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In This Issue ...

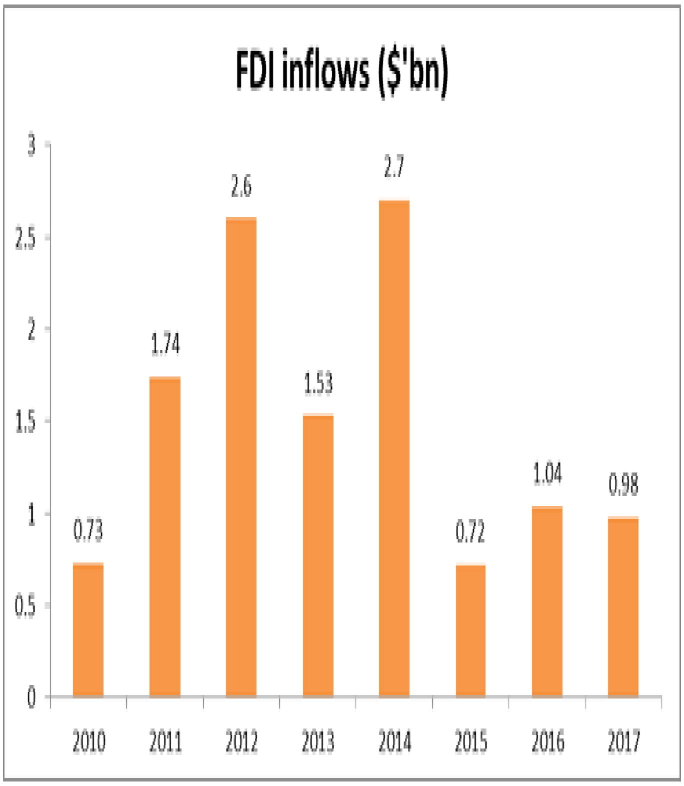
NIGERIA AND THE FAILURE TO BOOST FOREIGN DIRECT INVESTMENT

Foreign direct investment (FDI) is the term that describes investment from one country into another country (normally by companies) that involves establishing operations or acquiring tangible assets, including stakes in other businesses.[1] In Nigeria, it is often wrongly touted as the solution to a nation's economic underdevelopment. However, in recent years, Nigeria's FDI has been struggling. It reached a mediocre $981mn in 2017, a far cry from its previous peak of $5bn in 2008.[2] While the partial market-oriented change to the exchange rate regime in 2016 encouraged the minor 2017 peak, an array of other fundamental problems such as prolonged insecurity, a poor investment climate and a significant infrastructure deficit, still make the country appear highly risky to long-term investors. The likelihood of the US Federal Reserve resuming its monetary policy tightening cycle in the next quarter only makes this worse, as the move could trigger a reversal in portfolio investment (hot money) and underscores the importance of FDI. As such, low FDI inflows will continue to be a concern for policymakers.

[1]http://lexicon.ft.com/Term?term=foreign-direct-investment
[2]www.nigerianstatgov.ng

Foreign investors have shown interest in Nigeria.

Foreign investors have shown an interest in Nigeria. In fact, the creation of the 19th-century colonial state, which formed Nigeria, was facilitated by an international company, the Royal Niger Company. Over the decades, the Nigerian government adopted several policies to attract FDI into the national economy. In the mid-80s, the Ibrahim Babangida regime implemented the structural adjustment program, aimed at liberalizing various sectors of the economy and subsequently attracting foreign investors to the manufacturing industry. This policy, although widely criticized at the time, helped to attract FDI, which rose from an estimated $200mn in 1970 to $2bn in 1994.[3] Unfortunately, the nullification of the 1993 general elections, and the ensuing political uncertainty, resulted in a reduction in FDI inflows between 1996 and 1999. With the return to democracy in 1999 and the ensuing surge in oil prices, FDI again rose to a place of prominence.



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Nigeria appears risky to long-term foreign investors

The country's reliance on hydrocarbons for government revenue and foreign-exchange remains a fundamental weakness of the economy, which subjects it to boom and bust cycles. This lack of economic diversification is a major deterrent for investors and partly plays a role in the FDI inflow fluctuations tracked by the National Bureau of Statistics. When the price of oil is high, money inflows increase and vice-versa. For instance, the price of oil peaked in 2014, the same year Nigeria recorded its highest FDI inflow this decade, at roughly $2.7bn. As the price of oil fell, FDI ebbed, as the 2017 figure of $981mn reflects.

The prolonged state of insecurity in Nigeria is another major factor. It does little to attract foreign investors. The country continues to contend with spurts of violence in the middle belt, between herdsmen and communal farmers; threats of secession in the South-East; and insecurity in the Niger Delta and North-East. Very few foreign companies are willing to jeopardize the lives of their employees and assets in such a volatile and sometimes violent environment.

A third key fundamental factor is the poor investment climate characterized by overly stringent government policies, bureaucratic bottlenecks for securing permits, and a weak legal framework. In 2015, MTN, one of the most prominent and successful foreign investors in Nigeria, was sanctioned with a $5.2 billion fine for failing to disconnect unregistered subscribers. Such draconian punishment cannot be encouraging for prospective investors.

And finally, the nation's huge infrastructure deficit is another major investment deterrent. The lack of stable power means manufacturers have to rely on expensive alternative energy sources, such as diesel generators. In addition, many investors are fearful that despite a large population, there is no viable market for their products due to the high rate of poverty and unemployment. Given all of these factors, it is not difficult to see why many potential investors opt for other markets like Morocco, Kenya, and South Africa.

[3]www.nigerianstatgov.ng

[4]Source: NBS, FDC Think Tank

If the current administration is to make good on its pledge to push up economic growth rates and foster inclusive and broad-based growth, capital must be mobilized. While some should arise locally, especially as the local finance sector and capital markets grow, investment funds from abroad are urgently needed. Recent downward trends in FDI are therefore discouraging.

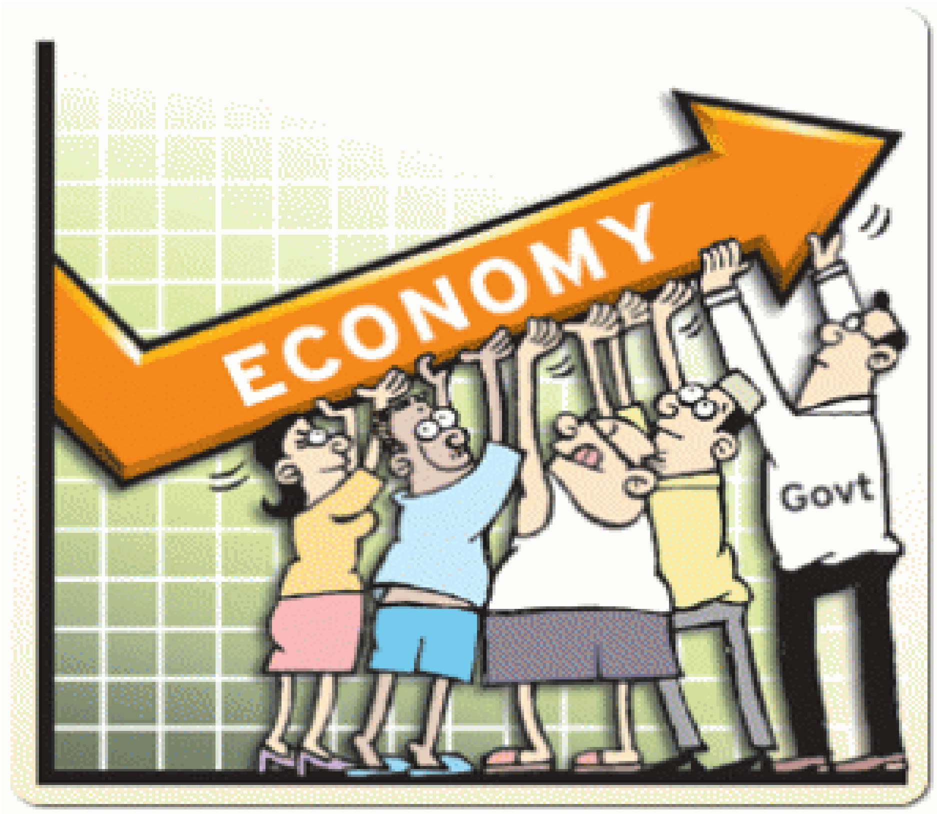
A more conducive business environment would attract FDI

However, not all hope is lost. The federal government has set to work to correct these anomalies. Efforts to expand the tax base, reduce red tape, and strengthen the regulatory framework to investment are being pursued, albeit with varying degrees of success. This should help enhance the lure of Nigeria's business environment, which in turn would attract FDI. The wider business operating environment has improved, and indeed Nigeria jumped 24 places to 145 out of 190 countries surveyed in the 2017 World Bank Doing Business index.[5] Considerable progress has also been made on the drive to reduce Nigeria's dependency on oil. A more diversified economy would make FDI more attractive, and result in a more stratified economy. Nonetheless, slow progress on reforming the business environment and political uncertainty surrounding the 2019 general election should keep FDI well below its peak in the next few years.

