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FDC MONTHLY ECONOMIC UPDATE

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In This Issue ...

INCREASE IN EXCISE DUTY ON TOBACCO AND ALCOHOLIC BEVERAGES

The federal government recently approved an increase in excise duty on tobacco and alcoholic beverages, to bolster its revenue. This has the added benefit of reducing the health hazards associated with the consumption of tobacco and alcohol. The new excise duty, which takes effect from June 4, 2018, will be implemented over a 3-year period to reduce the impact on manufacturers and the fallout on inflation.

From a policy perspective, the newly approved tariffs will boost Nigeria's tax to GDP ratio, currently at 6%, and reduce the fiscal deficit (2.5% of GDP). This could also help reduce the level of substance abuse. In addition, as a specific tax which replaces the ad valorem tax on alcohol consumption, the discretion of custom officers to divert taxes will be curtailed. However the tax on tobacco will be a combination of the existing ad valorem rate of 20% and the new specific rate.

Incidence of Tax- Higher on the Poor

From a consumer perspective, the incidence of tax is higher on the poor. This is because it is inflationary, reduces consumer disposable income and distorts the allocation of resources. Besides, imposing higher taxes could encourage smuggling activities, as well as tax evasion.

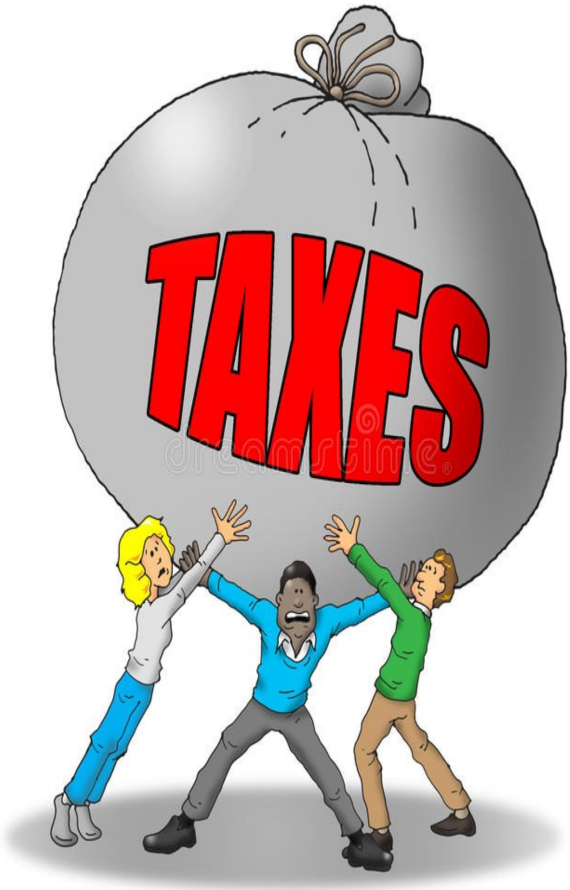
Manufacturers oppose the increase and the timing, as most are just recovering from a negative profitability and revenue contraction. Ideally, a counter cyclical policy direction that would ensure injections into the system would have been more appropriate. However taxes are withdrawals and the increase in excise duty is likely to reduce margins and could prompt higher unemployment.

Tax burden falls on Consumers

This sin tax, which cuts across the total beverage and alcohol sector, will likely be passed on to consumers. The effective increase in the price of spirits will range from 12% to 20% over current prices, while malt, beer and stout will increase by 6% to 10%. The industry is battling with declining volumes and contracting margins. Hence, the impact of absorbing the cost of the tax might be overwhelming on current players in the industry.

To improve operational efficiency, brewers may adopt aggressive cost optimization measures, such as layoffs or even delay impending expansion plans. This will reverse some of the growth recorded by the food, beverage and tobacco sub-sector. In 2017, the sector improved by 8.62% over 2016, recording a growth of 2.35% and outperforming GDP growth.

Apart from the implications earlier mentioned, this move by the government will encourage the patronage of the informal tobacco and alcohol producers. Operations of this unregulated industry are poised to be more detrimental to health and have been known to incite public nuisance and abuse.



Impact on Brewing Companies

The leading brewers and distillers such as Nigerian Breweries, Guinness Nigeria and International Breweries will be the biggest losers, as most have embarked on aggressive expansion plans in anticipation of a pickup in demand. This would intensify competitive rivalry among the players and further erode margins. However, given that the tax imposed on alcoholic beverages is a regressive tax, as opposed to the previous ad valorem regime, value brands such as Trophy and Hero will be hit the most, due to their lower price. Either way, the industry is likely to face a most challenging period in the next three to four quarters.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CONTAINING DOMESTIC FUEL SCARCITY VIA HIGHER PROFIT MARGINS

Global oil prices have surged in the current year to $70 per barrel (pb), largely due to the combination of rising demand and the output-cut led by the Organization of the Petroleum Exporting Countries (OPEC) and its allies. Given Nigeria's endowment in oil, this bullish trend in oil prices should translate to a stronger macroeconomic performance. However, it presents a conundrum to policy makers in Nigeria, largely due to the fact that the country imports a majority of its refined petroleum products. This has placed the nation's economy in a precarious position whereby it oscillates between periods of acute fuel shortage and steady supply.

Changes in prevailing macroeconomic fundamentals

In December 2017, the Nigerian economy saw a re-emergence of fuel queues after 18 months of steady supply. Petroleum authorities have accused petroleum marketers of hoarding to create artificial scarcity and incentives to divert products to the black market. Fuel marketers say that scarcity is a result of a reduction in the importation of refined petroleum products due to declining profit margins. Clearly, macroeconomic variables have changed, since the pump price cap was set at N145 per liter in April 2016. For example, the average price of oil (Brent) has risen by 59.77% to an average of $68.99pb in January 2018, from an average of $43.18pb in April 2016. Similarly, the average official exchange rate has depreciated by 53.9% to N305.78/$ from an average of N198.69/$ in April 2016.

These changes in macroeconomic fundamentals have ultimately led to higher costs of importation (landing costs). Given the existing cap in pump price, this has greatly reduced profitability. Hence, independent oil marketers are reluctant to import. In an effort to ease the lingering fuel scarcity, the federal government has directed the Nigeria National Petroleum Corporation (NNPC) to increase its fuel import. The NNPC claims to have spent $5.8bn on fuel importation in Q4'17. However, fuel scarcity persisted partly due to the existence of arbitrage opportunities. For example, the naira equivalent of petrol pump price in the neighboring Benin Republic and Ghana is N225 per litre and N350 per litre respectively. The disparity in price has encouraged cross border smuggling of petroleum products and highlights the fundamental problem in the existing pricing mechanism in Nigeria.


By NASA's Marshall Space Flight Center - SolarReserve Inc. Uses Aerojet Rocketdyne Technology for Power Generation, CC BY-NC 2.0, https://www.flickr.com/photos/nasamarshall/23586619466/

