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FDC MONTHLY ECONOMIC UPDATE

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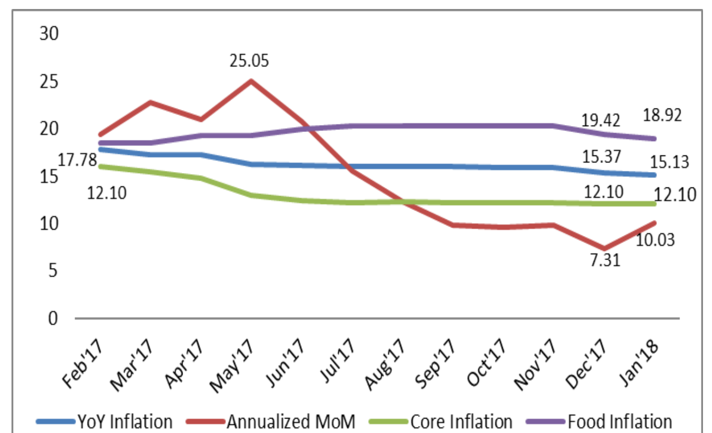
Headline Inflation Down to 15.13% in January

Headline inflation for January dipped to 15.13% from 15.37% in December. This was consistent with our projection and analysts' consensus. This marks the 12th consecutive monthly decline since February 2017.

The downward trajectory in headline inflation was attributed mainly to the decline in food prices such as sugar and rice and to a slight extent, the stability of the exchange rate at N363/$-N364/$. Furthermore, the dip in inflation can be attributed to the decline in production levels due to the fall in consumer demand in January. This is consistent with the sharp fall in the FBN PMI to 54.6 from 68.7 in Dec'17.

Month-on-Month inflation up

On the other hand, month-on-month (MoM) inflation increased to 0.80% (10.03% annualized) from 0.59% (7.31% annualized) in December. This was partly due to supply shocks arising from higher fuel costs on the back of the fuel scarcity in January. According to the National Bureau of Statistics (NBS), the average petrol price increased by 35.7% Year-on-Year (YoY) to N148.7/ltr in January.



[1]

Food basket slipped and Core inflation flat

Food sub index moved in tandem with headline inflation while core inflation remained flat.

Why this trend??

Food inflation eased by 0.50% to 18.92% in January from 19.42% in December 2017. Major contributors to the decline include milk, cheese and eggs, vegetables, fish, potatoes, yams and tubers, and bread and cereals. However, M-o-M, the sub-index increased to 0.87% compared to 0.58% in December. This was mainly driven by an uptick in imported food inflation for the fourth consecutive month, increasing to 16.25% in January from 15.90% in December. However, domestic food prices remained resilient.

Core inflation, which is inflation less seasonality, was unchanged at 12.1%. The highest increases in the core index were recorded in fuel and lubricants, vehicle spare parts, accommodation services, maintenance and repair of personal transport equipment. Transport costs increased during the period, as the average price of petrol increased by 35.7% Year-on-Year (YoY) to N148.7/ltr in January.

[1]Source: NBS, FDC Think Tank

Noteworthy observations

Rural and Urban sub-index

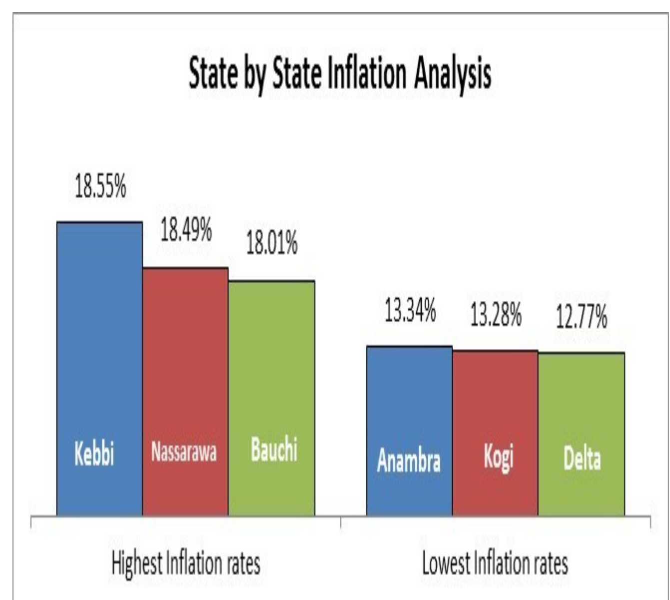
Urban and rural sub-indexes maintained the downward trend. The urban index declined to 15.56% in January from 16.78% in December. The rural index also declined further to 14.76% in January from 15.02% in December.

State by State breakdown

According to the NBS, all the states recorded a decline in inflation with the exception of Kogi, Bayelsa, Sokoto, Borno, Akwa Ibom, Imo, Lagos, Kwara, Nasarawa, Abuja, Jigawa, Delta, Ebonyi, Benue and Taraba.

Delta state had the lowest rate of inflation at 12.77% in January. Other states with low inflation include Kogi (13.28%), and Anambra (13.34%).

Kebbi recorded the highest inflation rate of 18.55% in January, closely followed by Nasarawa (18.49%) and Bauchi state (18.01%).



[2]

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 are from the South-South and South-East regions.

Sub-Saharan Africa

With the exception of Kenya and Zambia, most countries in SSA recorded a decline in headline inflation. The rise was driven mainly by an increase in the prices of food, housing and utilities. High global crude oil prices continue to adversely affect logistics and utility costs in these countries.

Country	Inflation (%)	Policy rate (%)
Nigeria	15.13 ↓	14 ↔
Uganda	3.0 ↓	9 ↓
Kenya	4.83 ↑	10 ↔
Zambia	6.2 ↑	10.25 ↔
Ghana	10.3 ↓	20 ↔

[3]

Policy impact and outlook

The downward trend in inflation increases the possibility of a reduction in interest rates at the next MPC meeting, provided the appointments have been confirmed by the Senate. This could be in the form of tinkering with either the CRR or MPR.

We believe the inflation rate might have reached its point of inflection as base year effect has waned. In the coming months, the lingering fuel scarcity in February, increased liquidity stemming from FAAC disbursements and the expected upward review of the minimum wage could heighten inflationary pressures.

[2]Source: NBS, FDC Think Tank
[3]Source: NBS, FDC Think Tank

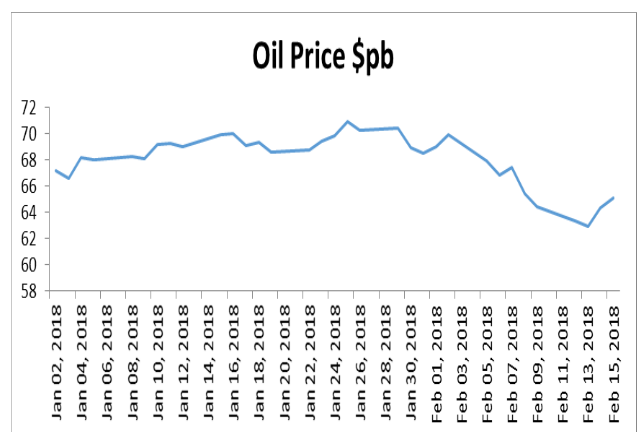
Crude oil prices slide as the dollar weakness tapers

After an impressive two months stint of trading above $65pb, the anticipated correction in oil prices may not be too far off. Brent crude dropped steadily for a few days to a year low of $62.4pb before recovering to $63.9pb. The surge in US shale production has been the primary force dampening the oil price rally recorded towards the end of January.

While oil importers and consumers will be pleased with lower oil prices, oil dependent economies such as Nigeria, will be concerned about the implications on their revenue projections. Also, whether the recent drop will resurface and trigger further cuts by OPEC and its allies, is too early to call.

The US dollar has also had its share of weakness. Factors such as the US government's desire to pursue a weak dollar strategy, stronger growth prospects in regions such as the Euro area and the tightening of monetary policy in other developed economies were contributory factors to the dollar. The dollar fell by 3.25% in January, recording its largest monthly drop since March 2016. Currently the dollar index is trading at 89.682 compared to 92.24 and 88.67 at the start of the year and beginning of February respectively.

There is a high possibility that the dollar will recover in value against the basket of currencies if the macro-economic data such as inflation rate is favorable and the US FED increases interest rates at the next meeting. A stronger dollar will dampen oil prices due to the negative relationship between the value of the dollar and commodity prices.



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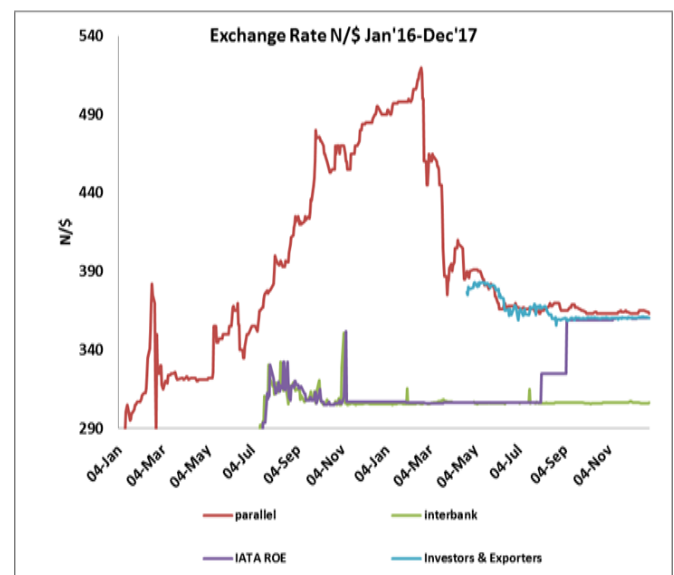
[4]Source: Bloomberg

Hot Money[5]: Foreign Direct Investment and the Central Bank of Nigeria's Monetary Policy

The Monetary Policy Committee (MPC) voted in May 2016 to adopt greater flexibility in exchange rate policy and held other monetary policy parameters unchanged. This was the first in a sequence of monetary policies aimed at salvaging a near-crisis situation in the foreign exchange (forex) market. The situation in the forex market was occasioned by a steep fall in global oil prices and domestic oil production shocks, and was exacerbated by economic policy inertia.