A country of Nigeria's economic and social potential ought to attract more long-term foreign investment. To do so, the government needs to address the underlying structural bottlenecks that make Nigeria such a difficult country for business investment.

[5]http://www.doingbusiness.org/data/exploreeconomies/nigeria

DEMOCRACY MAY BE CRITICAL FOR GOOD GOVERNANCE BUT NOT ECONOMIC PERFORMANCE



Democracy is a system of government whereby authority and power is vested in the hands of the majority. Simply put, it is the government of the people, for the people, and by the people. It ensures majority rule and protects minority rights. Democracy is based on two main principles: accountability and transparency.

Accountability ensures the government is answerable to its citizenry and will give account for every action. This obliges them to make right and fair decisions at all times. This facet of the regime is supported by the media, which provides unbiased public information, and assessments of performance. This is further supported by an active and powerful civic society, an effective legal system and free opposition.

Transparency ensures citizens have free access to any information held by the government that is useful for making political or business decisions.[6] Additional characteristics of a true democracy include: free and fair elections, a constitution or framework that limits government actions, and a rule of law that ensures fundamental human rights (freedom of expression, property ownership, media, assembly, association and religion).

Certainly, democracy is useful for securing good governance. However, as evidence shows from a global range of governance structures, this does not necessarily translate into economic development, nor is it a prerequisite for the same. The argument for democracy is rooted in the argument for capitalism; freedom of citizens combined with freedom of markets will lead to the optimal performance of the state and economy. This, however, does not always prove true, nor is it necessarily a prerequisite for economic development.

Looking at three countries as examples, Mauritius, Nigeria and China, we can see that democracy is only one factor, and not always a necessary one, in influencing economic performance.

Mauritius is sub-Saharan Africa's golden example when it comes to democracy and a strong candidate to prove the relationship between democracy and economic performance. The south-eastern country is the only full democracy[7] in Africa, ranking 16th in the worldwide Democracy index, higher than Spain (19th), the US (21st), or Japan (23rd). The country runs a Westminster system of government, with a President and vice President (elected by the people), and a Prime Minister (appointed by the President). The President (like a Queen) holds ceremonial power, while the Prime Minister has the authority to make decisions.

The small country, with a population size of just over one million, boasts of one of the highest qualities of living in Africa. Life expectancy is 74.6 years; income per capita is $9,800/annum;[8] and the country ranks 64th on the Human Development Index (HDI).[9] In the media freedom sub-index,[10] Mauritius comes in 9th, boasting of a fully free press, despite intermittent government interference. This is a case where democracy and economic performance have gone hand in hand.

China, however, stands in stark contrast with the democracy narrative. The Asian country runs a communist government, and a hierarchical electoral system. This essentially means that there is no legal way to impeach a government. Domestic media is entirely state owned, as are banks and land.[11] The Asian giant, however, does not stand by some of the fundamental principles of Marxism, such as collective ownership and confiscatory taxes. Additionally, the performance of the leadership is assessed (by regional leaders) using economic indicators such as GDP growth, and revenue.

[6]https://www.democracy-international.org/transparency

[7]A full democracy is characterized by a fully free press, and active civic society.

[8]Source: https://tradingeconomics.com/mauritius/gdp-per-capita

[9]Source: http://hdr.undp.org/en/composite/HDI

[10]A sub-index in the EIU's Democracy index, focused on freedom of press

[11]http://www.slate.com/articles/news_and_politics/explainer/2010/07/how_communist_is_china.html

This regime has achieved outstanding performance on the business and economic front. China is the second largest economy in the world with an annual GDP of $11.2trn and an income per capita of $8,123.[12] The system does breed corruption, inequality and discontent, with the poorest 20%, owning less than 1% of the country's wealth,[13] but the country still maintains an average HDI ranking of 78th (out of 190 countries), with a life expectancy of 76 years, and adult literacy soaring at 95%.

Nigeria is awkwardly in the middle. It lacks the robust features of democracy that Mauritius enjoys, the economic success China enjoys, while forging democracy as a governance choice. Instead it has a hybrid system of government, with both democratic and authoritarian traits. A compromised press, pluralism, weak civil society and an ineffective legal system continue to weigh on Nigeria's democracy. The country ranks 109th out of 167 countries on the Democracy Index and performs poorly on both human development and economic variables. Although it has the largest GDP on the continent, it has only the 18th highest income per capita at $2,457.[14] The country ranks 152nd (out of 190 countries) on the HDI; and life expectancy is a mere 53 years.

A democratic government is essential for enforcing civil rights and liberties, but it has no direct link to economic performance.

The question remains: does the development performance of these three case studies have anything to do with their system of government? Not necessarily. A country such as China, which is one of the largest and fastest growing economies in the world, is proof of this conclusion. A democratic government is essential for enforcing civil rights and liberties, but it has no direct link to economic performance. What makes the difference is the determination, commitment and skill of the ruling government.

There is a need for civic education in Nigeria, to equip young citizens with the knowledge and skills needed to vote wisely, demand their rights, and adequately assess governments based on performance. This will boost good governance and move the country one step closer to development. Without it, Nigeria may move higher up the democracy value chain without actually reaping its potential rewards.

[12]Source: Trading Economics

[13]https://www.ft.com/content/3c521faa-baa6-11e5-a7cc-280dfe875e28

[14]https://tradingeconomics.com/country-list/gdp-per-capita?continent=africa

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OPEC AND THE US DOLLAR

For the oil producing cartel known as the Organization of Petroleum Exporting Countries (OPEC), it has become a rather familiar narrative. A strengthening US dollar causes oil, and all other dollar-denominated goods and services, to become more expensive to purchase for non-dollar holders. These buyers react by purchasing less oil; the waning demand puts downward pressure on oil prices. On the other hand, a depreciating dollar results in the ability to purchase more oil, increasing demand and putting an upward pressure on oil prices. While not as simplistic a cause-and-effect relationship, it is one that OPEC has had to navigate over the years.

After a 10% decline against a basket of other currencies in 2017, the dollar continued its decline in 2018 with a further 2% drop as of early February. The drop has been a bit of a mystery because the United States Federal Reserve (The Fed) raised interest rates for the past year. This has not gone down well with OPEC. Oil is priced in dollars on the global market, and the currency's depreciation alarmed OPEC and other oil producers because it contributed to rising crude prices and eroded the value of their foreign reserves which are also denominated in dollars. Not since 2007 has OPEC been faced with a depreciation of this magnitude in the value of the dollar. The implications may cause significant problems for its member states.

Given that the price of oil is so heavily tied to the dollar, and the value of the dollar is out of the control of OPEC, oil producers may have to consider other options to achieve best results from the resource. In recent times, Nigeria focused on cost reduction in its efforts to gain more revenue from oil. OPEC and its partners should consider this strategy to make the industry more profitable.

Dollar déjà vu

In 2007 the dollar fell 16% against a basket of major currencies, and 44% against the euro. Some OPEC members considered dropping the falling dollar in favor of pegging the benchmark barrel against another more stable currency. It wasn't clear what the alternatives were then, but it was clear that they were thinking seriously about a plan of action that involved changing the way the price of oil was pegged. The US was not a significant customer of OPEC oil and a shift to a basket of currencies that was more reflective of OPEC's trade relations would have been strategic. It was unclear how a move by OPEC to drop the dollar would be received by financial markets.