Means to an end

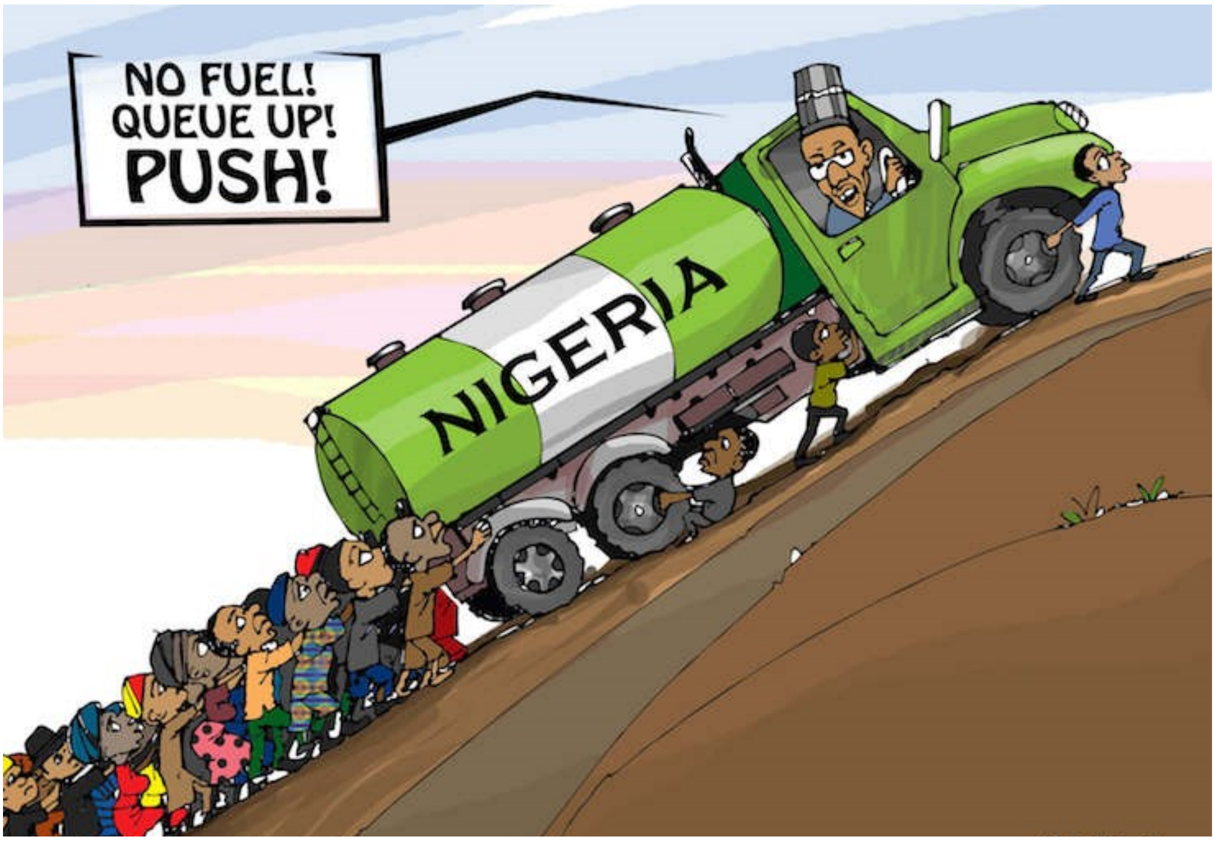
To address this recurring problem, the federal government could either employ a short term or a long term approach. For example, the federal government could grant a temporary tax holiday as an incentive for independent fuel marketers. This could potentially lower the weighted average cost (landing cost) of petroleum imports and thus raise profit margins in the near term. Similarly, the subsidy system could also be employed in light of the political risk associated with increasing pump price at this period. The proposed subsidy could be in terms of lower exchange rates for fuel marketers or a direct subsidy payment system. The downside of a direct payment is the effect on government revenue, ultimately widening the fiscal deficit.

A long-term approach is to construct new refineries, pass the petroleum industry bill and effectively deregulate the downstream oil and gas sector by removing the price cap. The sole responsibility of the government is to create an enabling environment for market forces to thrive. The government can attain this by establishing a pricing framework that factors in the effects of changes in the exchange rate and global price of oil and increasing domestic refining capacity by constructing new refineries.

A typical example of such a pricing mechanism is the one used in the United Kingdom. In the UK, four major variables determine the pump price of fuel: government duty and tax; cost of product (crude) in the international market; retail spread; and, to a lesser extent, the exchange rate. The exchange rate has a subtle weighting due to the adequacy of the UK's domestic refining capacity; the country does not have to import refined petroleum products. Nigeria can draw inference from this, in order to establish a dynamic pump pricing system. Given Nigerian's current dependence on the importation of refined product, the Nigerian mechanism needs to put a higher weighting on exchange rate and crude cost. With this system in place, market factors will come into play in pump price. For example, a depreciating exchange rate will result in a relatively higher pump price, to help mitigate the foreign exchange loss, while a stronger currency will translate to lower pump prices.

However, it is unlikely that the current government will institute such a major reform in the build up to the 2019 general election as it will be considered politically risky.

However, it is unlikely that the current government will institute such a major reform in the build up to the 2019 general election as it will be considered politically risky. Similarly, reverting to the subsidy system could mean a return to the abuses that marred the system before its abolition -another risky proposition. In the meantime, the NNPC will continue to bear the burden of higher landing costs which will weigh on its finances. This remains a questionable use of scarce resources for the cash-strapped government and is likely to continue to lead to disruptions in fuel supplies in the country



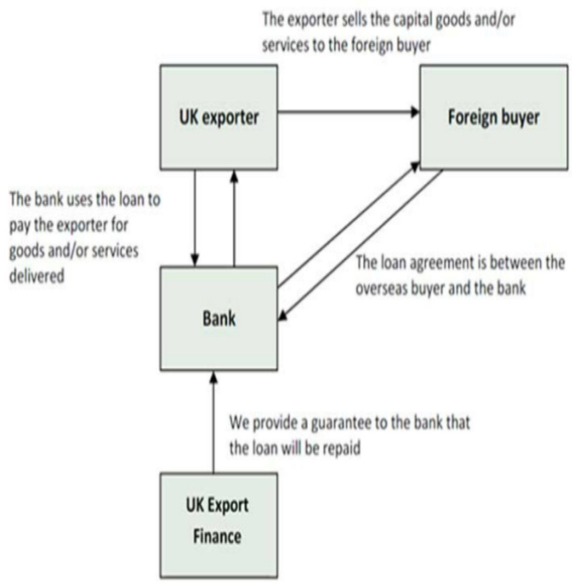
THE UK'S LOCAL CREDIT FINANCE SCHEME

Introduction

The United Kingdom Export Finance (UKEF) will provide up to £750m ($1.04bn) in credit financing for Nigerian businesses to purchase goods from the UK.

Under the initiative:

- Importers will be able to settle transactions in naira;
- Importers must secure loans from a recognized local financial institution;
- The UKEF will act as a guarantor for importers;
- Only transactions worth a minimum of £5mn ($7mn) are eligible; and
- The importer must source at least 15% of the contract value elsewhere



Why now?

Today, the European Union (EU) accounts for up to 50% of the UK's trade. As a member of the EU, the UK is eligible for tariff-free trade, and free movement of its exports. This will be reversed once the it exits the European bloc. Tariffs will make exports more expensive, thus less competitive. Britain will also lose some of its negotiation power with non-EU countries. Although there is a lobby for a partial customs union[1] with the EU, the UK is also looking to secure new trading deals to wade the post Brexit tide- this is where the developing world comes in. This credit financing scheme is also available to over 25 other developing countries, including Sub-Saharan African countries Botswana, Kenya, Mauritius, Nigeria, South Africa and Uganda.

[1]A customs union is an agreement that allows free trade between two entities

Why Nigeria?

Nigeria is a significant player in UK foreign relations. In the early 2000s, the UK was Nigeria's largest trading partner, partly due to its colonial and historic ties with the country.[2] Today, however, the country has been knocked from the top spot by the Asian giants (China, India), and the US.

The UK is the fifth largest source of imports into Nigeria[3], with main imports being machinery (e.g. power generators), and branded products such as luxury vehicles (Land Rover, Jaguar) and pharmaceutical products (GSK, May and Baker).

On the export side, the UK is the sixth biggest destination for Nigerian products. Major exports include rubber, cocoa, and crude oil.

Nigeria also receives significant aid from the British Government and UK-based multinationals towards the achievement of the Sustainable Development Goals (SDGs).

The UK is a hotspot for emigration out of the country, hosting the second largest Nigerian Diaspora in the world. It is no wonder that Diaspora remittances from United Kingdom alone reached $20.8bn, equivalent to 94.5% of total remittances into Nigeria. Additionally, approximately 18,000 Nigerian students come to the UK each year. This is the third largest origin of international students after China and India.[4]

What will be the impact?

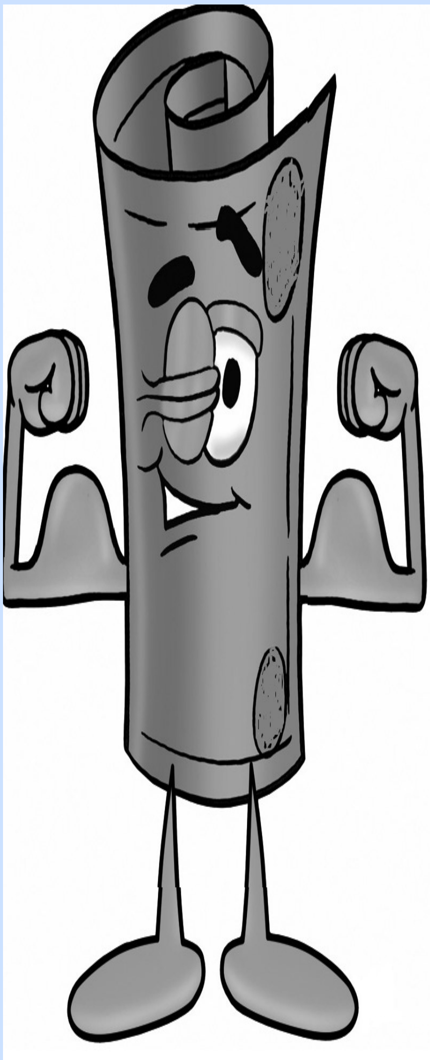
The concept of loans denominated in local currency is not a new one. It is a common strategy employed by multilateral organizations, development banks, and governments to assist developing countries. The initiative could also encourage other trading partners to introduce similar programs.