The immediate effect of this new policy was that the average naira exchange rate weakened at the interbank segment of the foreign exchange market. Consequently, the exchange rate at the interbank market opened at N197.00/US$ and closed at N292.90/US$. The Central Bank of Nigeria (CBN) further supported the measure by hiking the monetary policy rate by 200 basis points (bps) from 12.00% per annum (pa) to 14% pa at the MPC meeting in July 2016. The rationale for the decision was to attract foreign portfolio investment into the country and stabilize the naira.

The policy seemed to have worked as imported capital jumped by 74.84% from $1.04 billion (bn) in the second quarter of 2016 (Q2'16) to $1.82bn in Q3'16. Foreign Portfolio Investment (FPI) accounted for 85% of the total quarterly increase. The euphoria surrounding the flexible exchange rate and higher interest rate was short-lived as capital imported in Q4'16 declined by 15% to $1.55bn and was followed by a 41.36% fall in capital imported in Q1'17 to $908.27mn. This was largely due to the skepticism about the flexible forex policy and investors' apprehension about the huge disparity between the interbank forex rate and the parallel market rate. This trend continued until the Investors Export Foreign Exchange window (IEFX) was launched in late April 2017. The IEFX boosted liquidity in the forex market, calmed the frayed nerves of foreign investors and supported the convergence of



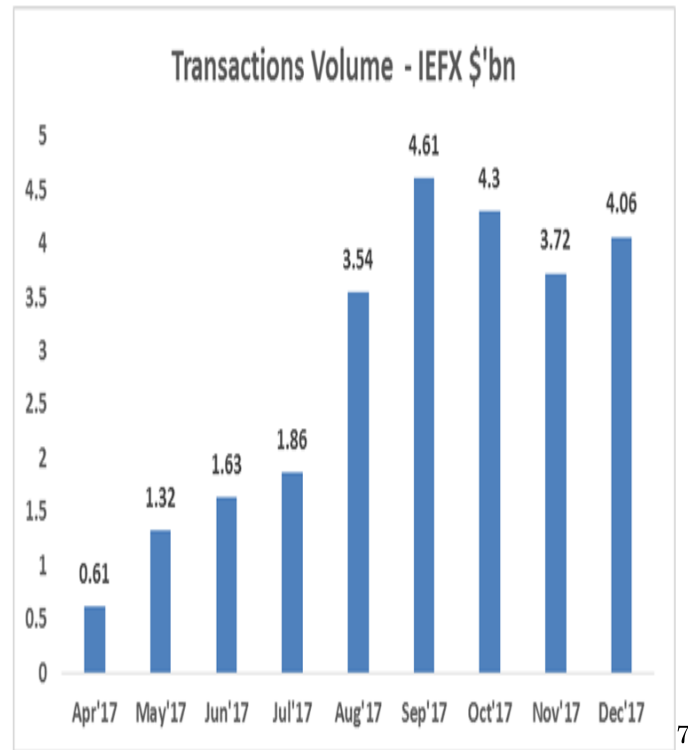
[6]

[5] Hot money refers to funds that move regularly and quickly between financial markets. They are controlled by investors seeking high, short-term interest rates (returns) and/or anticipated exchange rate shifts

[6] Financial Market Dealers Quotations –Over The Counter

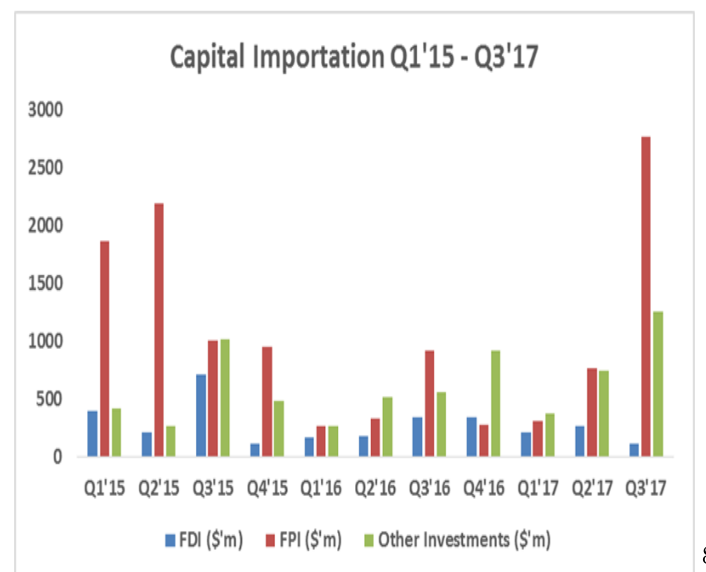
The Investors & Exporters Foreign Exchange window

The introduction of the IEFX window in late April 2017 is arguably the most important policy implemented by the CBN in 2017. Prior to the introduction of the IEFX, foreign portfolio investors, particularly those repatriating funds from Nigeria, were concerned about the multiple exchange rates in the country. There was a huge gap between the official exchange rate and the parallel market exchange rate, plus an opaqueness in the foreign exchange management system (which caused uncertainty), and the acute scarcity of hard currency. Consequently, there was an exodus of foreign capital and little or no new investments into the country. However, foreign portfolio investors returned with the opening of the IEFX. Prior to this, investors were of the view that the naira was overvalued and not at a market-determined level. The IEFX window, higher oil prices and production, and the CBN's consistent intervention in the forex market are the main drivers of the stability and the convergence of exchange rates in Nigeria today. The graph below shows how the IEFX window has gained traction since it was introduced.



[7]

The capital importation graph shows that there was capital flight in Nigeria from Q2'15 which preceded the recession. The hemorrhage was stopped briefly in Q3'17 when the CBN increased the benchmark interest rate by 200bps to 14.00%pa. The Q3'17 figures show investors' response to the introduction of the IEFX. There are expectations that the upward trend in capital importation will continue in Q4'17. While FPI and other investments seem to be on an upward trend, FDI has remained stubbornly low because of infrastructural as well as other institutional challenges.



[8]

[7]Source: FMDQ, FDC Think Tank
[8]Source: NBS, FDC Think Tank

Currency stability? Not yet Uhuru[9]

The CBN Governor, Debt Management Office (DMO) Chief and other top government officials are of the view that the forex shortage in Nigeria is over and the naira will continue to gain traction. Data from the National Bureau of Statistics (NBS)[10] further shows that capitaDefending the naira may lead to a depletion in the external reserves and reduce the import and payments cover of the country. On the other hand, allowing the exchange rate to float freely after a shock could lead to sharp depreciation of the naira of which it may or may not recover from. The optimal path of the foreign exchange after a shock is still the subject of intense academic and policy debate. importation is reaching pre-2015 levels and the exchange rate has been relatively stable. However, some investors and analysts disagree. They are of the view that the fragile stability will disappear if there is any significant oil price or production shock or if sentiment moves against emerging market assets. (This may happen as the US Federal Reserve [US Fed] is set to raise interest rates in 2018). With the 2019 elections coming up, there may be a new spate of attacks on oil infrastructure. In the event of an oil price or production shock, the CBN will have to choose between defending the naira with its reserves and letting the naira float freely.

There are strong indications that the MPC will shift towards an accommodative monetary policy stance in 2018. There are also indications that the US Fed will hike interest rates this year (which may trigger capital flight from Nigeria). Given that hot money is interest rate sensitive, the combination of these events may trigger a reversal in capital flows. However, with the external reserves approaching $41bn and if there are no shocks to oil price and production, the exchange rate effect should be minimal. Although hot money makes most central bankers cringe, it is one of the main sources of capital flows in emerging markets and it helps countries meet their balance of payment obligations, therefore stabilizing the exchange rate. Apart from hot money, Nigeria needs to improve the ease of doing business and "fix" some of its challenging infrastructural problems in order to attract cold money which is longer term, not interest rate sensitive and more sustainable. While Nigeria awaits an economic and political messiah to save her from the shackles of corruption, economic backwardness and infrastructural decay, hot money will remain the major source of foreign capital.

[9] Means freedom in Swahili. In this context, it means the storm of currency instability is not yet over.
[10] National Bureau of Statistics. 2017. "Nigerian Capital Importation Data Q3'17", http://nigerianstat.gov.ng/elibrary?queries[search]=capital%20importation.

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Tourism as a potential driver of economic growth

The oil price plunge which started from mid-2014, drove Nigeria into a recession as the Nigerian economy was largely dependent on oil. This prompted the government to intensify its efforts in economic diversification. The diversification efforts tilted towards other sectors of the economy such as agriculture, tourism and hospitality, as well as support for small and medium scale enterprises (SMEs). These sectors, that have been long ignored, were believed to have great growth potential. We see particular potential for revenue generation in tourism (both domestic tourism and to a larger extent international tourism). In an attempt to capitalize on this potential, the government, with the help of the United Nations World Tourism Organization (UNWTO), rolled out a number of measures, including technical assistance, capacity building and the revision of the country's Tourism Master Plan. However, these efforts appear insufficient as they do not address the prevalent infrastructure and security challenges.

To attain its potential, more work needs to be done in the tourism industry. The need to invest in infrastructure, service delivery, security and rebranding cannot be overemphasized. Essentially there may be not be a significant increase in the number of tourists unless key issues such as accessibility (both in terms of transportation infrastructure and affordability), hospitality, and security are addressed. Hence, a shift in focus to address these infrastructural problems is needed in order to realize its potential.