The move, led by Iran and Venezuela, was met with strong opposition from Saudi Arabia – OPEC's de facto leader – whose resistance was not out of economic interests but out of sheer political will. Saudi Arabia had huge dollar-denominated reserves and any fall in the US currency impacted it negatively. It was also one of the hardest hit as its currency is pegged to the dollar.

OPEC: Enough on its plate

Today, OPEC arguably has bigger problems. It has restricted production to achieve the objective of oil market rebalancing. Member states have essentially agreed to forgo quantity of production in favor of pushing prices higher – not high enough to incentivize increased US shale production and not low enough to put a major strain on the coffers of member states. Throw a "dollar problem" in the mix and you might just have OPEC confronted with the same dilemma as it did about 11 years ago – this time, only worse.

However, it remains unclear how a move by OPEC to drop the US$ would be received by the financial markets. It may be interpreted as a signal that OPEC member states would move their foreign reserve holdings away from the US$. Nevertheless, such a move would not necessarily have a major impact on the dollar.

The consensus outlook for the dollar is that three projected interest rate hikes in 2018 by the Fed will trigger a currency appreciation as higher yields lure capital flows back. The stronger dollar will pressure oil prices and push them back to below the $65-70 per barrel range achieved recently. For OPEC members, this could mean missed revenue targets, fiscal and trade deficits, and even currency adjustments as the strengthening dollar triggers capital flow reversals.

Nigeria: Profit maximization

This has compelled some members like Nigeria to think of more innovative ways to improve on the profitability and competitiveness of its oil industry. According to the Nigerian National Petroleum Company (NNPC), it drastically lowered the average production cost for a barrel of oil from $78 to $23 between 2014 and 2017 – a 70% reduction. It managed to achieve this feat not just by resolving the Niger Delta conflict which had significantly increased operating costs, but by domesticating the engineering, procurement, and construction processes in the oil and gas industry. The plan is to cut this even further to $15, a level of cost efficiency only surpassed by Saudi Arabia ($8.98), Iran ($9.08) and Iraq ($10.57). At an average production level of 1.8 million barrels per day, and an average oil price of $55 per barrel, Nigeria would earn an extra $54 million per month for every $1 in cost savings.

Conclusion

With the Trump administration clearly leaning towards more protectionist trade policies and a US export boom that has benefitted from a cheaper dollar, it would not be farfetched to assume that a weaker dollar has indeed become desirable for the US. OPEC, however, desires stability in the price of oil and in the value of the dollar. A 12% swing – either way – in the value of the dollar poses a problem. A problem that OPEC members can do nothing about except maybe drive down production costs. Luckily, Nigeria has already taken successful strides along that path.

THE DANGER OF THE DEAL, EVEN IF AMERICA WINS CONCESSIONS, WORRY

Global Perspective: Culled from The Economist

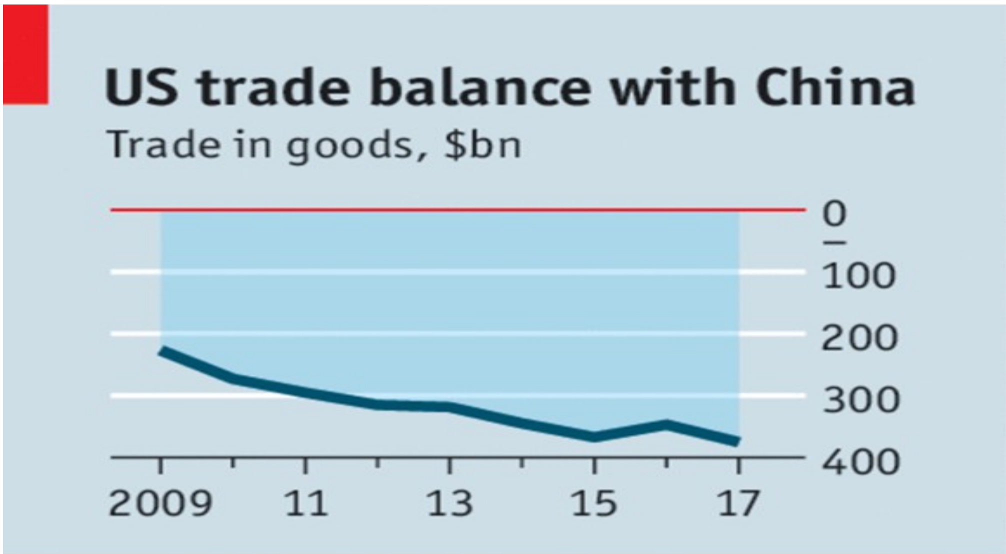
Donald Trump's trade policy is economically muddled and politically toxic

JUST six words suffice to sum up President Donald Trump's approach to trade (and, you may mutter, too much else): make threats, strike deals, declare victory. In recent weeks Mr Trump's campaign-trail threats of 2016 have been turned into tariffs of 25% on imports of steel and 10% on aluminium, and proposed levies on up to $60bn-worth of Chinese goods.

Foreigners have duly queued to sue for peace. On March 26th South Korea agreed to limit its steel exports to America, and accepted an extension of American tariffs on its pickup trucks. China is said to be discussing cuts in tariffs on American cars, increased purchases of American semiconductors and the further opening of its financial industry. With many of America's allies belatedly exempted from the metals tariffs, and consensus among policymakers and business types that China should indeed change its behaviour, stock markets are less fearful of an outright trade war (see Buttonwood). The man who tweeted that "trade wars are good, and easy to win" may be able to claim a string of victories with scarcely a shot fired.

Vindication? Far from it. For one thing, no deal has yet been done with China. Other countries have politics too, even dictatorships. Despite the South Korean deal, and keen as China is to avoid a trade war—keener than Mr Trump, it seems—the danger of a transpacific escalation remains real. Even if conflict is averted and China gives ground, however, the result will be a bad one for the world, and for America. That is partly because of Mr Trump's character. If he thinks he has won one fight, he is likelier to start another. It is also because his policy is founded on wretched economics and dangerous politics.

The president's more fundamental error is to see trade as a zero-sum game, in which exporting is for winners (or cheats, if they are foreign) and importing is for dupes.



Economist.com

Take the economics first. The president is obsessed with America's trade deficits—not just the total, of $568bn, or 2.9% of GDP, last year, but its bilateral ones, especially the yawning $375bn deficit in goods trade with China, which he wants cut by $100bn. Mr Trump's bluster cannot change basic economic logic. America's total trade deficit reflects the shortfall in saving by its households, companies and government—the excess of their combined spending over their income. Tariffs and quotas can bring trade into balance only if they somehow encourage national saving or reduce investment. Protectionism predicts trade balances poorly. Just look at India, where, historically, high tariffs and high trade deficits have coexisted.

Bilateral deficits, it is true, can more easily be altered by trade policy. If America slaps taxes on Chinese goods (and nothing else changes), it will buy less of them and the $375bn gap will shrink. However, unless Americans change their total spending and saving, they will buy more from elsewhere.

The tax cuts that the president signed into law in December make his fixation on trade deficits even more senseless. Boosting the budget deficit to 5% of GDP in 2019 will, other things being equal, widen the trade gap. It is hard to imagine Mr Trump blaming himself for that — and all too easy to see him making a new round of threats against foreigners.

The president's more fundamental error is to see trade as a zero-sum game, in which exporting is for winners (or cheats, if they are foreign) and importing is for dupes. In fact, the gains from trade come from the specialization permitted by the free exchange of goods, capital and know-how that allows, for example, Californian-designed iPhones to be assembled in China and sold worldwide by the bucketload.

So long, Geneva's conventions

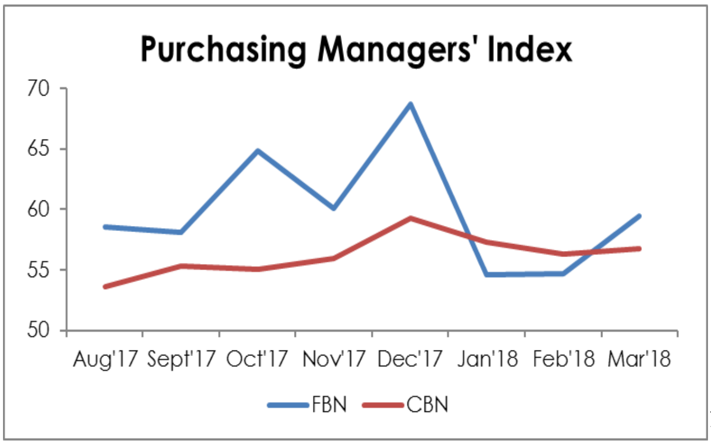
Mr Trump's misunderstanding of economics explains why his politics are so irresponsible. Rather than join with other aggrieved countries to put legal pressure on China, Mr Trump has threatened putative allies. Rather than work within the rules-based system of trade, which America helped create and which, despite the system's imperfections, has served the country well, he bypasses it at will. He is particularly reckless to claim that the steel and aluminium tariffs are justified by national-security concerns (a get-out-of-jail-free card under World Trade Organisation rules that should be used sparingly). If America thumbs its nose at the WTO, why shouldn't others?