The scheme is positive for Nigerian importers, especially those whose costs are in foreign currency, but their earnings are not. With this scheme, enterprises can borrow in naira, and repay in naira, avoiding foreign exchange risks and variable debt costs. However, the floor of £4.75 million (85% of transaction value, approx N2.37bn) for loans excludes Small to Medium Enterprises (SMEs) from participating in the scheme.

It is unlikely that this scheme could lead to an appreciation in the naira. This is because it merely shifts forex demand from importers to the Federal Government; there is no actual reduction in the demand for forex.

The U.K., however, is the one who stands to benefit the most, as this scheme creates incentives for importers to shift trade to the UK. Thus, it will support demand for British goods and services and boost exports.

In conclusion, the new initiative is positive for the UK, who gets the better half of the bargain. Yet, there are pros for the Nigerian economy such as mitigated currency risks.



[2]Armstrong, Dr. David & Dr.Andrew S Nevin; March 2016; "Seizing the Opportunity: An economic assessment of key sectors of opportunity for UK businesses in Nigeria"; Foreign & Commonwealth Office, PWC; Available at <https://www.pwc.com/ng/en/assets/pdf/uk-trade-investment-in-nigeria.pdf>

[3]Research team, September 7, 2016; "Nigeria's Top Trade Partners (Countries of Imports and Exports); Nairametrics; https://nairametrics.com/nigerias-top-trade-partners/

[4]Ibid. Armstrong, Dr. David & Dr.Andrew S Nevin;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NEW RESEARCH SUGGESTS THE DOLLAR'S LEVEL DRIVES WORLD TRADE

Global Perspective: Culled from The Economist

A stronger greenback crimps trade outside America

AGUS SACCHAL sells sheets and blankets from a warehouse in Buenos Aires, for which he is paid in Argentine pesos. While the pesos go into his wallet, two other banknotes are stuck to his office window. One is a ten-yuan note from a visit to China, where he went in search of cheap textiles. The other is a $5 bill, pinned next to an invoice, also in dollars. Though he does not trade with America directly, when importing he uses the greenback.

Argentina's rocky financial history makes the dollar's dominance there unsurprising. Still, it is an extreme case of a wider phenomenon. After gathering data on 91% of the world's imports, by value, Gita Gopinath of Harvard University found that America accounts for nearly 10%. But its currency is used in over 40% of invoicing.

Recent research suggests that this creates a link between a weak dollar and buoyant trade flows—and vice versa. Trends since 1999 are suggestive (see chart).

During 2017 the dollar depreciated by 7% against a basket of other currencies, as global trade flows surged by 4.5%. Some other factors could be driving both. But a recent paper by Ms Gopinath, Emine Boz of the IMF and Mikkel Plagborg-Møller of Princeton University found that, even after adjusting for countries' business cycles, a 1% dollar strengthening predicted a fall in trade volumes outside America of 0.6%.

They explain the connection by upending the standard way of thinking about the impact of exchange rates on trade. Textbook models tend to assume that importers face prices in the exporting country's currency, which are hard to renegotiate.

During 2017 the dollar depreciated by 7% against a basket of other currencies, as global trade flows surged by 4.5%. Some other factors could be driving both.

Economist.com

An importer whose currency falls against the exporter's is squeezed. But his countrymen who export in the opposite direction get a fillip, as their wares become more competitive. In this neat and symmetric world, as a country's imports fall because of a weaker currency, its exports rise.

But what of importers like Mr Sacchal, who buy in dollars? The researchers argue that here, the symmetry breaks down. A stronger dollar squashes his demand for Chinese products, without Argentine exporters to China gaining a countervailing bump. A strong dollar would then mean that trade volumes outside America fall.

Supporting their theory, they find that dollar exchange rates seem to be more useful than those of other currencies when predicting changes in trade flows and prices. This is particularly so in places that invoice a higher share of imports in dollars.

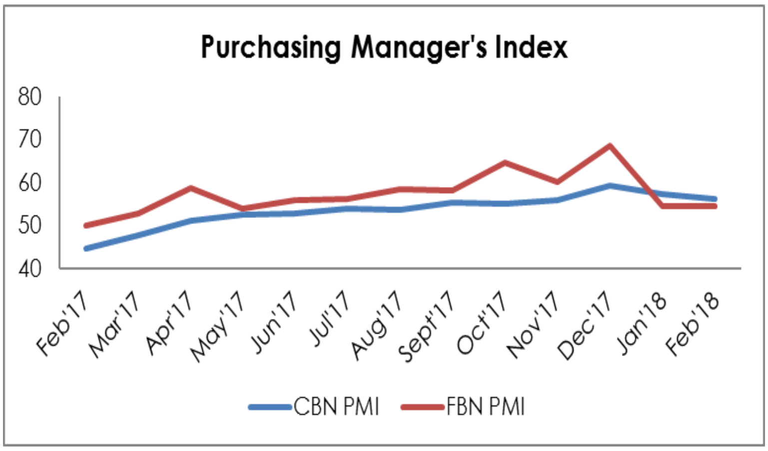
Alternatively, as suggested in a recent working paper published by the Bank for International Settlements, a strong dollar could tighten global credit conditions, making it harder to finance long supply chains and so crimping trade flows. The authors find that a strong dollar is associated with slower -growing company inventories (shorter supply chains require less stock to be held along the way).

Given the dollar's recent weakness, what does all this suggest about future trade flows? The recent trade surge might be only temporary, if traders renegotiate dollar prices. The results of Ms Gopinath and her co-authors suggest otherwise. They find that, since 2002, the effects of dollar movements on trade have persisted. Gabriel Sterne of Oxford Economics, a consultancy, reckons that about half of the increase in trade flows due to the weak dollar since 2017 is yet to come.

Macroeconomic Indicators

Purchasing Managers Index (PMI)

The FBN PMI reading in February expanded marginally to 54.7 points from 54.6 points in January. The FBN PMI reported that two of the five variables (output and employment) improved in February. The expansion was driven by the CBN's forex policy.



[5]

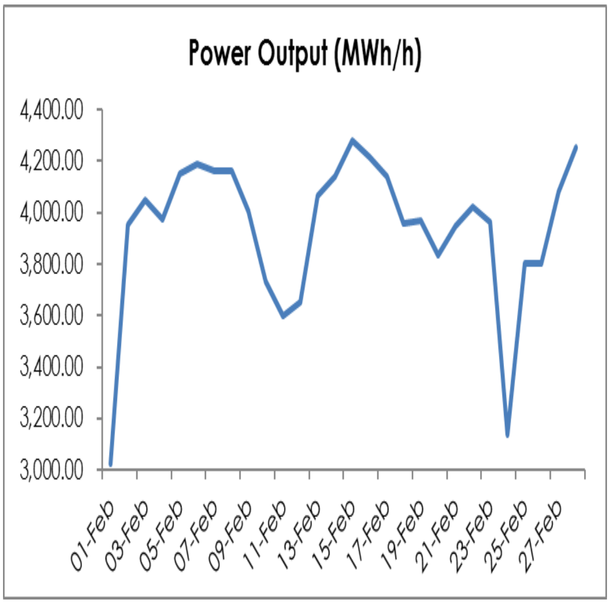
CBN manufacturing PMI reading for February contracted to 56.3 points from 57.3 points in the preceding month. The CBN report indicated that supplier delivery time, employment level and inventory levels grew at a faster pace while production level and new orders grew at slower paces in the review period. In the 15 subsectors surveyed, 10 reported growths while the printing & related support activities, cement, non-metallic mineral products, fabricated metal products and transportation equipment subsectors contracted in the review month.

Outlook

We expect an expansion in the manufacturing sector as well as in the economic activities in March. As manufacturers increase output and replenish old stock for Easter, these factors will have an impact on inventory levels.

Power Sector

Total average power output in February was 3,937.14MWh/h, 6.75% higher than the average power output of 3,688.16MWh/h in January. Despite this improvement, the sector lost N35.52bn annualized at N12.89trn during the month. This was predominantly due to gas constraints in power stations. Average power dipped to a month low of 3,032.24MWh/h on February 1st, as a result of a gas constraint of 650MWh/h at Afam VI power plant. Average on grid power output however recorded to reach a peak of 4,277.49MWh/h on February 15th due to increased output at Egbin and Delta power plants.