Challenges of Nigeria's tourism sector

The deplorable state of Nigeria's tourism sector is confirmed by the World Economic Forum's Travel and Tourism Competitiveness Index where the country ranked 129 out of 136 countries. Nigeria's ranking, compared to other African peers such as Kenya (ranked 80th) and South Africa (53rd), shows that the nation's tourism sector is highly uncompetitive and underdeveloped. A review of the sector's contribution to GDP in the past decade has shown that its largest contribution was in 2008. At that time, travel and tourism directly contributed about 2.4% to GDP. Subsequently, the number has fluctuated between 1.5% and 1.8%. This decrease coincides with the insecurities associated with the violent terrorist group, Boko Haram. The insurgency has been a deterrent to domestic and international tourism as it led to security warnings from countries such as the US and the UK.

The tourism sector is also constrained by low income and inadequate infrastructure i.e. transport, logistics and accommodation. The number of Nigerians living in poverty stands at 112 million (62% of the population). This poses a strong challenge to domestic tourism as the average Nigerian considers it a luxury to travel within the country. Furthermore, inadequate infrastructure and poor development of tourist sites are also constraining the sector. A typical example of this is evident at Owu Falls, located at Owa-Kajola in Kwara State. Despite being one of the highest waterfalls in West Africa, the resort is severely underdeveloped as it lacks an accessible road network. As a result, it hardly attracts visitors or generates revenue. In a similar vein, tourist attractions such as Zuma Rock and Gurara Falls in Niger State are largely undeveloped as there is barely any onsite accommodation. Ultimately this negatively influences tourism as tourists are forced to limit their stay.

The prospects of the sector

With a population size of 182 million, Nigeria has a lot of potential for domestic tourism. Similarly, with two sites (Osun-Osogbo Sacred Grove and Sukur Cultural Landscape) already on UNESCO's World Heritage list and 12 sites on the list for consideration, the prospect of international tourism is also high. However, actualization of the potential hinges on the collective effort of state governments, as well as the Federal Government. Periodicals and travel websites have, for example, picked up on Rwanda's ecological conservationism and rigorous security presence in wildlife parks—helping to alter negative preconceptions about the country's violent past and deliver rapid tourism growth. Likewise, a poaching clampdown in Malawi got the country into fifth place in the top ten global destinations listed by a leading travel publication, Lonely Planet, in 2014. Nigeria can achieve a similar feat by improving the country's image. For example, the government can invest in high quality tourism publicity campaigns for its attractions e.g. Obudu Ranch and Osun-Osogbo Sacred Grove. Furthermore, through Nollywood, Nigeria's movie industry (the third most valuable movie industry in the world) the authorities can create more awareness for the nation's attractions to potential tourists.

In addition, security challenges, e.g. the high crime rate, could be tackled through specific initiatives such as special tourist police officers who patrol areas frequented by tourists and safeguard hotels. Countries such as South Africa have had success bolstering tourism through this initiative. To this end, other countries with less of a crime problem such as Uganda have also begun to implement similar measures to boost confidence up general reassurance. These measures are positively noted in travel advisory websites.

While the tourism sector in Nigeria faces notable challenges, the growth potential is immense. The Federal Government through the ministry information, culture and tourism rolled out plans to develop the sector. Provided the authorities channel efforts towards tackling the constraints facing the sector e.g. infrastructure and security, the tourism sector would emerge as one of the major drivers of economic growth and diversification in the near to medium term. However, an attempt that fails to tackle the identified challenges will only amount to a surface scratch.

VALUE STOCKS' HOPES HINGE ON GROWTH PICK-UP

Global Perspective: Culled from Financial Times

Frustrated investors in emerging market value stocks may be clinging to hopes that a solid pick-up in the developing world's economic growth rate will herald a long-awaited change of fortunes.

Value stocks, typically defined as those with a low price-to-book or price-to-earnings multiple, have underperformed more expensive growth stocks for the past six years.

As a result, the valuation gap between emerging market growth and value stocks blew out to its widest level on record in December, whether measured in terms of the gulf in price/book or, as the first chart shows, forward price/earning ratios.

According to data produced by Geneva-based Pictet Asset Management, much of the underperformance endured by value stocks in recent years was understandable: between 2012 and 2016, the differential between economic growth rates in the emerging and developing worlds narrowed, a trend that has historically undermined value stocks.

However, the relationship completely broke down in 2017 — value stocks spectacularly undershot their growth peers, rising by 23.3 per cent while growth stocks surged by 42.1 per cent, according to MSCI's style indices, even though the economic growth gap started to widen, as the second chart shows.

This breakdown could, in theory, herald a new paradigm, with the historical relationship between the two measures consigned to the dustbin of history.

But, with the IMF forecasting that the EM/DM growth differential will now progressively widen year on year all the way up to 2022, those who do not buy into the new paradigm theory may be increasingly expectant of a change in market leadership.

"We believe that if the acceleration of global growth, and of EM growth versus DM growth, continues then it's a matter of time before value starts to outperform," says Klaus Bockstaller, co-head of global emerging market equities at Pictet AM.

The logic for the historic relationship is that value stocks typically include many cyclical companies, particularly in the materials and energy sectors. These stocks tend to do well when global economic growth is accelerating.

“That [acceleration] usually coincides with a widening of the EM/DM gap. To a certain extent, emerging markets are a leveraged play on developed markets,” says Mr Bockstaller.

Previous research has shown that EM value stocks also tend to outperform when the dollar is weakening, as this usually pushes up commodity prices in dollar terms, aiding energy and resources companies — another relationship that has broken down.

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The two crucial questions for investors are why these historical relationships have gone Awol, and whether or not they will reassert themselves at some point.

Mr Bockstaller admits he is unsure why the widening EM/DM growth gap is not aiding EM value stocks, but suggests investors may be somewhat skeptical about the forecasts for emerging market growth, which the IMF predicts will hit 4.9 per cent this year and 5 per cent in 2019, even as developed market growth slows to 1.8 per cent next year.

Alternatively, the underperformance of value stocks could result from structural changes in the global economy.

Mr Bockstaller believes that “value” manufacturing stocks, which traditionally perform well in a cyclical upswing, are being held back by overcapacity in many sectors.

This, he argues, has been exacerbated by a capital expenditure recovery that started in the US in 2016 being led by the oil and gas sector, followed by metals and mining.

Traditionally a cyclical recovery in US capex would be good for cyclical emerging market stocks, Mr Bockstaller says, but this has not been the case this time around because the investment in oil and gas has been concentrated in shale developments, rather than offshore fields, “and you don’t have many [EM] companies that are servicing or delivering equipment for shale. There are shipbuilders building floating platforms in South Korea, but that’s not what the US is buying”.

Likewise, the capex investment in metals and mining is primarily benefiting developed market capital goods companies such as Caterpillar and Hitachi, so emerging market stocks are not getting the benefit.

More universal factors are also likely to be at work, given that value stocks have also had a bad run in developed markets.

Seattle-based Smead Capital Management said this week that large-cap US value stocks had now underperformed their growth peers for 126 months, the longest slump in history, outstripping the slides witnessed during the Great Depression and the 1990s technology bubble.

The similarities with those previous periods are striking. The 1930s depression was a time of falling inflation, as the recent period has been, while the ongoing stratospheric rise in the share prices of technology stocks witnessed in the 1990s has also been repeated.

One difference is that, this time around, the IT surge has also spread to emerging markets because of the meteoric rise of companies such as Chinese internet powerhouses Alibaba and Tencent.

Indeed, the data suggest the tech stock rally has been even more pronounced in the EM world than in developed markets.

This structural reshaping of the global economy has clearly been a major factor behind the outperformance of growth stocks and poor showing, in relative terms at least, of value plays.

Some observers believe this pattern will finally break down in 2018, however, allowing traditional norms to reassert themselves.

Mr Bockstaller says that if the capex cycle in developed markets "goes more in the direction of infrastructure, and there are hints that it is, then maybe it might be much better for EMs". Copper miners, steel producers and South Korean engineering companies are among those that would benefit from higher investment in infrastructure or construction, he says.

JP Smith, a partner at Ecstrat, an investment consultancy, believes value is now "very cheap" but that much depends on one's view of China.

"If you believe the Chinese growth is sustainable at 6.5 per cent then there is a strong case for going into value because the rally in commodities is sustainable," he says.

Mr Smith also notes that, alongside materials and energy stocks, the EM value bucket now contains financials, utilities and telecoms companies, which are often under state control.

As such, he argues they could prove attractive if investors believe there is fundamental reform of state-backed enterprises taking place, as arguably there is in Brazil with scandal-ridden oil company Petrobras; India, with its recapitalization of state-run banks; and possibly even China, which has forced the likes of coal miners and steel companies to cut output, helping tackle overcapacity and raise prices.

Geoff Dennis, head of global emerging markets equity strategy at UBS, believes there are tentative signs that the worm is starting to turn amid a gathering view that "growth has become very expensive".

So far this year, emerging market energy stocks have risen 12.4 per cent and financials 11.3%, bettering the 7.6% return of technology stocks and the 7.7% of the broader MSCI index.

This led to a narrowing of the gulf in price/earnings ratios, as seen by January's upward tick in the top chart above, although it is far too soon to suggest it is a decisive move, given that it has occurred in previous Januarys as well.

Nevertheless, Mr Dennis says "we are starting to see a little bit of a hint of a reversal, we are beginning to see people rotating from tech in China to financials.

"Financials, in our opinion, are the classic value sector now in EM. It's early days to know how far this is going to go but it's interesting to see. It could be the beginnings of normal service being resumed, but it's way too soon to say that is actually happening."

Mr Dennis adds: "Every metric broke down last year and we think they will re-engage this year."