Managed trade is a mistake, not a victory. It substitutes the power of political lobbies for market forces, favouring loud, well-organised producers over silent, disparate consumers and robbing economies of the nimbleness needed to adapt to changing technological conditions. Other countries will feel freer to follow America's example, making a trade war a repeated risk rather than a one-off danger. Mr Trump's approach threatens to leave everyone much worse off. Some deal.

Macroeconomic Indicators

Purchasing Managers Index (PMI)

FBN's PMI reading rose to 59.4 points in March from 54.7 points in the previous month. The FBN PMI recorded improvements to output, new orders, suppliers' delivery times and stock purchases while employment declined in the review period. This expansion was supported by forex availability and relative stability during the period.



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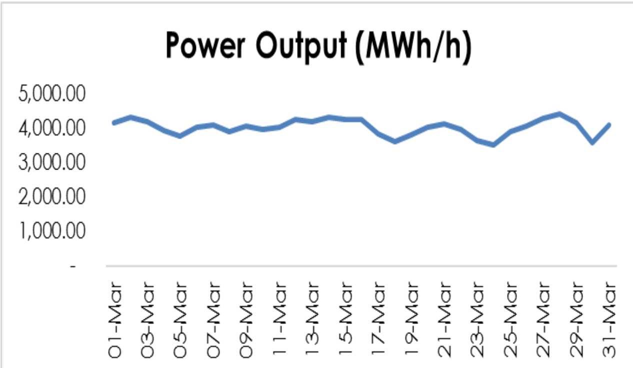
The CBN manufacturing PMI reading also followed the same trend, inching to 56.7 points from 56.3 points in the preceding month. The CBN PMI reported that all five variables: production level, new orders, supplier delivery time, employment level and inventory levels stock purchases grew at a faster pace in March compared to the index of the previous month.

Outlook

We expect an uptick in the PMI for the manufacturing sector in April. Higher demand will lead to more activity in the sector, as private consumption & government spending record increases in the run-up to the elections.

Power Sector

Average on-grid power output increased by 2.35% to 4,029.48MWh/h in March from 3,937.14MWh/h in February. Average daily output was above 4000MWh/h for 19 days (out of 31). This improvement was largely driven by amplified gas supply to GenCos and decline in losses at the transmission level. Despite this improvement, the sector lost N1bn during the review period, annualized at N363bn.



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Outlook

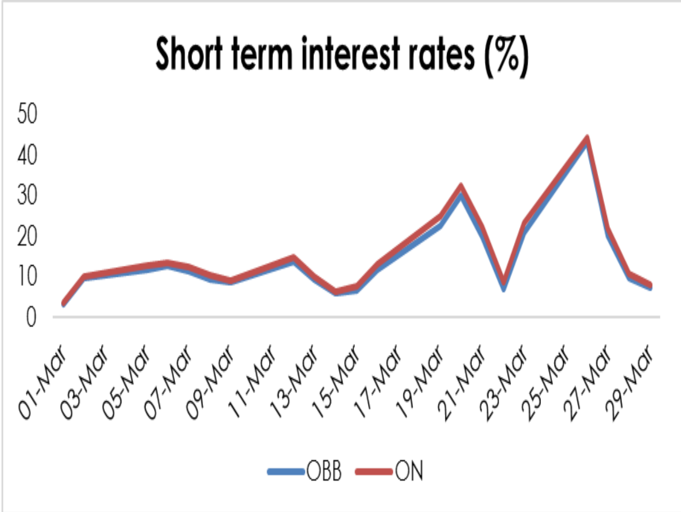
We expect an increase in hydro-power generation in the month of April, as the rainy season approaches. Additionally, relative peace in the Niger Delta will also help power generation from gas sources.

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

[16] Source: Nigerian Electricity Supply Industry

Money Market

Markets opened at N628.19bn long in March relative to February's opening position of N307.42n long. Average liquidity in March was N238.30bn long compared to the average opening position in February of N173.78bn long. Increased liquidity in the money market is attributable to OMO maturities of N711.36bn total.



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Short term interbank rates (OBB, ON) averaged 14.61% per annum (pa) in March, which was 452bps lower compared to 19.13% pa recorded in February. Interbank interest rates (OBB, ON) spiked to a high of 43.33% pa and 44.25% pa respectively on March 26th. This was due to the wholesale forex auction and NDIC premium of an undisclosed amount.

At the primary market the 91-day T-bills rate increased by 10bps to 11.95%pa from 11.85% pa. The 182-day rate fell by 50bps to 13.00% pa from 13.50% and the 364-day rate decreased by 35bps to 13.15% pa from 13.50%.

At the secondary market, the yield on 91-day T/bills increased to 14.12% on March 29th, compared to 14.05%. While 182-day and 364-day bills decreased to 13.81% and 13.22% from 14.42% and 13.43% respectively.

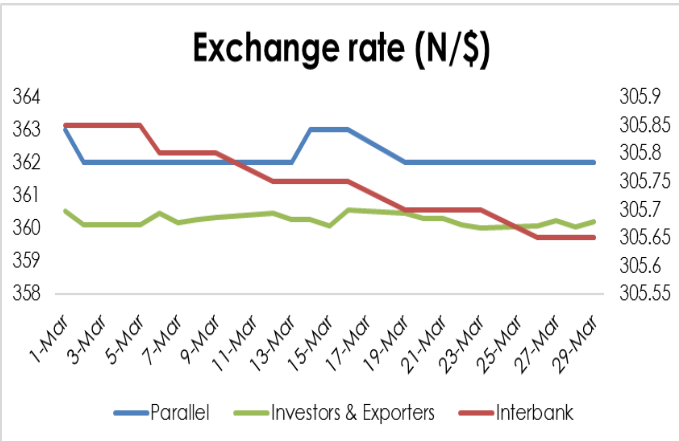
Outlook

We expect T/bills rates to maintain their downward trend in April. We also expect to see the interest rates to move in tandem with liquidity conditions.

Forex Market

Exchange Rate

In March, the exchange rate remained relatively stable in all market segments. The naira traded between N362-363/$, at the parallel market. At the interbank market, the naira traded within the narrow band of N305.65/$ and N305.85/$. At the Investors and Exporters Foreign Exchange Window (IEFX), the naira appreciated marginally by 0.06% to close the month of March at N360.2/$ from N360.41/$ in February. Total turnover at the IEFX window in March was $5.15bn, 25.92% higher than $4.09bn in February.



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

[18] Source: FDC Think Tank

Outlook

In April, we expect the naira to trade flat pending adjustments to market fundamentals (e.g. passage of the budget)

External Reserves

Nigeria's gross external reserves increased by 8.57% ($3.63bn) to $46.26bn as at March 29th, from $42.63bn recorded on March 1st. The bullish global oil market and stable production levels were the main drivers of the accretion. The import and payment cover is up to 12.85months compared to 11.84months on March 1.