[6]

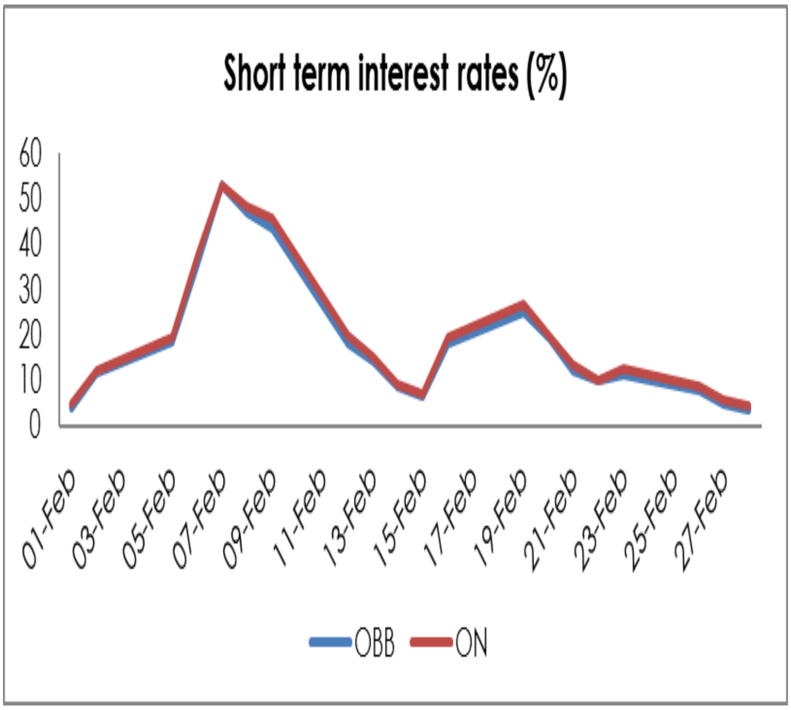
[5]Source: FBN, CBN, FDC Think Tank
[6]Source: Nigerian Electricity Supply Industry

Outlook

Hydro power generation is expected to improve as the raining season approaches. However, gas constraint will remain a challenge. In addition, the bottlenecks in transmission and distribution will pose as risks to the level of power generated.

Money Market

Average liquidity in February was N173.78bn long relative to the average opening position in January of N283.15bn long.



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Short-term Open Buy Back (OBB) and Over Night (O/N) rates averaged 19.13% per annum (pa) in February, which was 868bps higher compared to 10.45% pa recorded in January. The OBB started at 3.83% pa and the O/N rates at 4.67% pa before closing at 3.75% pa and 4.50% pa respectively. This was due to the disbursements of FAAC inflows of N635.55bn and Open Market Operations (OMO) bill maturities. On February 7th, the OBB rate was as high as 53.00% pa with the O/N rate at 53.08% pa. This was due to reduced liquidity in the system driven by wholesale and retail forex sales. At the primary market auction, T/bill yields decreased further to close the month at 11.85%, 13.50% and 13.50% from the first auction's stop rates of 11.95%, 13.65% and 13.70% for the 91-day, 182-day and 364-day respectively on February 14th.

At the secondary market, the yields on 91-day and 182-day T/bills increased to 14.05% and 14.42% on February 28th, compared to 13.18% and 13.42% as at January 31st while the 364-day T/bills decreased to 13.43% from 13.65% on January 31st.

Outlook

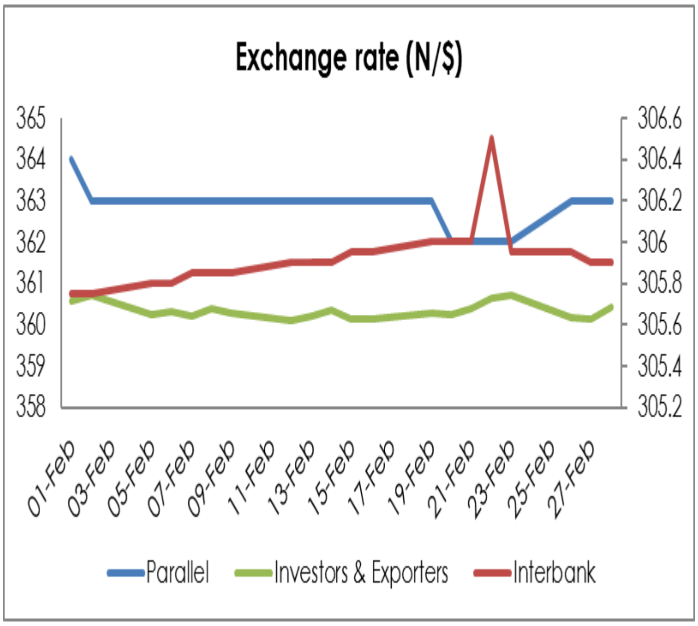
Interest rate movements are a function of market liquidity. However, the likely sources of inflows that could boost naira liquidity in the coming month are higher monthly statutory allocations and capex disbursements. The CBN's primary objective remains price stability and the apex bank will continue to regulate liquidity levels in the money market. We expect to see an increase in market liquidity which will be driven by capex disbursement.

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

Forex Market

Exchange Rate

On February 1st the exchange rate was at N364/$, it traded flat for 12days at N363/$ then appreciated to N362/$ on February 20, before retreating to close at N363/$. At the interbank market, the naira also remained relatively stable trading closely between N305.75/$ and N306.5/$. At the Investors and Exporters Foreign Exchange Window (IEFX), the naira depreciated marginally by 0.11% to close the month of February at N360.41/$ from N360.00/$ in January. Total turnover at the IEFX window in February was $3.95bn, 34.39% lower compared to $6.02bn in January.



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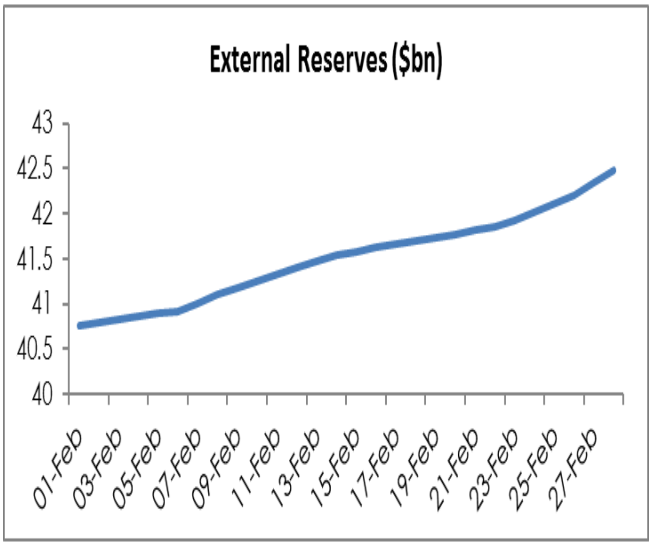
Outlook

At the parallel market, we expect the naira to depreciate slightly due to increased forex demand as manufacturers and businesses build up inventories ahead of Easter. However, growing investor confidence, especially at the IEFX window, will continue to attract Foreign Portfolio Inflows (FPIs). This will lead to the accretion of external reserves and boost the CBN's ability to defend the naira

External Reserves

The level of Nigeria's gross external reserves continued to increase on higher oil production and prices. As at February 28th, external reserves were $42.49bn, up 4.42% ($1.8bn) compared to January's end period of $40.69bn. The level of gross external reserves is 6.48% higher than January's average of $39.81bn and 22.20% higher than the Q4'17 average of $34.77bn. The reserves import and payment cover is 11.80months.



[9]

Outlook

The accretion in the external reserves is expected to be sustained in March but at a slower pace as the expectation of improved oil prices and production level is positive.

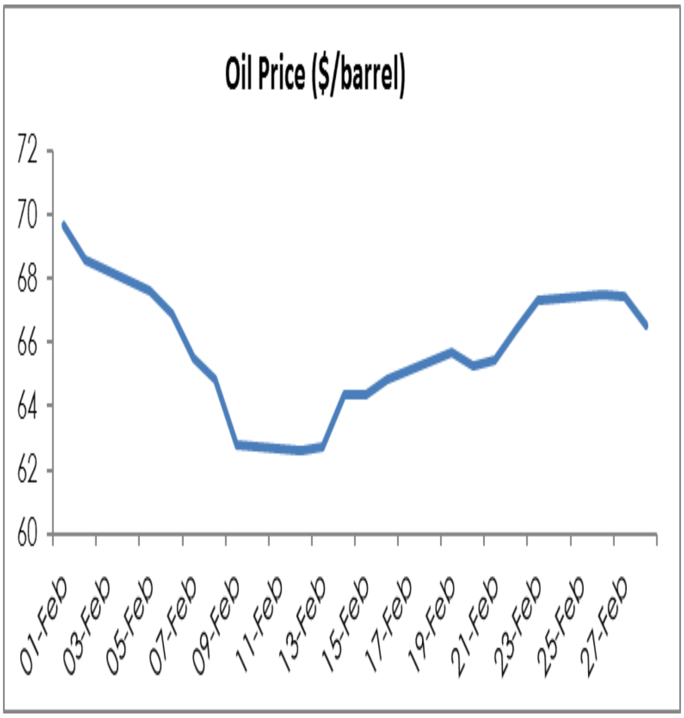
[8] Source: FDC Think Tank

[9] Source: CBN, FDC Think Tank

Commodities market - Exports

Oil prices

At the end of February, the average Brent price was $65.73pb, 4.85% lower compared to January's average of $69.08pb. Brent crude prices reached a record high of $70pb in January before falling to $62.72pb in February, the lowest level year-to-date (YTD). The decline was initially prompted by the global equity sell off that occurred from February 2nd to13th. However, the correction in oil prices was more than the global sell-off in the equities market. Oil prices fell on the back of increased US crude activities (765 oil rigs), ample global supply (10million bpd) and a drop in demand as many refineries shut down for maintenance. Meanwhile, Brent crude recovered from recent losses to cross $65pb, on the back of lower-than-expected US inventories (1.84bn barrels), a weaker US dollar and a rebound in the global equities market. The Energy Information Administration (EIA) projects a 1.4% increase in shale production in February to 6.55 million barrels per day (mbpd).