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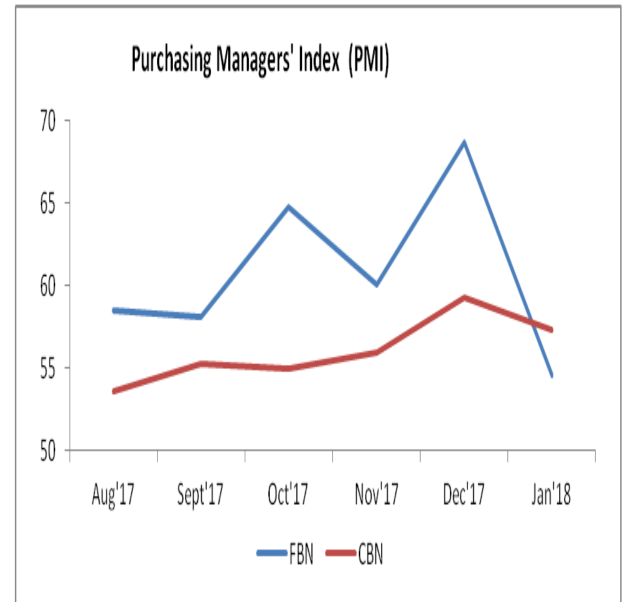
Purchasing Managers Index (PMI)

FBN's PMI reading for FBN dropped sharply to 54.6 points in January from 68.7 points in the previous month. The FBN PMI reported that all five variables: output, employment, new orders, suppliers' delivery times and stock purchases declined in the review period, although still above the 50 points mark. Despite the remarkable improvement in access to forex, some manufacturers are still faced with high cost of imports.

The CBN manufacturing PMI reading also maintained the same trend, declining to 57.3 points from 59.3 points in the preceding month. The CBN PMI reported that all five variables: production level, new orders, supplier delivery time, employment level and inventory levels stock purchases declined in January.



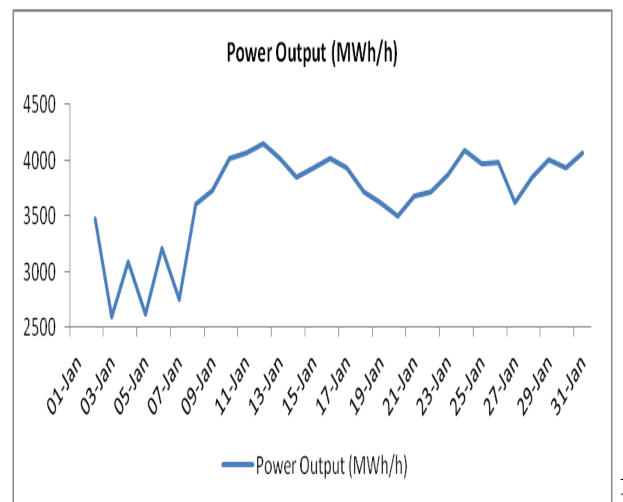
[11]

Outlook

We expect a pick up in economic activties in February from the previous month. In addition, manufacturers will begin to place orders for Easter. These will have a positive impact on inventory levels. Hence we expect a recovery in the PMI in February.

Power Sector

The on-grid national power output increased by 4.44% to 4,064MWh/h in January from 3,891.12MWh/h in December. Despite this marginal improvement, the sector lost N1.29bn annualized at N470.85bn as at January 31st which was predominantly due to gas constraints in power stations. Peak energy generated remains consistently above 4,000MW. This improvement was largely driven by amplified gas supply to GenCos and decline in losses at the transmission level.



[12]

Outlook

In February, we expect on grid power supply to remain around current levels of 3,500MW- 4,000MW. The key constriant-gas will continue to limit the amount of power transmitted and distributed to end users.

[11] Source: FBN, CBN, FDC Think Tank

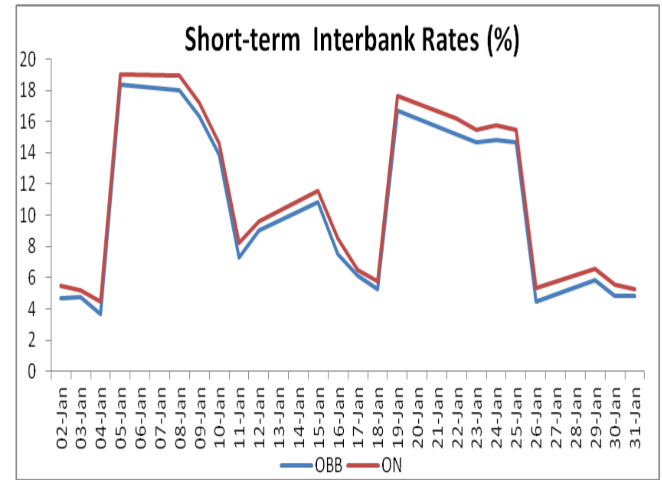
[12] Source: Nigerian Electricity Supply Industry

Money Market

Average liquidity in January was N283.15bn long relative to the average opening position in December of N253.12bn long.

Short term interbank rates (OBB, ON) averaged 10.45% per annum (pa) in January, which was 237bps higher than 8.08% pa recorded in December. The OBB and O/N rates started the month at 4.67% pa and 5.5% pa before closing at 4.83%pa and 5.25%pa respectively. However, in the course of the month, OBB and O/N rose to as high as 18.33%pa and 19%pa respectively. Also, the primary market auction decreased to 12%, 13.65% and 13.70% from the first auction's stop rates of 12.1%, 13.75% and 13.79% for the 91-day, 182-day and 364-day T/Bills respectively.

In the secondary market, the yield on 91-day T/bills increased to 13.18% on January 31st compared to 10.98% on December 29th. 182-day and 364-day bills decreased to 13.42% and 13.65% from 14.06% and 15.15% respectively as at December 29th.



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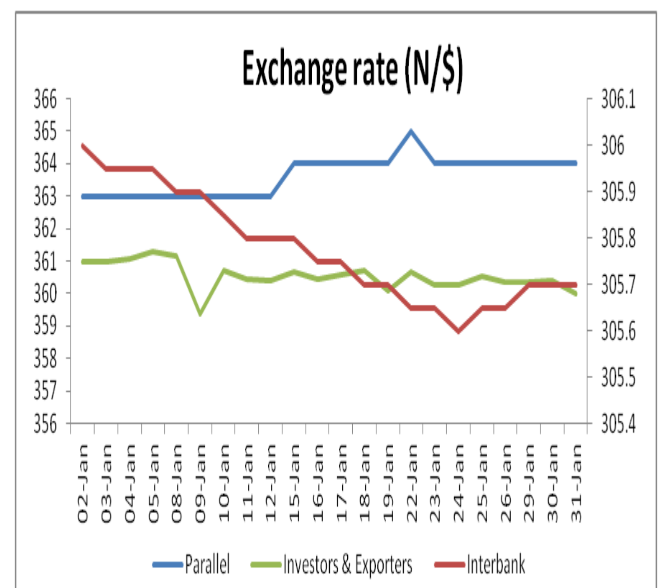
Outlook

Interbank interest rates will continue to be affected by the level of liquidity in the system. Whilst we expect to see increased liquidity due to an anticipated increase funds (FAAC, capital votes), the CBN's interventionist strategy (forex retail auctions and OMO bills) will limit the impact of the anticipated increase in liquidity.

Forex Market

Exchange Rate

In January, the naira was relatively stable between N363/$ and N365/$. The first 9 days saw a flat exchange rate of N363/$ before closing the month 0.27% weaker at N364/$. At the interbank market, the naira also remained relatively stable in the review period trading closely between N305.6/$ and N306/$. At the investors and exporters foreign exchange window (IEFX), the naira closed at N360.00/$ on January 31st from N360.33/$ in December. Total turnover at the IEFX window in January was $6.02bn compared to $3.63bn in December.



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Outlook

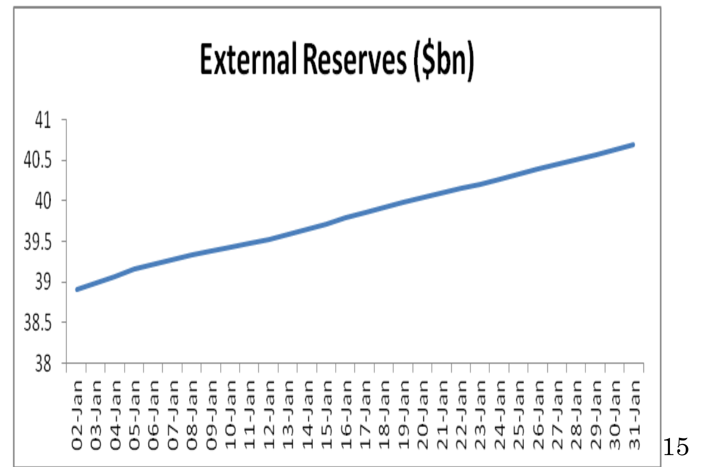
In February, we expect economic activities to pick up. Hence, the demand for forex by manufacturers for the purchase of raw materials and machineries would increase. The demand pressure is expected to weaken the naira.

[13] Source: CBN, FMDQOTC, FDC Think Tank

[14] Source: FDC Think Tank

External Reserves

Nigeria's gross external reserves increased by 4.95% ($1.92bn) to $40.69bn as at January 31st from $38.77bn recorded 29th December. The bullish global oil market and stable production levels contributed to the upward trend in the gross external reserves level. Also, there has been an increase in foreign portfolio funds due to strong macroeconomic fundamentals that have impacted positively on investors' sentiment. The gross reserves import and payment cover increased to 11.27 months from 10.81 months.