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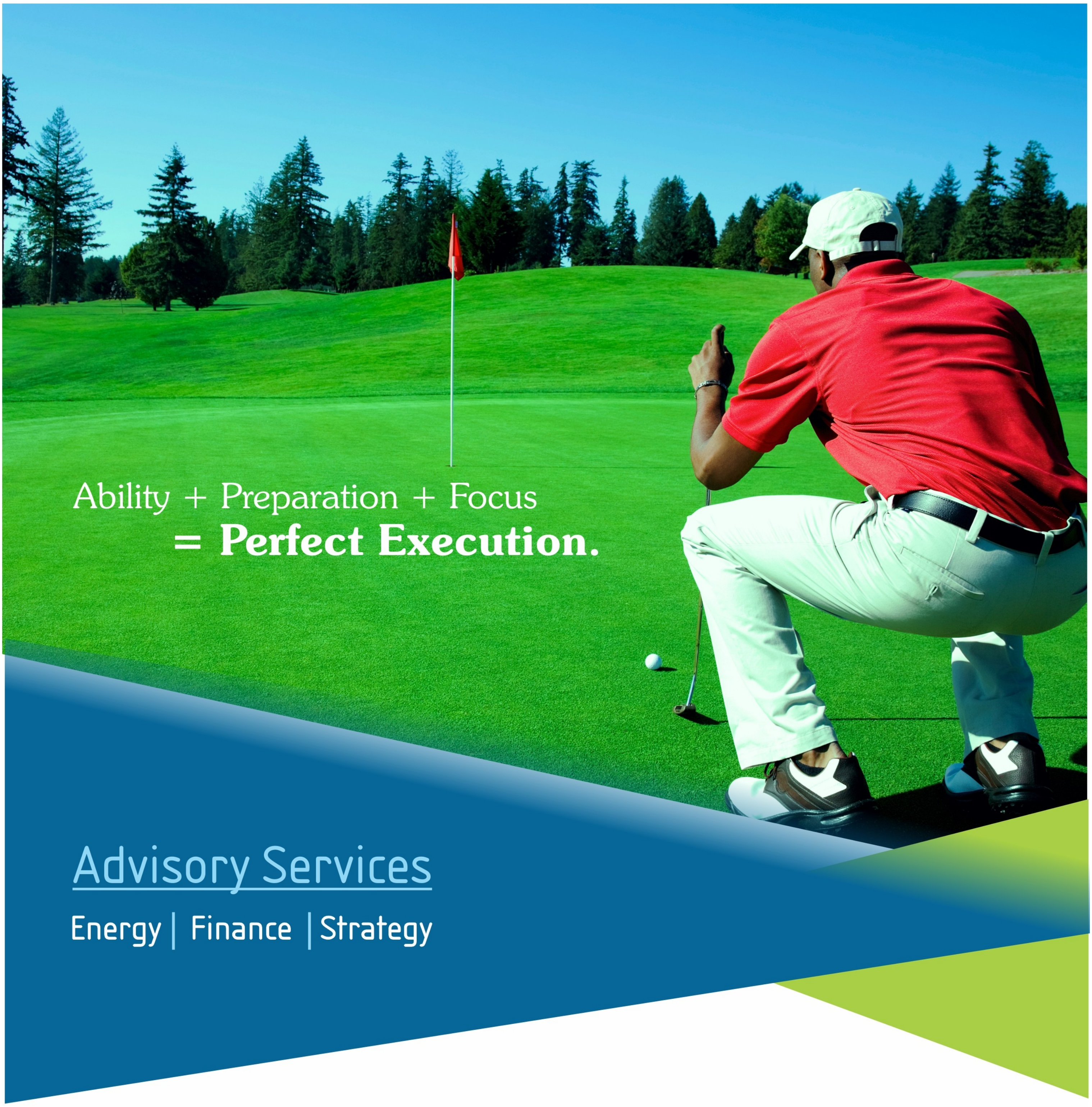
Outlook

We expect the rise in external reserves to be sustained, provided the oil market dynamics on the domestic and international front remain positive.

[19] Source: CBN, FDC Think Tank



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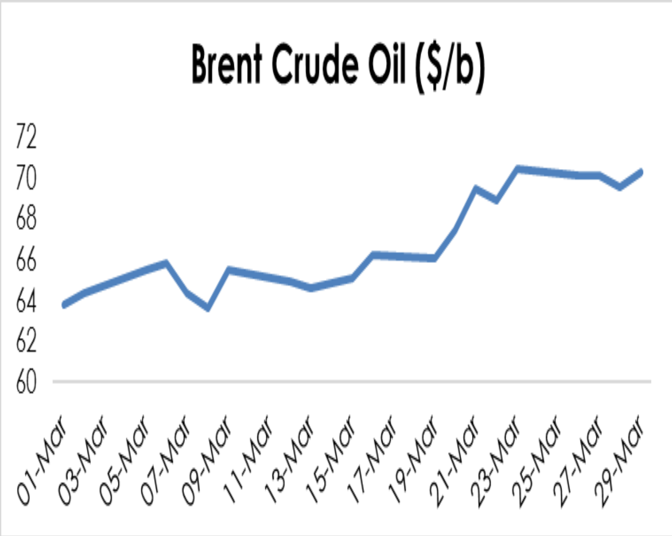
Commodities Market - Exports

Oil prices

The average Brent price in March was $66.72pb, 1.51% higher than February's average of $65.73pb. Oil prices gained 10% in March, to close at $70.27pb on March 29th. The bullish sentiment in the price of crude oil was prompted by the positive indications of an extension to 2019 of the OPEC-led production cut. According to Saudi Crown Prince Mohammed bin Salman, Saudi Arabia and Russia are considering forming a 10 to 20-year partnership to manage global oil supplies. Such a deal, if approved, could positively influence the global oil markets.



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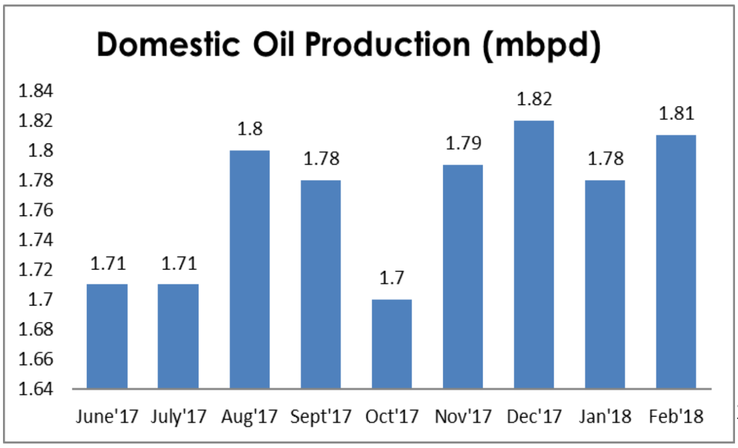
Prices were also influenced by market concerns of a possible re-introduction of United States sanctions against Iran. In addition, Venezuela continues to be straddled in political and macro-economic crisis, which have affected its oil production levels. Participating OPEC and non-OPEC producing countries have set a new record in February with their voluntary production adjustments, achieving a level of 138%. The declaration of cooperation to expediting the rebalancing oil market continues to have a positive effect on the global oil prices. Oil prices have gained 5.51% year to date (YTD).

Outlook

Price projections for April are mixed and oil is likely going to struggle to maintain the recent strong gains. This will be due to supply pressures from US shale producers. According to data from the US Energy Information Administration (EIA), US crude inventories rose by 1.6mn barrels, and production reached a new high of 10.43 million barrels. On the flipside, the heightened geopolitical tensions are expected to limit global production and support the oil market.

Oil Production

According to OPEC, In February oil production expanded by 1.69% to 1.81mbpd, from 1.78mbpd in January. The uptick in production was driven by security in the Niger Delta region.



[21]

[20] Source: Bloomberg, FDC Think Tank

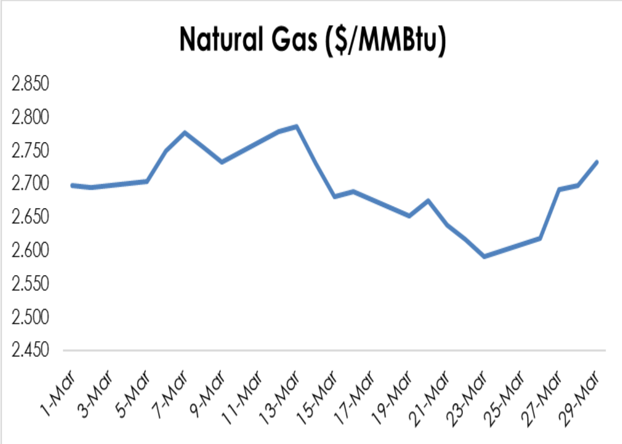
[21] Source: OPEC, FDC Think Tank

Outlook

We expect Nigeria's oil production to remain around current levels of 1.75mbpd – 1.85mbpd in April barring any disruptions to pipelines.