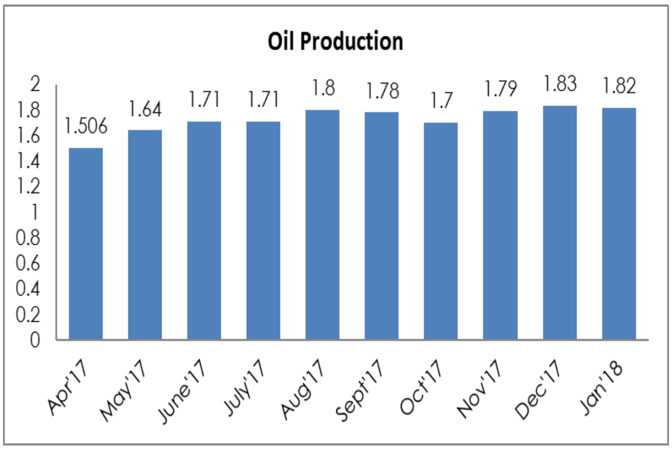
[10]

Outlook

Relatively stable oil prices offset the possibility of disruptions to the implementation of Nigeria's 2018 budget. At $65.73pb, oil prices are 46.07% above the 2018 budget benchmark of $45pb. Revenue windfalls are positive for Nigeria's external position. Favorable terms of trade, trade balance and accretion in external reserves will help support the currency in the event of a sharp decline in oil prices.

Oil Production

Nigeria's domestic production decreased by 0.55% to 1.82mbpd in January from 1.83mbpd in December. Oil production in Q4'17 was 1.91mbpd, 0.12mb lower than the daily average production in Q3'17.



[11]

[10] Source: Bloomberg, FDC Think Tank

[11] Source: OPEC, FDC Think Tank

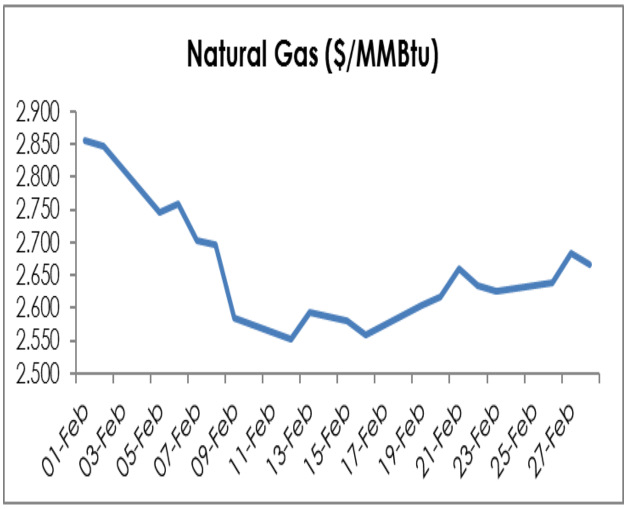
Outlook

OPEC and the U.S shale oil representatives held a meeting march 5th which was centered on taming a global oil glut. The global price of oil would be influenced by the outcome of this meeting. However, we expect Nigeria's oil production to remain around current levels of 1.75 – 1.85mbpd in the coming month barring any disruption to pipelines.

Natural Gas

Natural Gas averaged $2.659/MMBtu in February. This represents a 15.99% decline in prices from the average of $3.165/MMBtu in January.

Prices fell to the lowest on February 12th at $2.552/MMBtu amid rising US output before closing the month at $2.667/MMBtu.



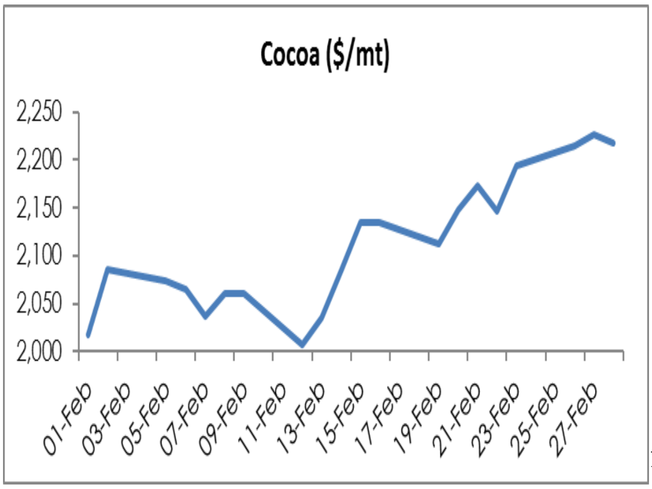
[12]

Outlook

Natural Gas prices are expected to dip in the coming month as the weather forecasts for March show expectations of warmer temperatures. This could lead to a decline in global demand.

Cocoa

Cocoa prices strengthened during the period by 9.12% to an average of $2,118/mt in February from $1,941/mt in January. This was due to weather concerns in West Africa.



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Outlook

The bullish trend of cocoa prices is expected to intensify in the coming month. Ghana's Cocobod has announced its plan to end subsidies to farmers in a bid to save up to $450million. This action will affect over 800,000 farmers, threatening the output of the country.

[12] Source: Bloomberg, FDC Think Tank

[13] Source: Bloomberg, FDC Think Tank

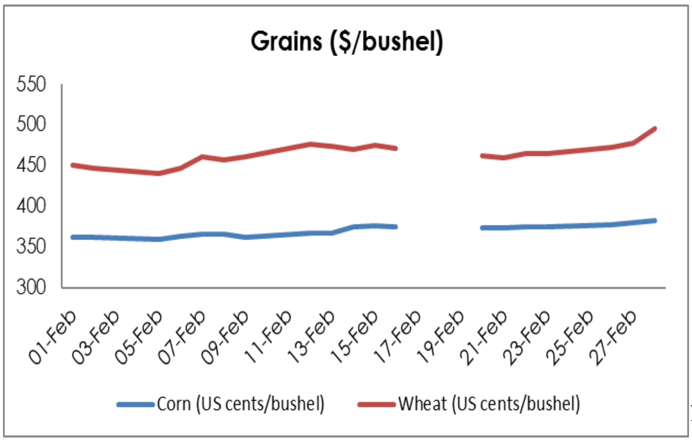
Commodities market - Imports

Wheat

Wheat prices closed the month of February at $4.95/ bushel, 9.51% higher than $4.52/bushel in January. However, average wheat prices increased by 7.41% to $4.64/bushel from $4.32/bushel in the corresponding period. Wheat prices increased as dry weather across key U.S planting regions threatens crop yields.

Corn

Corn prices averaged $3.70/bushel in February, 4.82% higher than the average of $3.53/bushel in January. This is partly due to the unfavourable weather conditions in US and Europe.



[14]

Outlook

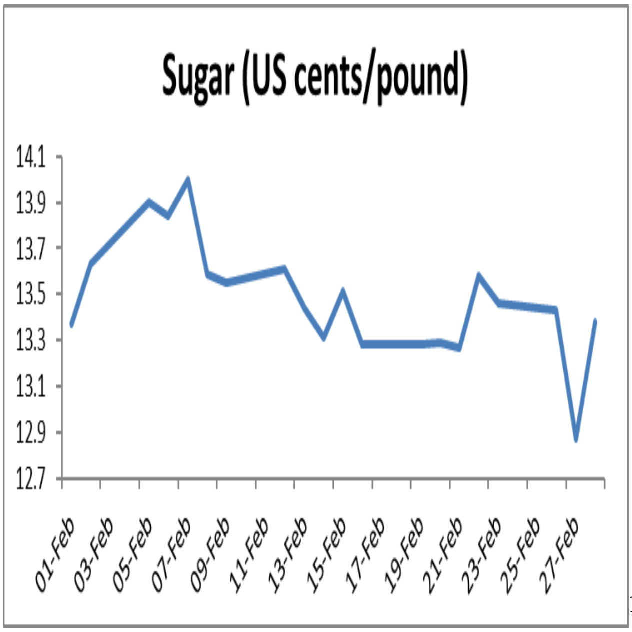
Unfavourable weather conditions in Europe coupled with strong global demand are expected to keep prices relatively high in the coming month.