[15]

Outlook

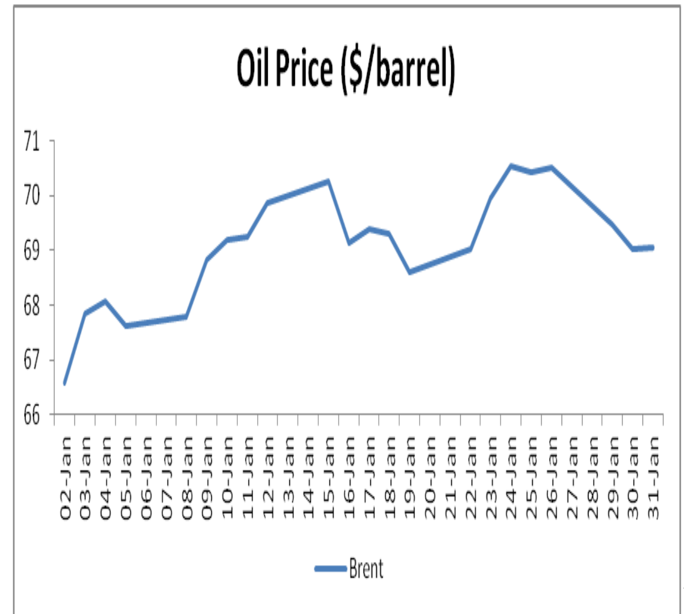
We expect the accretion in the gross external reserves level to continue on the back of robust oil market dynamics on the domestic and international front and subdued forex demand pressure.

[15] Source: CBN, FDC Think Tank

Commodities market - Exports

Oil prices

The average Brent price in January was $69.08pb, 7.80% higher than December's average of $64.09pb. This bullish trend was supported by a tightening of global supply, strong growth fundamentals and a weakening dollar. US crude stockpiles declined by 19.26mn barrels to 1.87bn barrels in the week ended January 26th. Brent oil price reached a 3-year high of $71pb during intra-day trading, before retreating to close the month at $69.05pb. The rally in the oil market was largely attributable to a weaker U.S dollar, a drawdown on U.S crude inventories and a tight global oil market. Additionally, comments from de facto leader, Saudi Arabia, suggest a possible extension of the current cooperation between oil producers, beyond the December 2018 deadline. US oil rig count increased by 12 from 747 to 759 in the week ended January 26, 2018.



[16]

Outlook

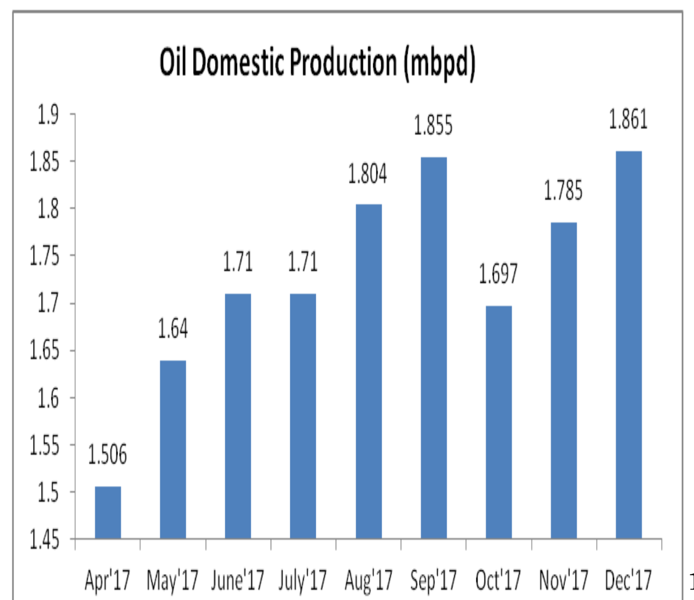
Oil prices have gained 5.4% YTD and are approximately 50% higher than 2018's proposed budget benchmark of $45pb. Growth projections remain positive as long as the recent improvement in global price is sustained. We maintain cautious optimism for Brent crude prices as higher oil prices create incentives for increased US shale production. US shale inventory levels could limit gains.

Oil Production

Nigeria's domestic production increased by 3.91% to 1.86mbpd in December from 1.79mbpd in November.

Outlook

OPEC and participating non-OPEC countries have achieved a record-breaking conformity level of 129% with their voluntary production adjustments. Conformity levels have increased on a monthly basis, from 87% in January to the current level. Oil production is expected to remain around current levels of 1.75 – 1.8mbpd in the coming month barring any disruption to pipelines. Stable oil production and a continuous improvement in power will boost output growth in non-oil sectors



[17]

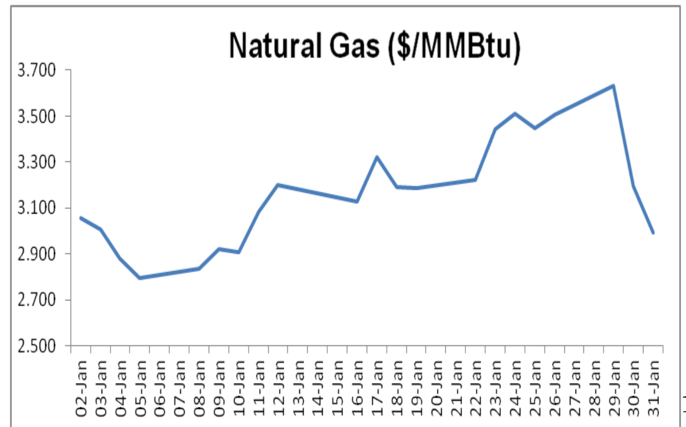
[16] Source: Bloomberg, FDC Think Tank

[17] Source: OPEC, FDC Think Tank

Natural Gas

Natural Gas closed at a price level of $3.165/MMBtu in January. This represents a 2% decline in prices from the start of the year but higher than the corresponding period in December.

Prices fell to the lowest on January 5th at $2.795/MMBtu amid rising Russian output before closing at $3.165/MMBtu.



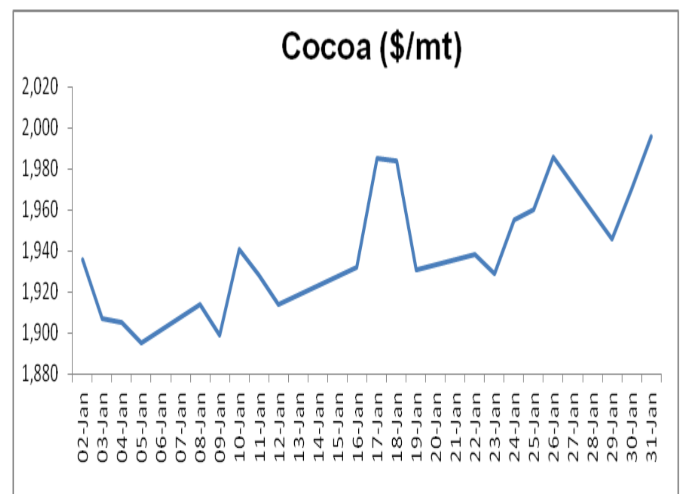
[18]

Outlook

Natural Gas prices are expected to decline as mild weather dims the prospects of increased demand in the U.S.

Cocoa

Cocoa prices strengthened during the period to reach an average of $1,941/mt in January from $1,905/mt in December, 1.89% higher than the previous month. Gains were driven by the threat of disease outbreak in Nigeria's cocoa output and Ghana's disclosure of plans to remove subsidies for cocoa farmers. However, cocoa prices dipped to the lowest on January 5th at $1,895/mt on reports of ample global supply.



[19]

Outlook

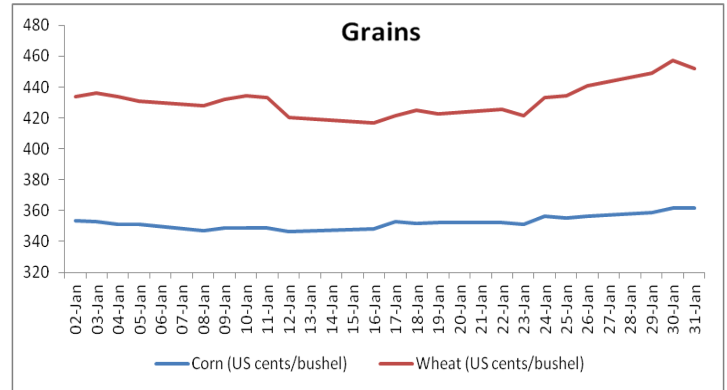
The bullish trend of cocoa prices is expected to intensify in the coming month. This will be driven by heightened demand from chocolate in preparation for Valentine's Day.

[18] Source: Bloomberg, FDC Think Tank
[19] Source: Bloomberg, FDC Think Tank

Commodities market - Imports

Wheat

Wheat prices closed at $4.52/bushel in January, 5.85% higher than $4.27/bushel in December. However, average wheat prices increased by 1.89% to $4.32/bushel from $4.24/bushel in the corresponding period. Wheat prices increased as weather conditions in the US threaten production.



[20]

Corn

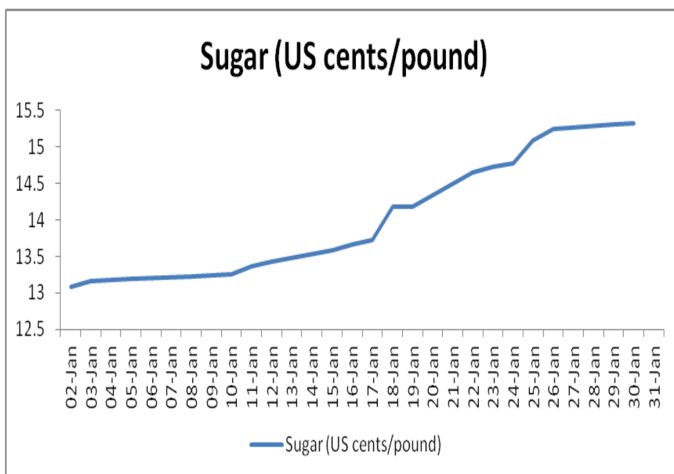
Corn prices averaged $3.53/bushel in January, 0.57% higher than the average of $3.51/bushel in December. This is partly due to the extreme weather conditions in US and Australia and an increase in the demand for corn for ethanol production- a fuel substitute.