Natural Gas

Natural Gas traded at an average of $2.699/MMBtu in March. This represents a 1.50% gain in prices compared to $2.659/MMBtu in February. The bullish trend in the gas market was partly due to the decline in EU output and a robust Chinese demand. Prices fell to the lowest on March 23rd at $2.591/MMBtu, despite a drawdown in U.S natural gas inventories, before closing the month at $2.733/MMBtu.



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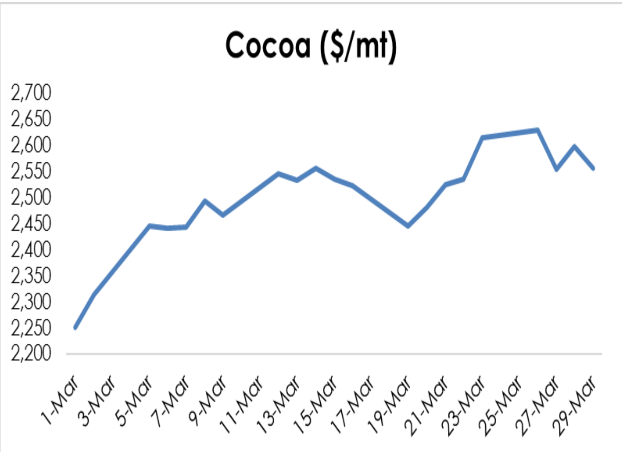
Outlook

We expect a slowdown in Natural Gas prices. Warmer weather in April will lead to softer demand for gas for heating purposes.

Cocoa

Cocoa prices started the month at $2,250/mt, surging 13.60% to close at $2,556/mt. Cocoa prices reach an average of $2,499/mt in March, 18.38% higher than $2,111/mt in the previous month. This was driven by strong demand from Asia and tightening supply in West Africa.



[23]

Outlook

We expect a reversal of the current trend of cocoa prices in the coming month. This will be as a result of good weather across some cocoa-producing regions (Ghana and Ivory coast).

[22] Source: Bloomberg, FDC Think Tank

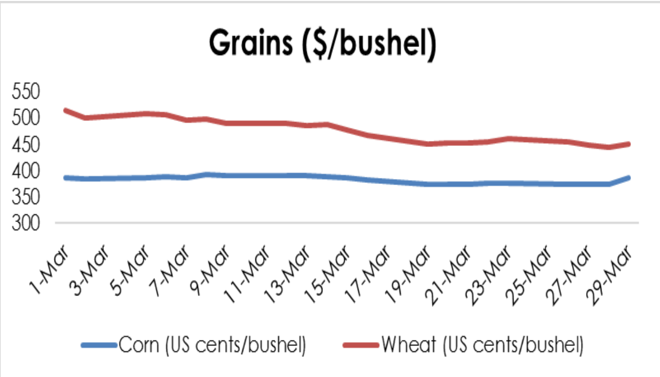
[23] Source: Bloomberg, FDC Think Tank

Commodities Market - Imports

Grains

Wheat prices closed at $4.51/bushel in March, 14.19% lower than $5.15/bushel on March 1st. However, average wheat prices increased by 2.59% to $4.76/bushel from $4.64/bushel in February. Corn prices averaged $3.83/bushel in March, 3.51% higher than the average of $3.70/bushel in February.

Grain prices surged after USDA reported lower than expected US crop ratings. USDA assessed spring wheat crop rating at 45% good to excellent, lower compared to the forecast of 53%, making it the worst rating since 1988.



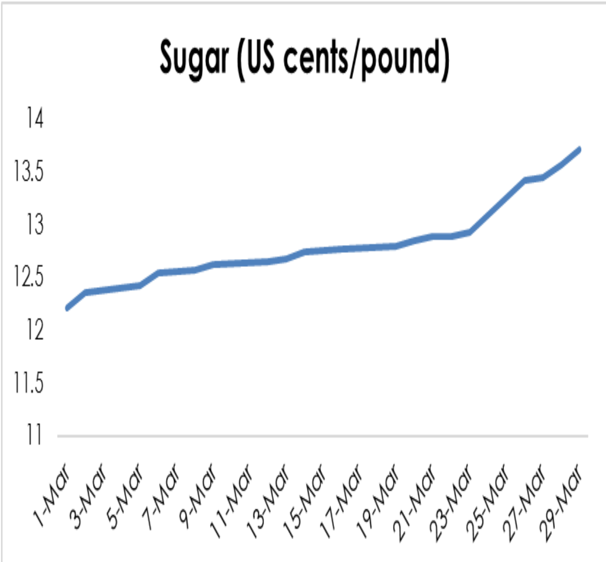
[24]

Outlook

Favourable weather conditions across the US producing belt would lead to increased yield and better quality crops. This could lead to a dip in prices in the short term.

Sugar

The price of sugar maintained its downward trend this month due to supply glut. Sugar prices averaged $0.1283/pound in March, 4.82% lower than the average of $0.1348/pound in the previous month. Prices reached a high of $0.1371/pounds and a low of $0.1221/pound.



[25]

Outlook

We expect the prices of sugar to remain at current levels in April, as health concerns keep global demand low.

[24] Source: Bloomberg, FDC Think Tank

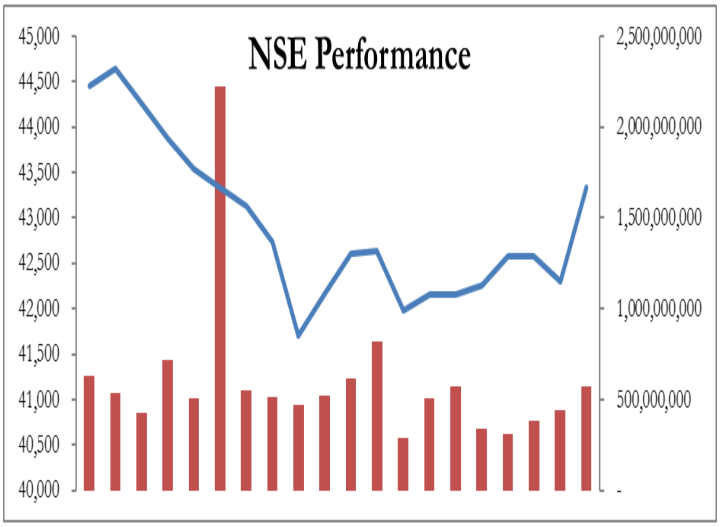
[25] Source: Bloomberg, FDC Think Tank

STOCK MARKET

The Nigerian stock market continued its bearish streak losing N346.09bn in March. NSE ASI lost 3.22% to close at 41,504.51 points in March. This correction can be attributed to profit taking activities, as the bourse gained 15.95% in the first six weeks of 2018 alone. As a result, YTD return stood at 8.55% as at the close of March. Similarly, market capitalization declined by 2.18% to N15.55trn during the month.

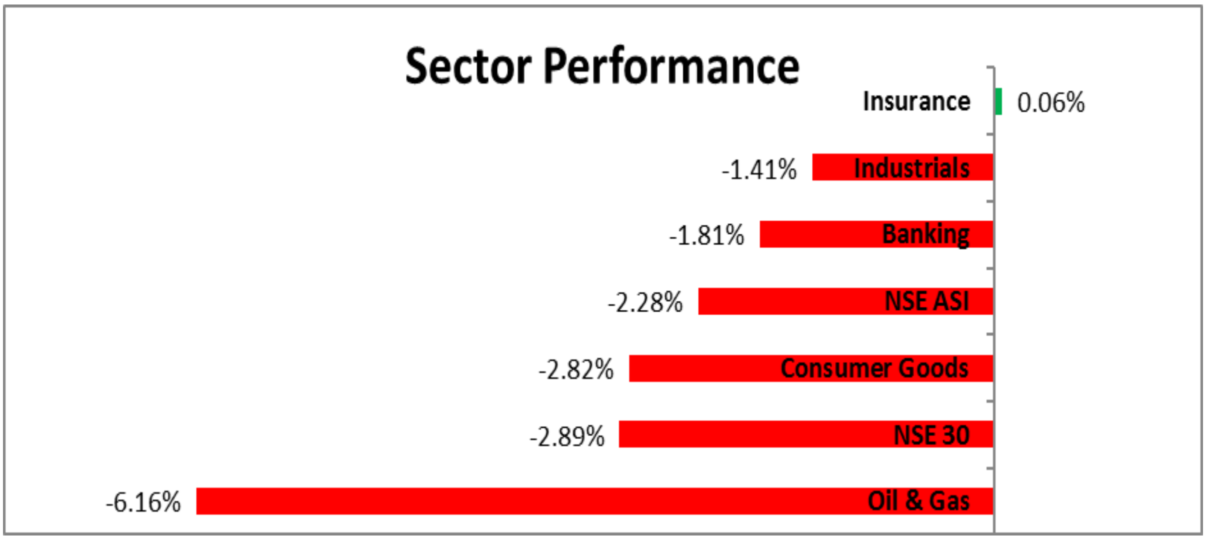
In light of market adjustment, market breadth was negative at 0.33x, as 26 stocks increased, 68 stocks remained flat, while 78 declined; a decrease from the previous period, which came in at 3.6x. However, price to earnings (P/E) ratio remained flat at 14.02x during the period.