Sugar

Sugar prices averaged $0.1348/pound in February, 3.65% lower than the average of $0.1399/pound in the previous month. Sugar fell to a 29-month low during the month due to supply glut. Prices reached a high of $0.1400/pounds and a low of $0.1287/pound.

Outlook

The price of sugar is expected to remain at current levels on signs of lower consumer demand. If the price stays at current levels, some producers may be forced out of business. This will soften supply and introduce some balance into the market.

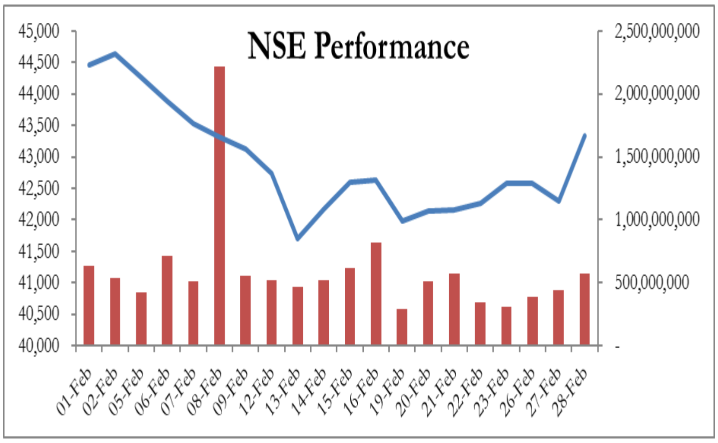


[15]

[14] Source: Bloomberg, FDC Think Tank
[15] Source: Bloomberg, FDC Think Tank

STOCK MARKET

The Nigerian stock market reversed some of its gains in January, losing N346.09bn in February. NSE ASI lost 2.28% to close at 43,330.54 points in February. This correction can be attributed to profit taking activities, as the bourse gained 15.95% in January alone. As a result, YTD return stood at 13.30% as at the close of February. Similarly, market capitalization declined by 2.18% to N15.55trn during the month.

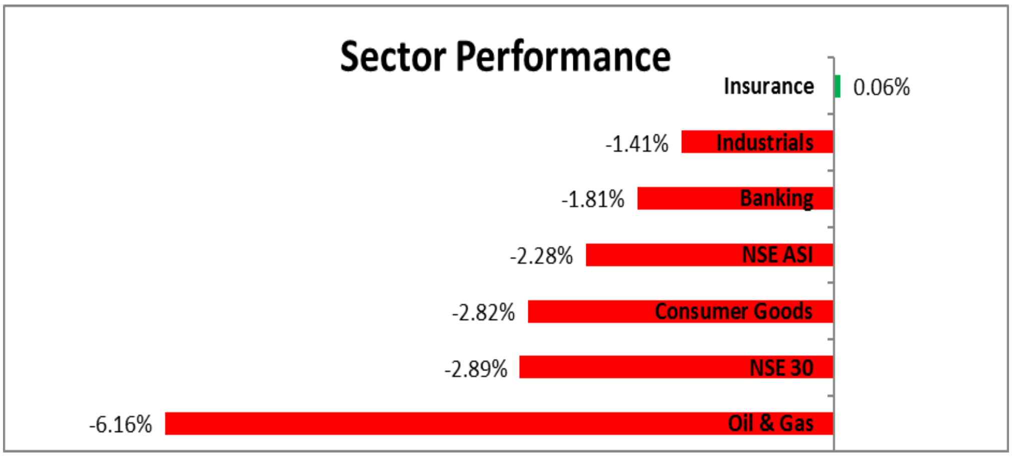


In light of market adjustment, market breadth was negative at 0.33x, as 26 stocks increased, 68 stocks remained flat, while 78 declined; a decrease from the previous period, which came in at 3.6x. However, price to earnings (P/E) ratio remained flat at 14.02x during the period.

Trading activities slowed marginally in February. Average volume declined by 39.47% to 597 million units, with average turnover moving in the same direction, but at a higher margin, declining by 40.86% to N5.3bn.

Stocks in the financial services sub sector remained the most liquid, maintaining dominance in trading activities during the period, especially the tier 2 banking stocks. Transactions in this sub sector accounted for 80.02% of volumes traded on the bourse during the month of February.

The CBN issued a circular, imposing limit on banks' dividend payout. This is in line with compliance to the Basel accords and a push to force banks to enhance their capital buffers to mitigate systemic risks. This resulted in a negative knee-jerk reaction, as banking stocks lost over N100bn in 2 days in the week following the directive.



With the exception of the insurance index, all other sector indices closed in the red for the month of February. The insurance index recorded a marginal gain of 0.06% due to capital appreciation recorded by heavy weights in the index. On the other hand, the oil and gas sector index was the highest decliner, on the back of significant losses by key oil players, who were unable to maintain the gains recorded during the oil price rally in January.

In addition, financial services stocks dominated the gainers' list, as all top three gainers comprised of insurance or banking stocks - Linkage Assurance (24.6%), Unity Bank Plc (17.1%) and NEM Insurance (16.0%). While manufacturing stocks such as Beta Glass Co. (15.6%) and Unilever Nigeria (15.1%) also recorded significant gains during the period.

[17]*Source: NSE, FDC Think Tank*

Top Gainers					
Symbol	Feb 28 '18 Price	Jan 31 '18 Price	Change	% Change	PE Ratio
LINKAGE ASSURANCE PLC	0.86	0.69	0.17	24.6%	2.9
UNITY BANK PLC	1.78	1.52	0.26	17.1%	1.48
N.E.M INSURANCE CO (NIG) PLC.	2.10	1.81	0.29	16.0%	4.91
BETA GLASS CO PLC.	72.1	62.35	9.75	15.6%	11.47
UNILEVER NIGERIA PLC.	51.2	44.5	6.70	15.1%	46.46

The new par rule continues to weigh on the losers' chart, as the top four losers closed the period below 50 kobo per share. Like the gainers' chart, insurance stocks dominated the laggards, as Consolidated Hallmark Insurance and UNIC Diversified Holdings each lost about 48% of their value during the period. Courteville Business Solutions (46%), Multiverse (37.5%) and Skye Bank (34%) also featured on the list.

Top Losers					
Symbol	Feb 28 '18 Price	Jan 31 '18 Price	Change	% Change	PE Ratio
CONSOLIDATED HALLMARK INSURANCE PLC	0.26	0.50	- 0.24	-48.0%	7.54
UNIC DIVERSIFIED HOLDINGS PLC.	0.24	0.46	- 0.22	-47.8%	-
COURTEVILLE BUSINESS SOLUTIONS PLC	0.27	0.50	- 0.23	-46.0%	18.08
MULTIVERSE PLC	0.30	0.48	- 0.18	-37.5%	-
SKYE BANK PLC	0.97	1.47	- 0.50	-34.0%	-

OUTLOOK

Profit taking activities will persist in the short-term, as investors move to capitalize on stock market gains recorded earlier in the year. However, investors will take position in stocks with robust dividend payout history before the closure of respective registers, in order to qualify for dividend payments.

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

Corporate Focus :
PZ CUSSONS PLC

Analyst's note

The Nigerian manufacturing sector was one of the hardest hit during the recession. Even today it continues to face challenges due to increasing input costs, tight monetary and fiscal policy, security challenges in the North-East region and low consumer confidence, despite an improving economy. Weak macroeconomic factors, such as a high inflationary environment (headline inflation at 15.13% in January 2018) and high interest rates, continue to affect the industry negatively. During the collapse of global oil prices in 2014 and the disruption in oil production in the Niger Delta, consumers' purchasing power also declined.

PZ Cussons Nigeria Plc (PZ Cussons) was not isolated from the impact of these trends as it recorded negative-bottom line earnings of N123.08mn in Q1'18 (period end Aug'17)[16]. However, as the economy exited a recession in Q4'17 (1.92% GDP growth), PZ Cussons recorded positive bottom-line earnings for quarter ended Nov'17) and half year ended Nov'17. Despite the recession, PZ has delivered top-line growth for five consecutive quarters. Sales in the quarter ended Nov'17 were up 17.59% to N22.22bn from N18.90bn in the quarter ended Aug'17.

Although PZ was resilient in a weak macroeconomic environment, using intrinsic valuation and taking into consideration possible risk factors, its share price is currently overvalued. Accordingly, we place a SELL rating on PZ Cussons Nigeria Plc.