Outlook

Forecast shows that weather conditions are likely to improve in February. This coupled with concerns of ample global supply is expected to push down prices. The corn market will see increasing demand, as oil prices climb above $70pb.

Sugar

Sugar prices averaged $0.1399/pound in January, 2.98% lower than the average of $0.1443/pound in the previous month. Sugar fell to a 28-month low during the month due to supply glut. The rally was also supported by talks by India's regulatory body to control the price fall in the sugar market. Prices reached a high of $0.1533/pounds and a low of $0.1308/pound.



[21]

Outlook

Sugar prices will remain bullish in the coming month due to strong demand for sugary products in the run-up to Valentine's Day.

[20] Source: Bloomberg, FDC Think Tank

[21] Source: Bloomberg, FDC Think Tank

Who We Are

Avant-garde Academia Limited (AAL) is an education advisory and counseling service organization that was incorporated in July of 2013. AAL was incorporated as an educational aggregator in grooming candidates to be potential global citizens who will reinvest their acquired skills in Nigeria in future. It is positioned to provide support, assistance and guidance to potential candidates and entrants to Ivy League, Elite and premium academic institutions in America. Our target market comprises parents of children in identified elite Nigerian secondary schools and/or top executives in the business community, who have a strong need for our services.

The market also extends to Nigerians resident in Diaspora, and expatriates resident in Nigeria. In Partnership with Ascent Education Advisors, a reputable Education Advisory Services firm, we have designed a range of admissions solutions to cater for children in different stages of secondary school education.

OUR STRATEGIC PARTNER – ASCENT EDUCATION ADVISORS

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

What We Offer

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

Our Packages

Package 1: 8th to 10th Grade (Final 3-5 Years)

This package is a program designed for candidates from as early at the 8th grade (Junior Secondary School - JSS 2) of high school. This is a full package with the benefits of all the services we offer in addition to education and assistance with entire college admission process, including an unlimited number of applications.

Package 2: 11th and 12th Grade (Final 1-2 Years)

This package is similar to Package 1 but is designed for students in the final two years of high school.

Package 3: (Per Application)

Unlike packages 1 and 2, package 3 only provides unlimited assistance with applications to pre-determined universities.

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

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

9a Idejo Street, Victoria Island Lagos.

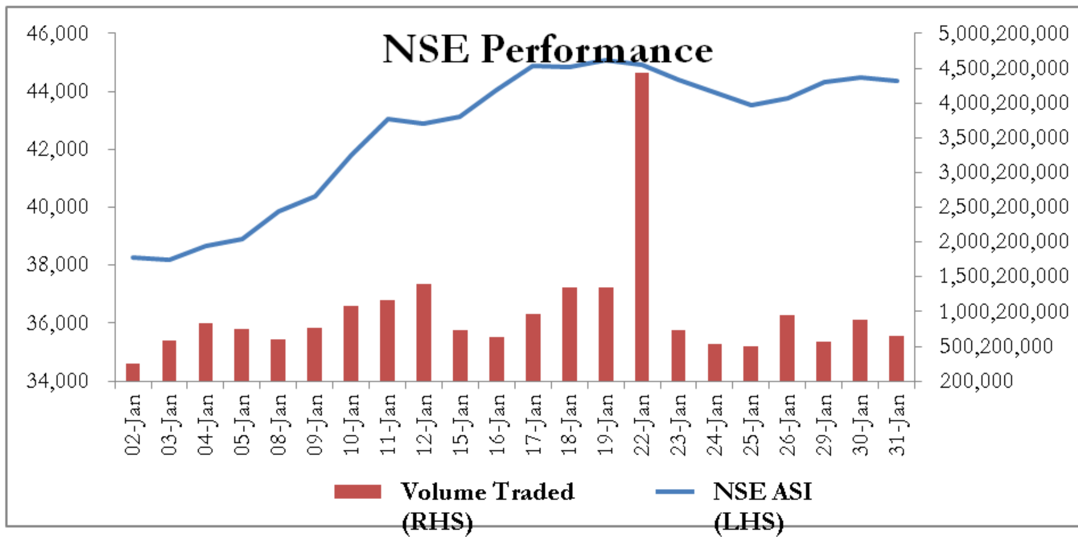
For more information about Avant- Garde Academia Limited please go to our website: www.avant-gardeacademia.com

For enquiries or consultation E-mail us: info @avant-gardeacademia.com Or call Chinyere Ubani 08039238138 | Tope Vincent 08034017603

STOCK MARKET

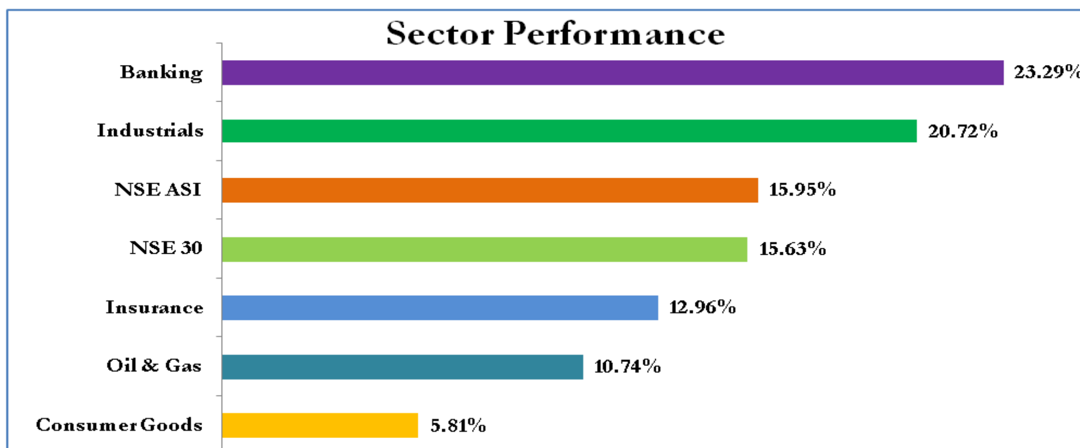
Bullish market trends continued in the month of January, as the NSE ASI gained 15.95% to close at 44,343.65 points. As a result, market capitalization rose by 16.80% to N15.9trn during the month. This growth can be attributed to the positive market sentiment, as investors increased holdings in stocks in anticipation of strong earnings for FY'17.

The bourse is currently trading at a price to earnings (P/E) ratio of 14.02x. This is an improvement over the close of the previous period's P/E of 12.75x. Also noteworthy is the market breadth, which remained positive at 3.6x, as 72 stocks increased, 80 stocks remained flat, while 20 declined; a commendable development over December, which came in at 1.08x.



Trading activities on the floor of the NSE established that the stock market remained highly liquid in the month of January. Average volume traded increased by 104% to 987 million units, with average turnover moving in the opposite direction, declining by 32.88% to N8.96bn. Stock turnover in December remains an outlier due to the share crossing on Dangote Cement stocks. This was done in a bid to comply with the NSE's free float requirement.

Stocks in the financial services sub sector dominated market transactions during the period, especially the tier 2 banking stocks. Transactions in this sub sector accounted for 72.41% of volumes traded on the bourse during the month of January.



All indices benefited from the improved investors confidence, with the banking index leading the pack, as it rose by 23.29% over December 2017. This gain is as a result of the rekindled interest in stocks that lost out of the 2017 market rally. The industrial index rose by 20.72% due to the gains recorded by cement manufacturing companies. Consumer goods experienced the slowest growth of 5.81% due to the mixed performance of stocks under the sector.

Banking stocks dominated the top gainers, as all top five gainers were tier 2 banking stocks. Skye Bank Plc (194%), Unity Bank Plc (187%), Wema Bank Plc (183%), Diamond Bank Plc (112%) and FCMB Group Plc (107%) all recorded significant gains during the period.

Top Gainers					
Symbol	**Jan 31 '18 Price**	**Dec 29 '17 Price**	**Change**	**% Change**	**PE Ratio**
SKYE BANK PLC	1.47	0.50	0.97	194.0%	-
UNITY BANK PLC	1.52	0.53	0.99	186.8%	1.26
WEMA BANK PLC.	1.47	0.52	0.95	182.7%	20.11
DIAMOND BANK PLC	3.18	1.5	1.68	112.0%	12.49
FCMB GROUP PLC	3.06	1.48	1.58	106.8%	8.88

The introduction and adoption of the new par value rule saw some stocks trade below the initial share price floor of 50 kobo. Three of the top five losers closed below this initial share price floor during the period under review. The losers' chart was dominated by the insurance sector, as LASACO Assurance and Royal Exchange each lost 16% of their value during the period. While ABC (-16%), Newrest ASL Nig. (-14.3%) and AG Leventis Nig. (-14.3%) also featured among the laggards.

Top Losers					
Symbol	**Jan 31 '18 Price**	**Dec 29 '17 Price**	**Change**	**% Change**	**PE Ratio**
LASACO ASSURANCE PLC.	0.42	0.50	- 0.08	-16.0%	4.88
ROYAL EXCHANGE PLC.	0.42	0.50	- 0.08	-16.0%	-
ASSOCIATED BUS COMPANY PLC	0.42	0.50	- 0.08	-16.0%	-
NEWREST ASL NIGERIA PLC	5.10	5.95	- 0.85	-14.3%	10.36
A.G. LEVENTIS NIGERIA PLC.	0.60	0.70	- 0.10	-14.3%	-

OUTLOOK

As most companies continue to release their full year corporate results, we expect the stock market to remain bullish, as investors take positions in anticipation of strong corporate earnings. However, profit taking activities will slowdown the pace of the rally, in the direction of a possible price correction in the medium term.