Trading activities slowed marginally in March. 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.



[26]

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 March.



With the exception of the insurance index, all other sector indices closed in the red for the month of March. The insurance index recorded a marginal gain of 0.06% due to capital appreciation recorded by heavy weights in the index.

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.

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

Top Gainers					
Symbol	Mar 29 '18 Price	Feb 28 '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	Mar 29 '18 Price	Feb 28 '18 Price	Change	% Change	PE Ratio
CONSOLIDATED HALLMARK INSURA	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	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

As the FY 2017 earnings season winds down, we believe market performance will be driven by developments in the economy. With the recent improvement observed on key macroeconomic variables, we expect that investors will want to see the impact on Q1'18 earnings to help them reorganize their investment strategies for the rest of the year.

On the global front, the US Fed raised its benchmark interest rate by 25bps – benchmark rate now between 1.50% and 1.75% – while investors anticipate the possibility of at least two further rate hikes before the end of the year.

This has extensive implications for frontier and emerging markets with volatile currencies as the decision will likely strengthen the greenback with global fund managers rushing for safer investments. This will result in funds outflow.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Corporate Focus :

NASCON ALLIED INDUSTRIAL PLC

Analyst's note

NASCON'S FLAGSHIP PRODUCT REMAIN RESILIENT

NASCON Allied Industrial Plc (NASCON) reported a revenue growth of 48% to N27.06bn in its full year (FY) 2017 corporate result. This is a significant improvement over its FY 2016 revenue of N18.29bn. Of its five revenue segments, the salt and freight businesses recorded impressive growth to drive top line improvement during the period. The salt segment recorded a 50.1% increase in revenue to N22.45bn in the year 2017. This segment contributed about 82% to NASCON's total revenue and is the flagship product of the company. The freight revenue segment also experienced an expansion during the period, growing by 58.4% to N3.86bn. This segment, which contributes 14% to the top line, entails logistics services from the factory to customers' point of sale. While seasoning recorded a modest increase of 40.6% to N765mn, the vegetable oil performance slumped by 59.8% and tomato paste segment recorded no revenue during the FY 2017.

Analyst Recommendation:

HOLD

Market Capitalization:

N56.96bn

Recommendation Period:

365 Days

Current Price:

N21.20

Industry:

Consumer Goods

Target Price: N19.14

DIRECT VS INDIRECT EXPENSES

Also noteworthy is the management's drive to consolidate its leadership position in the salt industry, to be both the price and cost leader. NASCON dropped its cost to sales ratio by 450bps to 63.1% in 2017. This resulted from management's hold on its direct expenses and its ability to spread production cost over volumes. However, administrative costs, especially secretarial and indirect employee costs, have spiraled out of control. Indirect employee costs increased by 56% to N671mn and secretarial fees increased by 182% to N110mn.

The combination of the growth in revenue and cost efficiency resulted in a 121% surge in profit to N5.34bn during 2017. This was coupled with a 193% spike in the company's net-interest income. This elevated the company to its best performing year since NASCON's listing on the Nigerian Stock Exchange (NSE) in 1992.

CONCERNS ABOUT NASCON'S ENTERPRISE VALUE

There are risks to NASCON's operations in Nigeria, which affects its enterprise value (EV). The company's flagship product, salt, is a necessity, required daily by households and industrials. Since NASCON controls a substantial part of the salt market, the commodity's price is relatively inelastic. A change in price will have little or no effect on the demand for salt in the short term. An increase in price will not result in a sharp decline in demand in the near period. On the other hand, growth is also somewhat constrained. At full maturity, the demand might at best grow in line with the population growth rate of 2.6%.

In addition, NASCON's volume growth remains constrained between 3-4% during the period. This undermines improvement in its financial performance as its revenue growth is largely dependent on its primary product (salt). NASCON'S dominance in the salt market leaves little room for sustainable growth as it is driven by an increase in price over volume growth. Accordingly, we place a HOLD rating on the company's stock.

Industry and Company Overview

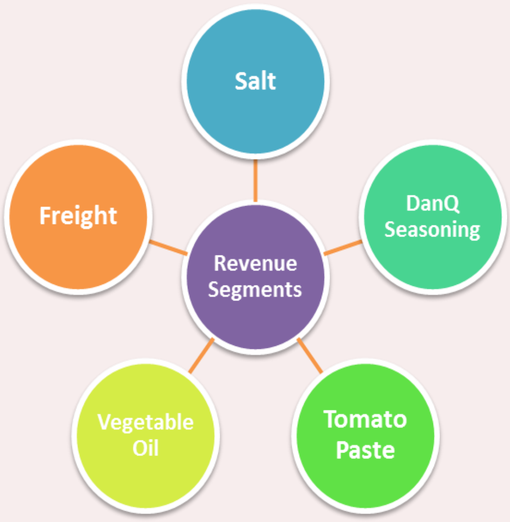
NASCON Plc (previously known as National Salt Company of Nigeria Plc) engages in the processing of raw salt into butter, refined, kitchen, industrial and edible salts. It operates as the industry leader in the salt market, controlling over 60% of market share. This puts NASCON in a comfortable position as the price maker and the most profitable salt company in Nigeria.

However, the Nigerian salt industry is highly import dependent. This has exposed the sector to exchange rate volatility in recent times, exerting pressures on input costs. The introduction of the Investors and Exporters Foreign Exchange (IEFX) window in April 2017 eased Nigeria's foreign exchange woes, limiting the adverse impact of exchange rate fluctuation on industrials.

NASCON diversified its business portfolio to include other culinary items such as seasoning, tomato paste and vegetable oil. While these segments contribute only 4% to the company's earnings, they remain household necessities that will thrive in the long term if given the necessary support. Despite the idle state of the vegetable oil and tomato paste plants since 2015, NASCON has consolidated its position in other segments. However, there are concerns that the slowdown to production in these idle plants center on local raw material sourcing. Raw material sourcing optimization is crucial to the long-term sustainability of any business. Management needs to get back to the drawing board to develop a growth inclusive plan that will result in a synergy between the company and indigenous farm managers and agents.

NASCON's customers are mainly manufacturers of confectionaries, seasoning, vegetable oil, noodles and processed leather. A regional assessment of the company's revenue shows that Nigeria's north accounts for 70%, the west accounts for 21%, and the east accounts for the remaining 9%. The company maintains a strong footprint in Nigeria, where it sells all its industrial output.

The culinary industry has been under regulatory pressures. This is as a result of health-related concerns associated with the consumption of salt and edible oil, which are linked to heart disease. However, extensive iodine deficiency in Africa, led to the popularity of iodized salt among salt producers; and vitamin A-fortified edible oil was developed to improve the nutritional quality of food and alleviate health concerns.