Analyst Recommendation: SELL

Market Capitalization:

N91.32bn

Recommendation Period:

6 Months

Current Price:

N23.30

Industry:

Consumer Goods

Target Price: N17.60

[16]PZ Cussons' fiscal year is June 1 2017 – May 31, 2018. PZ Cussons' period ends include;
Q1'18: Jun'17 – Aug'17. Q2'18: Sep'17 – Nov'17. Q3'18: Dec'17 – Feb'18. Q4'18: Mar'18 – Apr'18.

IMPRESSIVE H1'18 EARNINGS GROWTH DRIVEN BY STABLE FOREX

PZ Cussons posted sales of N41.12bn in half year ended Nov'17 which represents a 23.48% increase of N33.30bn compared to half year ended Nov'16. The rise in sales was driven primarily by PZ's favorable price/volume mix in its personal and home care categories. The company's cost of sales increased by 31.80%, with selling and distribution costs up 4.97%, and administrative expenses up 40.80%. However, higher product price offsets the impact of rising costs on margins.

PZ also reported strong bottom-line earnings. Profit before tax (PBT) rose by 304.90% to N868.68mn while profit after tax (PAT) also increased by 304.03% to N288.95mn from half year ended Nov'16. This was driven by the 47.9% fall in forex loss to N2.57bn in half year ended Nov'17 from N4.94bn in half year ended Nov'16. PZ benefited from the Investors' and Exporters' Foreign Exchange Window (IEFX) introduced by the Central Bank of Nigeria (CBN) in late April 2017. Although borrowing costs remain high with net finance costs at N501.18mn, a 757% increase from N58.46mn in half year ended Nov'17, it was not enough to offset gains.

Industry and Company Overview

The Nigerian manufacturing sector was badly hit by the recession in 2016. This was due to the weakening of the naira amid dwindling oil prices and shortfall in oil production because of security challenges in the Niger Delta. The unavailability of the US dollar for the importation of raw materials, as well as its high cost, was a major challenge. The sector was characterized by a fall in patronage, production, turnover and profit margins. However, since Q2'17,[17] when Nigeria exited its worst recession in 20 years, the manufacturing sector has continued to grow. In 2017, the sector recorded a growth rate of -0.21% from -4.32% in 2016. The introduction of the IEFX by the CBN in late April 2017 boosted liquidity in the forex market. This in turn led to the expansion of the manufacturing sector due to access to cheaper forex to import new technology, machinery replacements and purchase raw materials. Also, the appreciation of the naira against the dollar relative to 2016 helped reduce import costs.

PZ Cussons Nigeria originated in1899 when Paterson and Zochonis opened their first branch office in Nigeria. The first soap factory was incorporated in December 1948 as PB Nicholas & Company Limited and was later changed to Alagbon Industries Limited in 1953. However, in 1960, the name was changed to Associated Industries after which it became listed on the Nigerian Stock Exchange (NSE) in 1972. In 1973, PZ entered the detergent and refrigerator markets in Nigeria. PZ Cussons created Nutricima – a joint venture with Glanbia Plc – to supply evaporated milk and milk powder to Nigeria in 2003 and commenced manufacturing in 2005. In 2007, the Nigeria business changed its name to PZ Cussons Nigeria Plc. In 2011, PZ Wilmar was established – a joint venture with Wilmar International – to build a palm oil refinery and food ingredients business. PZ Cussons Limited, UK is currently the main shareholder of 73.27% of PZ Cussons Nigeria Plc while the remaining 26.73% is held by the general public.

Its principal activities include the manufacturing of a wide range of consumer products such as detergent, medicaments, soap, cosmetics, confectionery and home appliances. These are sold and distributed throughout Nigeria through company-owned depots. PZ Cussons operates in five main categories: personal care, beauty, home care, food and nutrition, and electrical. The company remains the market leader in the toilet soap and baby soap segments.

Over the years, PZ Cussons has collaborated with strategic companies to successfully provide products that meet consumers' needs. PZ Cussons remains the leading personal and household company in Nigeria. Nigeria remains PZ's largest market in Africa. *Table 1* shows PZ's business segments and its unique brands.

[17]Refers to normal calendar period. Q2'17: Apr'17 – Jun'17

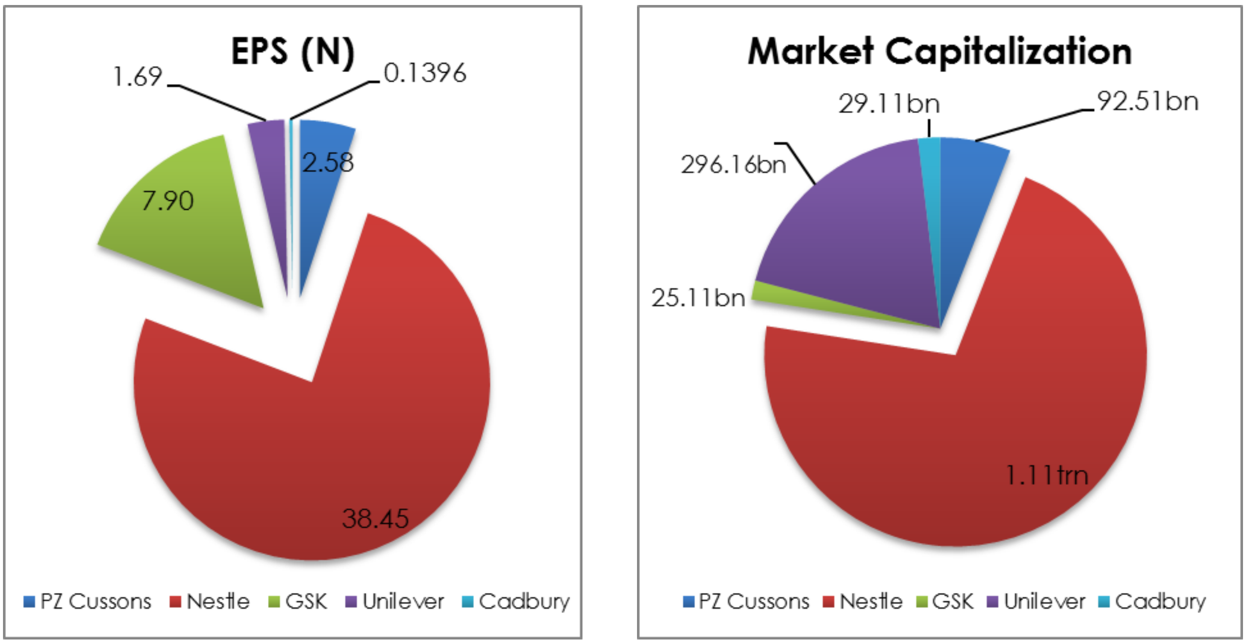
TABLE 1: PZ CUSSONS BUSINESS SEGMENTS AND BRANDS

Business Segment	Brands
Home Care	Elephant, Zip, Morning Fresh, Jet, Tempo, Rex
Soaps	Premier, Imperial Leather, Joy, Duck, Canoe, Drum
Medicaments	Robb, Heatol, Super Robb, Medicated Dusting Powder
Hair Care	Venus, Joy
Baby Care	Nigerian Baby Care, Cussons Baby Range
Skin Care	Venus, Stella Pomade, Joy, Carex
Perfumes	Dan Duala, Venus Gold, Joy Cologne
Household Appliances	Haier Thermocool
Consumer Electronics	Haier Thermocool
Electrical retail	Cool World
Nutrition	Coast, Yo!, Nunu, Olympic Milk, Olympic Apple Drink
Palm Oil	Mamador, Devon Kings Refined Palm Olein

At its core, PZ Cussons Plc's rivals are Nestlé, Cadbury, GlaxoSmithKline (GSK) and Unilever. However, the company's marketing strategy and its 25 strategically located depots and distribution channels across Nigeria have helped it maintain market share. Nestlé Nigeria Plc is the largest in the food and nutrition segment with bottom-line earnings of over N22.3bn. However, in the personal and home care category, PZ Cussons remains the largest player.

The picture below gives a breakdown of leading players in terms of Earnings per Share (EPS) and market capitalization.

FIGURE 2: LEADING PLAYERS IN CONSUMER GOODS SECTOR



The company's growth can be seen through increases of its total assets and revenue during the years.