Corporate Focus :

FORTE OIL PLC

Analyst's note

Globally, 2016 was a tough year for oil producing countries especially the members of the Organization of the Petroleum Exporting Countries (OPEC). Unlike 2008, where the fall in global oil prices was driven by thinning demand, the significant decline in oil prices from the second half of 2014 (H2'14) was due to excess crude supply. This was as a result of the advancement in shale oil production techniques in the US, the strengthening of the US dollar and the inability of OPEC to agree on a production cut. The fall in global oil prices led to a demand pressure in the Nigerian foreign exchange (forex) market which adversely affected the earnings of petroleum industry operators. The need for a deeper collaboration between OPEC and non-OPEC members became necessary. An agreement between OPEC and its allies yielded a total production cut by 1.8 million barrels per day (mbpd) and an extension of the output deal through 2018. This impacted the oil market positively as prices increased, volatility declined, and net futures' and options' long positions rose.

The adverse Nigerian macro-environment and the price of oil have hurt Forte Oil's performance in recent times. The company recorded a 20% decline in year-on-year (YOY) revenue) in Q3'17. However, Forte Oil recorded an 81.4% growth in its bottom-line earnings despite struggling revenue. Taking into account its diversified business segments, growth and cost management strategy, and relative valuation, Forte Oil's current price is hovering around its intrinsic valuation. Accordingly, we place a HOLD rating on Forte Oil Plc.

Analyst Recommendation:
HOLD

Market Capitalization:
N64.34bn

Recommendation Period:
365 days

Current Price:
N49.40

Industry:
Petroleum products marketing

Target Price:
N48.99

DECLINE IN TOP-LINE DRIVEN BY FALL IN FUEL PERFORMANCE

Forte Oil posted revenue of N96.89 billion (bn) in 9M'17 which represents a 20% decline of N24.20bn from 9M'16. This decline was driven primarily by a fall in the performance of its largest business unit – the fuel retailing segment (63% of revenue). Its fuel segment recorded a negative growth of 41.2% with a fall in revenue to N60.82bn in 9M'17 from N103.50bn in 9M'16. This was due to persistent product sourcing challenges. The importation of Premium Motor Spirit (PMS) remained unprofitable for most of Q3'17 amid stronger crude oil prices above $50pb and a weak naira. Additionally, lower diesel prices, which fell by 10% in the first two months of Q3'17, undermined revenue.

POWER GENERATION SEGMENT FUELS EARNINGS GROWTH

Despite posting a 20% fall in revenue, Forte Oil recorded a 23.39% growth in its operating profit to N9.71bn in 9M'17. The highest growth in revenue was recorded by its power generation segment. It saw a revenue surge of 220.9% to N25.46bn in 9M'17 from N7.93bn in 9M'16. Gross profit surged by 247.2% to N8.7bn in 9M'17 from N2.52bn in 9M'16, accounting for over half (52%) of Forte Oil's gross profit and providing the largest boost to its operating profit. Growth was supported by an increased capacity of its Geregu Power Plant (GPP) following its complete overhaul in Q4'16.

EFFECTIVE COST MANAGEMENT DRIVES BOTTOM-LINE GROWTH

Forte Oil reported an outstanding growth in its profit after tax (PAT) despite struggling revenue. PAT rose by 81.4% to N5.07bn in 9M'17 from N2.79bn in 9M'16. This was driven by effective cost management as cost of sales fell by 24.3% to N79.98bn and operating expenses (distribution and administrative) declined by 17% to N8.19bn. In addition, an 82% plunge in income tax expense spurred bottom-line growth.

Industry and Company Overview

The Nigerian oil and gas industry remains the largest in Africa contributing approximately 10% to GDP in Q3'17. It also contributed approximately 93% to federal government (FG) revenue in 2017. The Nigerian oil and gas industry has been vibrant since the discovery of crude oil in 1956 by the Shell-BP group. The sector was largely dominated by multinational corporations until the early 1990s when Nigerian companies began to make a foray into the industry. The implementation of the Nigerian Content Directives, issued by the Nigerian National Petroleum Corporation (NNPC) in 2004, and the promulgation of the Nigerian Oil and Gas Industry Content (NOGIC) Development Act in 2010, boosted local oil production.

The Nigerian oil and gas sector is divided into the upstream, downstream and services sector. Forte Oil participates in both the upstream and downstream sector. The upstream sector involves searching for potential underground or underwater crude oil and natural gas fields. It includes drilling exploratory wells, and drilling and operating the wells that bring crude oil or raw natural gas to the surface. It is the most important sector in the economy as it accounts for over 90% of the country's exports. In 2016, the upstream sector was challenged by assets vandalism. As a result, Nigeria's production declined to an all-time-low of 1.3mbpd. However, in 2017, asset vandalism was minimal as the FG reached a ceasefire agreement with the militants. Nigeria's oil production rose to an average of 2.03mbpd in Q3'17 while the real growth of the sector advanced by 48.9% to 25.89% YOY in Q3'17.

The downstream sector deals mainly with the distribution and marketing of refined petroleum products from the refineries through channels such as pipelines, road trucks, etc. The Petroleum Product Marketing Company (PPMC) supplies petroleum products in Nigeria to the oil marketers through a pipeline system that links the refineries to regional storage/sale depots.

Forte Oil Plc was incorporated in December 1964 as British Petroleum Nigeria Ltd and was converted to a public limited company after 14 years in operation to African Petroleum Plc through Nigerian government's nationalization policy in 1979. Zenon Petroleum, led by Femi Otedola, acquired a majority interest in 2007 and in December 2010, African Petroleum was rebranded and restructured as Forte Oil Plc. The major shareholders are Zenon Petroleum & Gas (48.87%), Thames Investment Incorporated (15%) and Femi Otedola (14%). The company and its subsidiaries - Forte Upstream Services Limited, AP Oil and Gas Ghana (APOG) Limited and Amperion Power Distribution Company Limited and its subsidiary, Geregu Power Plc - are collectively the Group.

Forte Oil Plc is a leading indigenous marketer of refined petroleum products in Nigeria. The company has a strong presence in all 36 states including the Federal Capital Territory. Forte Oil's business operations are divided into four strategic business units that offer different products and are managed separately. Its largest business unit is the White Products (Fuels) unit. *Table 1* below shows an overview of the company's different business units.

Table 1: List of Forte Oil's Business Units

S/N	Business Segment	Overview
1.	Fuels	▪ Responsible for the sale and distribution of petroleum products such as Premium Motor Spirit (PMS), automotive gas oil (AGO), house hold kerosene (HHK), and aviation turbine kerosene (ATK) to retail and industrial customers ▪ Mainly driven by transportation (PMS), household needs (HHK) and independent power generation (AGO) ▪ Has 450 retail stations in Nigeria, 12 retail stations in Ghana, 1,441 distribution trucks and seven storage terminals with a combined capacity of 61 million liters
2.	Production chemicals (Upstream services)	▪ Sells production chemicals and drilling fluids chemicals to operators in Nigeria, Sao Tome and Principe ▪ Company has mud plants where it stores and sells products ▪ Strong track record for mud completion engineering ▪ Key customers include Total, Shell, Addax and Exxon Mobil
3.	Lubricants and greases	▪ Manufactures and sells automotive and industrial lubricants and greases ▪ Blending oil plant in Apapa with a capacity of 50,000 metric ton (MT) per annum and capacity to produce 100 different grades of lubricant oil ▪ Key product brands include Synth 10000, Super V and Visco 2000 ▪ Lubricants fully meet the American Petroleum Institute (API) grading standards
4.	Power generation	▪ Generates power through Amperion Distribution Company (Amperion) ▪ Forte Oil's stake in Amperion is 57% ▪ 435 mega watt (MW) Geregu power plant in Kogi State ▪ Two long-term gas supply contracts with Nigerian Gas Company and Seplat that expire in 2023

Total's financial results reflect its growth performance. Non-current assets had a compound annual growth rate (CAGR) of 8.8% between 2013 and 2016 and its net assets had a CAGR of 0.77%. Between 2015 and 2016, its gross profit increased by 12% while its operating profit rose by 11%. The company experienced an overall revenue growth of circa 19% for FY'16. A snapshot of Forte Oil's latest annual financials is shown below.