NASCON's Business Units

Income statement for NASCON Plc					
N'000	**2013**	**2014**	**2015**	**2016**	**2017**
Revenue	10,837,261	11,250,544	16,178,197	18,291,792	27,064,325
Cost of sales	(6,244,155)	(7,464,783)	(11,819,079)	(12,374,098)	(17,070,310)
Gross Profit	**4,593,106**	**3,785,761**	**4,359,118**	**5,917,694**	**9,994,015**
Other income/gains & losses	228,341	102,877	160,997	18,484	11,296
Selling and distribution expenses	(71,432)	(123,720)	(218,622)	(638,189)	(604,718)
Administration expenses	(933,429)	(938,746)	(1,273,122)	(1,479,315)	(1,773,737)
Operating Profit	**3,816,586**	**2,826,172**	**3,028,371**	**3,818,674**	**7,626,856**
Investment income	230,136	30,227	9,258	55,328	354,745
Finance cost	(8,317)	-	(20,065)	(357,671)	(72,113)
Profit Before Tax	**4,038,405**	**2,856,399**	**3,017,564**	**3,516,331**	**7,909,488**
Tax credit/(Tax expense)	(1,338,863)	(989,361)	(911,918)	(1,101,148)	(2,565,896)
Profit After Tax	**2,699,542**	**1,867,038**	**2,105,646**	**2,415,183**	**5,343,592**

Balance sheet for NASCON Plc					
N'000	**2013**	**2014**	**2015**	**2016**	**2017**
Property, plant and equipment	5,749,055	6,683,479	6,759,039	6,346,688	9,419,203
Intangible assets		234,993	141,184	47,374	-
Other assets		14,545	9,188	5,513	1,838
Non-Current Assets	**5,749,055**	**6,933,017**	**6,909,411**	**6,399,575**	**9,421,041**
Inventories	815,483	1,471,568	1,933,001	2,720,232	3,016,787
Trade and other receivables	1,119,395	3,216,800	4,852,546	10,178,751	5,603,540
Other financial assets	753,560	-	-	-	468,791
Other assets	1,192,879	46,749	51,175	2,812,640	2,136,348
Cash and bank balances	1,800,795	887,751	2,548,693	2,492,069	9,476,740
Current Assets	**5,682,112**	**5,622,868**	**9,385,415**	**18,203,692**	**20,702,206**
Total Assets	**11,431,167**	**12,555,885**	**16,294,826**	**24,603,267**	**30,123,247**
Ordinary share capital	1,324,719	1,324,719	1,324,719	1,324,719	1,324,719
Share premium	434,037	434,037	434,037	434,037	434,037
Retained earnings	5,133,870	4,548,550	5,329,477	6,287,471	9,776,456
Equity Attributable to Owners of the Company	**6,892,626**	**6,307,306**	**7,088,233**	**8,046,227**	**11,535,212**
Non-Controlling Interest					
Total Equity	**6,892,626**	**6,307,306**	**7,088,233**	**8,046,227**	**11,535,212**
Borrowings	38,570	38,570	38,570	38,570	38,570
Retire benefit obligation	340,373	327,986	300,514	249,635	222,134
Deferred income and accruals					
Deferred tax	352,882	535,908	916,009	1,143,882	1,712,001
Non-Current Liabilites	**731,825**	**902,464**	**1,255,093**	**1,432,087**	**1,972,705**
Bank overdraft	5,236	5,236	5,236	-	-
Trade and other payables	2,638,152	4,587,027	7,417,102	14,252,728	14,629,955
Current tax liabilities	1,163,328	753,852	529,162	872,225	1,985,375
Current Liabilites	**3,806,716**	**5,346,115**	**7,951,500**	**15,124,953**	**16,615,330**
Total Liabilites	**4,538,541**	**6,248,579**	**9,206,593**	**16,557,040**	**18,588,035**
Total Equity and Liabilites	**11,431,167**	**12,555,885**	**16,294,826**	**24,603,267**	**30,123,247**

MANAGEMENT

The ability of NASCON's management to maintain the current growth trajectory relies largely on its ability to extend the product life cycle of the business and at the same time, maintain its foothold in the industry. The management has leveraged extensively on its sister subsidiaries to attain a strong liquidity and solvency position.

This has helped the company to attain remarkable milestones without share dilution or high debt leverage. In addition to this, the management has maintained an optimal balance between trade receivables and payables through a sister subsidiary, Bulk Commodities Limited, which manages about 96% of NASCON's trade receivables and rebates.

In a bid to take advantage of both short and long-term opportunities, the management has focused on maintaining a balance between table salt sales, which command higher margins, and industrial salt sales, which drive volumes. As a result, table salt has witnessed a rebranding with the company cross-selling its variety of package sizes with its DanQ seasoning.

However, one key setback for the management has been the idle state of the vegetable oil and tomato paste segments. These include about N2.7bn worth of property, plant and equipment lying idle, generating cost and little or no returns. The ability of management to turnaround the operations of these segments will be key to the successful diversification from the salt business.

The management team is under the mandate of Paul Farrer, who joined the company in 2015. He has over 20 years' experience in the food sector across African markets and has maintained double-digit growth in revenue since his appointment as Managing Director.

Managing Director

Paul Farrer

THE BULL AND THE BEAR SAYS:

- Market leader in the salt industry
- Diversification of its revenue stream into other culinary segments
- Strong brand name
- Double digit growth over the last three years
- Relatively inelastic demand to price movement
- Improvement in cost efficiency
- Strong group affiliation - synergy from collaborations

- Security challenges in the north where 70% of sales revenue is derived
- Idle state of the tomato paste and vegetable oil plants
- Foreign exchange risk
- Dependence on one business segment (salt)
- Increased congestion at the Apapa Port – logistics constraints
- One entity controls about 62% of the company's holdings
- Growing health concern of the populace – minimizing salt, seasoning and edible oil intake

RISK AND OUTLOOK

NASCON's salt segment contributes about 82% to the company's sales turnover, but the salt industry is at the maturity stage. The company currently operates in a saturated market. The risk is that competitive rivalry will become more intense as market growth slows. NASCON, as the industry leader, will continue to consolidate its position and expand its customer base beyond current levels. However, this does not address the market saturation concern.

The ability of NASCON to kick start large scale production in the other culinary segments (tomato paste, vegetable oil and seasoning) will help diversify its current risk exposure to the salt segment.

NASCON is also exposed to foreign exchange risk, as 78% of materials and services required are sourced internationally. Since most of these items are transaction denominated, they remain exposed to exchange rate fluctuations. To mitigate exchange rate losses, the company adopted long positions on foreign exchange liabilities, while monitoring currency movements. This helps in hedging the volatility, as the company settles foreign obligations when the naira appreciates against foreign currencies. However, this measure might be flawed if the naira remains subdued compared to foreign currencies over the long term.

Lastly, NASCON also faces a regional exposure risk. About 70% of NASCON's sales originate from the northern region of Nigeria. This region remains exposed to security challenges. This security concern ranges from communal clashes to militant activities. However, the Nigerian government has put in stringent measures to tackle insecurity in the region devoting abundant resources to its success.

OUR VALUATION

Using the Discounted Cash Flow (DCF) methodology, we estimated a stock price of N19.14, which is a 9.72% downside on the current price of N21.20 as at April 5th, 2018. The discount rate (Weighted Average Cost of Capital (WACC)) of 18.2% was derived using a 13.4% risk free rate (FGN 5-year Bond as at March 2018), a Beta of 0.7631, after a tax cost of debt of 10.3%, and a market risk premium of 6.34%. The long-term cash flow growth rate to perpetuity calculated is 3%.

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

DCF Valuation for NASCON Plc			
N'000	**2018E**	**2019E**	**2020E**
EBIT	8,432,369	9,659,476	11,438,497
Less: Taxes	(2,641,477)	(3,025,874)	(3,583,160)
EBIAT	5,790,892	6,633,603	7,855,337
Plus: Depreciation expense	1,604,858	1,523,444	1,439,467
Less: CAPEX	(477,714)	(1,720,230)	(539,689)
Less: Change in working capital	63,454	810,433	(2,341,956)
Free Cash Flow (FCF)	6,981,491	7,247,249	6,413,158
WACC	18.2%	18.2%	18.2%
Present value (PV) of FCF	5,905,927	5,186,244	3,882,323
Terminal value @ perpetual growth rate (2020)	**2018**	**2019**	**2020**
Terminal value as of 2020	-	-	43,424,433
Present value of terminal value	26,287,775		
2017			
DCF Calculation	**Valuation**		
PV of explicit period	14,974,494		
PV of terminal value	26,287,775		
Enterprise value	41,262,269		
+ Cash	9,476,740		
- Borrowings	(38,570)		
Equity value	50,700,439		
Share Price	**19.14**		

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