Income Statement for PZ Cussons Plc (FY May 2017)

N'000	2013	2014	2015	2016	2017
Revenue	71,343,088	72,905,679	73,126,070	69,527,537	79,630,111
Cost of Sales	(52,246,080)	(53,710,991)	(52,672,138)	(49,326,175)	(51,682,211)
Gross Profit	19,097,008	19,194,688	20,453,932	20,201,362	27,947,900
Distribution Expenses	(7,351,854)	(8,825,075)	(9,248,099)	(8,825,636)	(9,095,909)
Administrative Expenses	(4,588,862)	(4,067,989)	(4,554,811)	(5,242,675)	(5,636,635)
Operating Profit	7,156,292	6,301,624	6,651,022	6,133,051	13,215,356
Other Income	264,442	281,039	121,861	286,084	198,601
Exchange Loss	-	-	-	(2,883,528)	(8,797,880)
Finance Income	447,266	508,374	228,794	210,256	485,569
Finance Expenses	(217,735)	(141,052)	(444,863)	(597,667)	(290,477)
Net Finance Cost	229,531	367,322	(216,069)	(387,411)	195,092
Profit Before Tax	7,650,265	6,949,985	6,556,814	3,148,196	4,811,169
Income Tax Expense	(2,329,078)	(1,867,238)	(1,986,027)	(1,018,507)	(1,124,572)
Profit for the Year (PAT)	5,321,187	5,082,747	4,570,787	2,129,689	3,686,597

Balance Sheet for PZ Cussons Plc (FY May 2017)

N'000	2013	2014	2015	2016	2017
Property, Plant & Equipment	24,370,445	24,485,136	25,217,847	26,504,924	28,514,265
Intangible Assets	-	-	-	-	1,017,337
Investment in Subsidiaries	-	-	-	-	-
Non-current Assets	24,370,445	24,485,136	25,217,847	26,504,924	29,531,602
Inventories	18,021,346	20,292,556	21,012,631	19,278,455	28,709,943
Deposit for Imports	538,492	1,030,504	916,639	191,791	6,601,877
Trade and Other Receivables	20,494,410	20,679,990	17,912,325	15,587,350	17,221,712
Cash and Cash Equivalent	8,871,727	4,477,549	2,328,472	12,867,654	8,022,391
Current Assets	47,925,975	46,480,599	42,170,067	47,925,250	60,555,923
Total Assets	72,296,420	70,965,735	67,387,914	74,430,174	90,087,525
Share Capital	1,985,238	1,985,238	1,985,238	1,985,238	1,985,238
Share Premium	6,878,269	6,878,269	6,878,269	6,878,269	6,878,269
Retained Earnings	35,252,554	31,711,254	32,573,287	32,037,137	33,409,158
Equity Attributable to Equity Holders of the Company	44,116,061	40,574,761	41,436,794	40,900,644	42,272,665
Non Controlling Interests	2,320,796	1,963,821	2,235,650	2,502,326	2,865,212
Total Equity	46,436,857	42,538,582	43,672,444	43,402,970	45,137,877
Deferred Tax Liabilities	4,283,021	4,365,881	3,903,589	3,694,005	2,399,389
Warranty Provisions	179,455	109,224	248,900	237,544	184,215
Non-current Liabilities	4,462,476	4,475,105	4,152,489	3,931,549	2,583,604
Warranty Provisions	94,308	190,637	57,134	89,707	87,560
Bank Overdrafts	-	-	-	-	-
Current Income Tax Liabilities	2,409,806	1,863,541	1,671,311	1,289,711	2,555,256
Trade and Other Payables	18,892,973	21,897,870	17,834,536	25,716,237	39,723,228
Current Liabilities	21,397,087	23,952,048	19,562,981	27,095,655	42,366,044
Total Liabilities	25,859,563	28,427,153	23,715,470	31,027,204	44,949,648
Total Equity and Liabilities	72,296,420	70,965,735	67,387,914	74,430,174	90,087,525

MANAGEMENT

Capable of capitalizing on potential growth opportunities in the consumer goods industry

The ability of PZ Cussons' management to sustain returns and drive growth in a period of weak economic growth can be attributed to its diversified business segments and extensive distribution network across the country.

To further drive growth and improve earnings, management intends to develop innovative leading brands and improve its products to meet the needs and tastes of its customers. The company will review its product portfolio to keep the right focus on its key brands and channels. Management plans to sustain its investments in supply chain processes and consolidate its depot networks to optimize operational efficiencies.

Furthermore, PZ is a part of a global organization benefiting from global innovations and initiatives of its group. As a result, management has integrated its supply chain processes and sales functions as a single structure across the globe and region. This will align the company's route to market leading to further value.

Its management team has a wide range of experience in finance, managerial roles and government. Mr. Christos Giannopoulos, CEO, who joined the group in July 1988 and the Nigerian subsidiary in 2002, has steered the company for the last nine years. He has served in several managerial roles in the UK, Australia, Kenya and Indonesia. He has a BSc in Business Administration from the University of Derby, UK.

Chief Dr. Kolawole B. Jamodu has served as the Non-Executive Chairman of the Board of Directors, since 2014. He joined the group in 1974 and served in an executive position for 24 years, rising to CEO until he retired in 1999. He continued as the Chairman until 2001 when he joined the Federal Executive Council as the Minister of Industry. He is currently on the Board of Nigerian Breweries Plc as its Chairman and he has led organizations such as Universal Trust Bank Plc, Manufacturers' Association of Nigeria (MAN), and United Bank for Africa Plc. He has also served as part of the National Economic Management team under former president, Goodluck Jonathan.

The company's board and executive management team understand the local business environment. They bring a wealth of experience that has helped propel the company to past successes.

Chief Executive Officer

Mr. Christos Giannopoulos

Non-Executive Chairman of the Board of Directors

Dr. Kolawole B. Jamodu

THE BULL AND THE BEAR SAYS:

- Leading personal and household company in Nigeria
- Rich product portfolio for personal care, home care, food and nutrition
- Superior and recognizable brand value
- Strong parent company
- Effective marketing and distribution channels cut across the country
- Proposed upward review of minimum wage could bolster consumer spending
- Qualified, talented and experienced management team
- Diversified and resilient revenue

- Intense competition from other leading players such as Unilever, Nestlé and Cadbury
- Rising raw material and input costs could threaten earnings growth
- Persistent forex challenges could put pressure on earnings
- Persistent macroeconomic headwinds have dampened consumer demand
- Insurgency activities in Nigeria could inhibit sales

RISK AND OUTLOOK

Weak macroeconomic fundamentals pressure growth potential

The major risks that could prevent PZ Cussons from achieving its goals of boosting earnings, increasing sales and managing costs include persistent macroeconomic challenges, credit risk, liquidity risk, market risk (currency and interest rate), and capital risk amid security challenges in the country.

PZ Cussons' financials could be affected by commodity price fluctuations, particularly for raw materials such as crude palm oil tallow, sodium lauryl ether sulfate, and linear alkylbenzene. The company is also exposed to currency risks on foreign denominated borrowings from PZ Cussons' Treasury Centre - Middle East & Africa Limited. Exposure, though insignificant, could reduce profit accruable to equity holders in terms of high finance costs. Nevertheless, given the macroeconomic conditions, interest rate hikes are unlikely due to an already tightened monetary policy. Also, due to a slow and tepid economic recovery, an accommodative stance is necessary to stimulate growth.

Finally, the security issues have persisted in the North-East region, disrupting major economic activities, which restrict geographical distribution and sale of PZ Cussons' products. The presence of an experienced management team has consistently managed the macroeconomic challenges and in the foreseeable future will be called to effect innovation, exploit success and continuously improve productivity in navigating a turbulent period.

The risks facing PZ Cussons could limit management's ability to drive growth and sustain returns. Even though the management has put structures in place to ensure sales growth and cost efficiency, the macroeconomic headwinds facing the company may be beyond the control of its competent leadership.

OUR VALUATION

We derived our valuation for PZ Cussons Plc by using the Discounted Cash Flow (DCF) methodology. Our fair value estimate for PZ Cussons stood at N17.60, which is a 24.46% downside on its current share price of N23.30 as at March 05, 2018. The discount rate [weighted average cost of capital (WACC)] of 19.8% is derived using a 16.2% risk free rate, a beta of 0.7964, and a market risk premium of 6.4%. The calculated long-term cash flow growth rate to perpetuity is 4%.

DCF Valuation			
N'000	**2018E**	**2019E**	**2020E**
EBIT	13,215,356	13,617,104	13,759,087
Less: Taxes	(3,088,983)	(3,903,397)	(3,944,097)
EBIAT	10,126,373	9,713,707	9,814,990
Plus: D&A Expense	2,563,825	2,698,978	2,808,537
Less: CAPEX	(5,350,816)	(3,483,961)	(3,875,652)
Less: Change in Working Capital	(3,468,945)	(9,235,142)	3,952,773
Free Cash Flow (FCF)	3,870,437	(306,418)	12,700,648
WACC	19.8%	19.8%	19.8%
Present Value (PV) of FCF	2,695,022	(178,040)	6,157,872
	2018	**2019**	**2020**
Terminal Value			83,197,692
Present Value of Terminal Value	48,340,912		

DCF Calculation	Valuation
PV of Explicit Period	8,674,854
PV of Terminal Value	48,340,912
Enterprise Value	57,015,765
+ Cash	12,867,654
- Borrowings	-
Equity Value	69,883,419
Share Price	***17.60***
Shares Outstanding ('000)	3,970,477