram. He was appointed Managing Director in June 2014 after 19 years of service in sales, marketing and general management roles within the GSK group. He led developmental initiatives in GSK, and focused on emerging market economies like Brazil, China, Mexico, and Egypt. His core competencies are tilted toward the consumer healthcare segment, with little exposure to the pharmaceutical segment. He took over the management of GSK Nigeria at a time when Nigeria's oil fortune was beginning to dwindle. This ultimately led to the exit from its drinks business to focus on core consumer healthcare and pharmaceuticals. But the consumer healthcare segment's profitability has remained in red since the exit from its drink business.

In January 2017, Bhushan Akshikar was appointed to lead the pharmaceutical segment. He was the Executive Vice President of GSK pharmaceuticals India. Prior to joining GSK, he worked with a close rival company, Johnson & Johnson for 16 years across diverse markets like India, South Korea and Belgium. As a pharmacist, he will be key to the expansion of the business segment by improving commercial activities of GSK Nigeria in the pharmaceutical segment. Currently, the pharmaceutical segment's profitability is in the green, as both revenue and profits improved in the 9M'17. However, the poor performance of the consumer healthcare segment overwhelmed the success recorded by the pharmaceutical segment.

The Board of GSK Nigeria is led by Edmund Onuzo, a position he has held since June 2014. He was first appointed to the Board of GSK Nigeria in June 2006 as a non-executive Director, upon his retirement from GSK Nigeria, having put in over 25 years of service in SmithKline Beecham Ltd and later GSK Nigeria. Therefore, he is well acquainted with GSK Nigeria's business model and has been part of the team that sustained the meek growth recorded during the last decade.

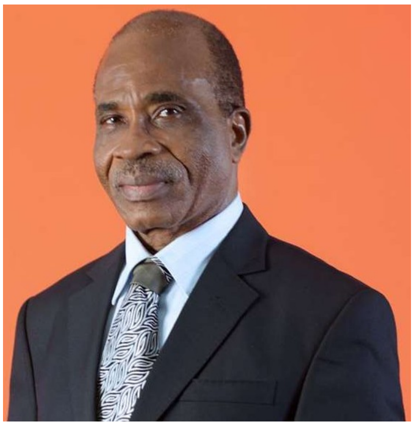
Group Managing Director of GSK Plc

Dayanand Thandalam Sriram

General Manager

GSK Pharmaceutical Nigeria

Bhushan Akshikar



Chairman of

the Board of Directors

Edmund Onuzo

THE BULLS SAY

* Alignment between GSK Nigeria and parent company
* Strong brand name and market reputation
* Specialization to products of core competence
* Big spend on research and development
* Opportunity for growth in the fragmented market

THE BEARS SAY

* Flat growth in revenue and declining profits
* Weak purchasing power of most Nigerians
* Research cost cannot be capitalized at this stage
* Low margins on commoditized products
* Stiff competition from other multinational and unbranded competitors
* Foreign exchange risk
* Sale of over 50% of operations and loss of economies of scale

Risks and Outlook

GSK Nigeria faces differentiation and concentration risk. Differentiation risk in terms of the commoditization of numerous healthcare products, which has encouraged generic variants to flood the market. This has been more pronounced by the low purchasing power of consumers, who have embraced value brands, in terms of value for money. Concentration risk is another cause for concern, as GSK Nigeria relies on key customers to distribute its products across Nigeria. A misalignment in objectives between GSK Nigeria and these key customers will be detrimental to the going concern of GSK Nigeria.

The parent company has gained prominence at the global level due to its successes in the pharmaceutical business segment, developing retroviral and chronic disease vaccines. GSK Nigeria on the other hand is not the preferred destination for these kind of vaccines, which command a premium price. This is a threat to the alignment between GSK Nigeria and the parent, company as Nigeria being a low income developing country will have a negligible contribution to global sales in the pharmaceutical segment.

APPENDIX - Our valuation of GSK Nigeria Plc

Using Discounted Cash flow (DCF) methodology, we estimated a stock price of N17, which is a 21% downside on the current price of stock of N21.61 as at December 29, 2017. A discount rate (Weighted Average Cost of Capital (WACC)) of 22.4%, derived using a 14.79% risk free rate (FGN 5 -year Bond as at November 2017), a Beta of 0.963, after tax cost of debt of 0%, and a market risk premium of 6.4% were used. The long term cash flow growth rate to perpetuity calculated is 1%.

Based on our analysis above, we place a SELL rating on the stock.

DCF Valuation for GSK Nigeria Plc			
N'000	**2017E**	**2018E**	**2019E**
EBIT	(594,786)	2,944	1,449,507
Less: Taxes	162,172	(803)	(395,217)
EBIAT	(432,614)	2,141	1,054,291
Plus: depreciation expense	331,424	370,778	531,649
Less: CAPEX	(417,836)	(631,928)	(575,412)
Less: Change in working capital	442,689	813,946	417,041
Free Cash Flow (FCF)	(76,337)	554,936	1,427,569
WACC	22.4%	22.4%	22.4%
Present value (PV) of FCF	(62,365)	370,389	778,429
Terminal value @ perpetual growth rate (2019)	**2017**	**2018**	**2019**
Terminal value as of 2019	-	-	6,590,772
Present value of terminal value	3,593,834		
2016			
DCF Calculation	**Valuation**		
PV of explicit period	1,086,453		
PV of terminal value	3,593,834		
Enterprise Value	4,680,287		
+ Cash	15,215,273		
- Borrowings	-		
Equity value	19,895,560		
Share Price	**16.64**		