Income Statement for Forte Oil Plc (FY Dec 2016)

N'000	2013	2014	2015	2016
Revenue	128,027,744	170,127,978	124,617,238	148,605,261
Cost of Sales	(115,766,506)	(151,663,049)	(106,255,812)	(128,021,347)
Gross Profit	12,261,238	18,464,929	18,361,426	20,583,914
Other Income	6,388,388	1,398,062	4,050,967	2,347,180
Distribution Expenses	(2,935,977)	(2,482,002)	(2,754,213)	(3,015,582)
Administrative Expenses	(9,443,593)	(9,244,250)	(10,969,932)	(10,293,350)
Other Expenses	-	-	-	-
Operating Profit	6,270,056	8,136,739	8,688,248	9,622,162
Finance Income	2,132,804	2,077,351	3,470,012	1,887,824
Finance Ixpenses	(1,878,310)	(4,207,792)	(5,145,818)	(6,169,742)
Net Finance Cost	254,494	(2,130,441)	(1,675,806)	(4,281,918)
Profit Before Tax	6,524,550	6,006,298	7,012,442	5,340,244
Income Tax Expense	(1,520,153)	(1,549,681)	(1,218,387)	(2,449,814)
Profit for the Year (PAT)	5,004,397	4,456,617	5,794,055	2,890,430

Balance Sheet for Forte Oil Plc (FY Dec 2016)				
N'000	2013	2014	2015	2016
Property, Plant & Equipment	51,843,552	54,253,330	62,420,249	69,297,575
Investment Property	2,021,526	1,934,928	1,831,743	1,799,462
Intangible Assets	606,913	475,849	286,110	229,307
Investment in Subsidiaries	-	-	-	-
Other Investments	-	-	-	-
Trade and Other Receivables	-	-	-	-
Deferred Tax Assets	920,949	120,990	131,141	165,152
Long-term Employee Benefits	-	16,364	41,819	1,674
Non-current Assets	55,392,940	56,801,461	64,711,062	71,493,170
Inventories	10,583,317	12,201,950	10,059,871	4,655,295
Other Assets	426,462	572,565	389,579	744,636
Trade and Other Receivables	31,485,663	53,600,153	34,896,618	46,819,458
Cash and Cash Equivalent	6,789,618	16,062,169	11,700,826	17,043,933
Current Assets	49,285,060	82,436,837	57,046,894	69,263,322
Total Assets	104,678,000	139,238,298	121,757,956	140,756,492
Share Capital	539,368	546,095	546,095	655,314
Share Premium	6,947,887	8,181,162	8,181,162	8,071,943
Foreign Exchange Reserve	-	-	-	-
Other Reserves	(170,082)	(248,099)	(257,985)	(222,357)
Retained Earnings	5,726,144	3,958,962	6,001,847	4,200,191
Equity Attributable to Equity Holders of the Co	13,043,317	12,438,120	14,471,119	12,705,091
Non Controlling Interests	29,305,990	31,896,549	31,809,624	30,628,486
Total Equity	42,349,307	44,334,669	46,280,743	43,333,577
Long-term Employee Benefits	9,604	-	-	-
Deferred Tax Liabilities	86,332	82,373	73,914	495,372
Loans and Borrowings	14,901,078	12,253,829	13,951,682	17,394,641
Non-current Payables	680,711	421,839	400,487	397,615
Medium Term Bond	-	-	-	8,704,594
Deferred Fair Value Gain on Loan	-	-	1,432,781	1,021,572
Non-current Liabilities	15,677,725	12,758,041	15,858,864	28,013,794
Loans and Borrowings	4,983,659	12,288,927	13,757,807	21,395,842
Bank Overdrafts	4,906,018	16,496,305	10,268,358	1,928,321
Current Income Tax Liabilities	570,523	845,611	967,834	1,230,362
Trade and Other Payables	36,190,768	52,514,745	34,183,495	44,400,564
Deferred Fair Value Gain on Loan	-	-	440,855	454,032
Current Liabilities	46,650,968	82,145,588	59,618,349	69,409,121
Total Liabilities	62,328,693	94,903,629	75,477,213	97,422,915
Total Equity and Liabilities	104,678,000	139,238,298	121,757,956	140,756,492

[22]

Other leading players in the oil and gas industry are mainly multinational oil firms and some indigenous oil enterprises. These include Total Nigeria Plc, Conoil, Mobil Oil, MRS Oil and Oando. Despite the high competition in the oil sector, Total Nigeria Plc remains the dominant player as it has continued to show solid performance.

[22]*Source: Forte Oil Plc. Annual Reports*

MANAGEMENT

Experienced management determined to explore growth opportunities

Forte Oil's management plans to increase its market share in the industry through the acquisition of strategic partnerships and joint ventures for local refining of petroleum products. It will increase customer traffic and asset utilization at its retail outlets. Forte Oil recently partnered with Guaranty Trust Bank (GTB) and Mobile Telecommunications Network (MTN) to open mobile banking and telecoms kiosks with additional offerings from other service providers such as convenience stores. It also plans to expand its branch network by opening 40 retail outlets annually over the next five years (200 additional outlets) bringing the total to 650 retail outlets by 2022. This will boost its sales volume as its outlets accounted for approximately 70% of petroleum sales in Nigeria in 2016. Additionally, it will put the company ahead of Total, the current market leader with 550 retail outlets. Forte Oil had planned to raise N20bn rights issue from which 41% would be used for expansion works. However, in Sep'17, the board decided to suspend the group's bid to raise new funds until it had concluded its ongoing corporate restructuring.

Management also plans to diversify into renewable energy and has partnered with a major solar solution company in China tagged Green Energy solution. This will offer medium-income earners cost-effective power solutions. The solar energy solution includes four panels, four 100 amps and 12 volts batteries with free installations. Additionally, it plans to improve its margins by growing its downstream business, focusing on high margin products such as lubricants, optimizing operation of its Geregu Power Plant and achieving optimal structures for debts.

Mr. Akin Akinfemiwa

Chief Executive Officer (CEO) and Chairman of the Board of Directors

Forte Oil's management team has a wide range of experience in the oil and gas industry. Mr. Akin Akinfemiwa is the group Chief Executive Officer (CEO) and Chairman of the Board of Directors of Forte Upstream Services Limited. He is an experienced petroleum products dealer with roots in oil, oil products futures, swaps and derivatives trading. He was a former Director of Trading and Business Development for Fineshade Energy Limited, a business process analyst with FSB International Bank Plc and a sub-team leader on the company's business transformation project in 2001. He was also involved in developing strategic trading and supply relationships for Oando Plc in the West African Sub Region. He holds a BSc Honors degree in Mechanical Engineering from the University of Ibadan and an MBA (Information Technology) from the University of Lincolnshire and Humberside in the United Kingdom. He is also an alumnus of the Said Business School at the University of Oxford in the United Kingdom.

Mr. Femi Otedola

Chairman of the Board of Directors

Mr. Femi Otedola is the Chairman of the Board of Directors since 2007. He ventured into the oil and gas sector by incorporating Zenon Petroleum & Gas Limited in 1999. In 2001, he incorporated Seaforce Shipping Company Limited, which manages a modern tanker fleet of vessels that transports petroleum products. He held several board memberships including President of Nigerian Chamber of Shipping. He attended the London College of Communication (formerly the London College of Printing) and received a degree in Printing Technology in 1985. He is also a philanthropist with deep involvement in educational causes through the Sir Michael Orte Scholarship Awards Foundation.

THE BULLS AND THE BEARS SAY:

- Extensive and robust distribution channels, which could be strengthened through retail network optimization and strategic expansion
- Effective cost reduction strategy
- Diversified revenue base enhances its sustainability and flexibility
- Investment in the power sector will provide opportunities for further revenue growth
- Qualified, talented and experienced management team

- Intense competition from other reputable downstream brands such as Total, Mobil and Oando
- Volatility in the price of petroleum products could threaten earnings growth
- Delay in receiving subsidy payments can result in a reduction in petroleum products importation
- Despite revenue potential from power generation, it may not be strong enough to forestall any likely decline in other business units
- Industrial strikes by downstream workers could affect the company's sales

RISK AND OUTLOOK

Great prospects with risks beyond its control

The major risks that could impede Forte Oil from achieving its goals of boosting earnings, increasing sales and managing costs include persistent macroeconomic challenges, credit risk, liquidity risk and market risk (foreign exchange risk, currency risk and interest rate risk) amid security challenges and industrial actions in the country. The board established the Risk Management Committee to develop and monitor the company's risk management policies in co-operation with its statutory audit committee.

Market risk is a major risk that the company faces. Forte Oil is exposed to changes in market prices of petroleum products, interest rates, currency volatility and foreign exchange rates. The company is exposed to currency risk on sales, purchases and borrowings denominated primarily in US dollars, euros, Ghanaian cedis and pounds sterling. Further pressure on the naira could increase its finance costs thereby dampening its earnings. The company mitigates these risks by reducing its direct import transactions while increasing its local purchases from importers, benchmarking interest rates against the Nigerian Inter-bank Offered Rate (NIBOR) and monitoring movement in currency rates.

In addition, the security concerns over resurgence of militancy activities in the Niger Delta region pose a threat to Forte Oil's upstream activities.

The risks facing Forte Oil could limit the achievement of its objectives. Although its talented and experienced management team has put structures in place to ensure sales growth and cost efficiency, the macroeconomic challenges facing the company are beyond its control. The intensity of these risks may be too much for management to handle.

APPENDIX - VALUATION

We derived our valuation for Forte Oil Plc by using the Discounted Cash Flow (DCF) methodology. Our fair value estimate for Forte Oil stood at **N48.99**, which is a 0.83% downside on its current share price of N49.40 as at January 26, 2018. The discount rate [weighted average cost of capital (WACC)] of 15.90% is derived using a 14.79% risk free rate, a beta of 1.1373, an after-tax cost of debt of 9.10%, and a market risk premium of 6.3%. The calculated long-term cash flow growth rate to perpetuity is 4.4%.

DCF Valuation			
N'000	**2017E**	**2018E**	**2019E**
EBIT	12,223,274	18,212,282	30,461,714
Less: Taxes	(3,666,982)	(4,006,702)	(6,701,577)
EBIAT	8,556,292	14,205,580	23,760,137
Plus: D&A Expense	4,178,521	4,788,628	5,382,960
Less: CAPEX	(11,359,709)	(12,806,368)	(10,520,720)
Less: Change in working capital	(289,790)	(5,911,380)	(1,258,009)
Free Cash Flow (FCF)	1,085,314	276,460	17,364,367
WACC	15.9%	15.9%	15.9%
Present Value (PV) of FCF	936,273	205,744	11,148,053
	2017	**2018**	**2019**
Terminal value			157,384,498
Present value of terminal value	75,196,114		

DCF Calculation	**Valuation**
PV of explicit period	12,290,069
PV of terminal value	75,196,114
Enterprise Value	87,486,184
+ Cash	15,115,610
- Borrowings	(38,790,483)
Equity Value	63,811,311
Share price	***48.99***
Shares outstanding ('000)	1,302,481

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