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FDC MONTHLY ECONOMIC UPDATE

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In This Issue ...

THE NIGERIAN ECONOMY AT CROSS WINDS

Four major developments (Q1'18 GDP growth rate, Monetary Policy Committee (MPC) decision, April inflation rate and uptick in oil prices) in the month of May force us to review our economic outlook for 2018. One of these developments (uptick in oil prices) is exogenous while the other three (GDP growth rate, inflation and MPC decision) are internal and within the policy maker's control. While the World Bank and IMF have projected Nigeria's growth rate at 2.1%, there are now concerns to these projections. The negative outlook by global credit agency, Fitch, is also of great concern to Nigeria's growth momentum for the remaining months in 2018.

Oil prices crosses $80pb

President Trump announced the decision to pull the U.S. out of the Iran nuclear deal and re-impose sanctions on Iran's oil output on May 8th. Following the announcement, Brent oil prices surged to above $80pb, a 3 and a half-year high. Higher oil prices are stemming from a two-fisted punch- OPEC production cuts alongside the unintended consequence of geopolitical tensions of oil superpowers (U.S. vs Iran). Whilst there are forecasts of a surge in oil prices to $200pb, the general consensus still remains around $80-$85pb. In the near term, oil prices would remain a function of the Iran sanctions and OPEC's decision at its next meeting in June 22nd.

Q1'18 GDP growth rate slows to 1.95%

GDP growth rate for Q1'18 slowed from 2.11% in Q4'17 to 1.95% in Q1'18. Year-on-year growth rate expanded by 2.87% from –0.91% in Q1'17. While the growth rate is the fourth consecutive positive growth for Nigeria following the 2016/2017 recession, it remains weak and tepid. Nigeria's population growth rate (2.6%) remains above its output growth rate. During the review quarter, expanding sectors include insurance, oil and gas, financial institutions, telecommunications and manufacturing. On the other hand, real estate, construction, professional services and trade sectors contracted. Interestingly, these sectors are largely interest rate sensitive and labour intensive. Nigeria's revenue remains primarily dependent on oil with the sector contributing 90.39% to GDP in Q1 while the non-oil sector contributed a meager 0.76%. This highlights the risk to Nigeria's economy in the event of an oil price shock.

MPC maintains status quo

The Monetary Policy Committee (MPC) maintained the status quo on monetary policy parameters – Monetary policy rate (14%) per annum. This decision, although anticipated by analysts, was disappointing to many. Key considerations for the Committee include positive but weak GDP growth rate, external reserves accretion, disruptive effects of the expansionary 2018 budget and looming inflationary risks. While the 6% increase in the budget expenditure may seem significant in nominal terms, it is not up to a month's FAAC allocation and is only 2% of Nigeria's money supply; hardly enough to mount inflationary pressures. The increase in Nigeria's revenue in the last few months also reduces the impact of an increase in expenditure. In addition, African countries such as Ghana (17%), Kenya (9.5%), and South Africa (6.5%) have lowered their benchmark interest rates at least once this year with minimal effects on their inflation. Other unintended consequences of the MPC's decision include weak corporate earnings (now at 9%), high unemployment and underemployment rates (above 40%) and volatile stock market capitalization (-1% since April).

Headline inflation drops to 12.48% in April

Headline inflation dropped for the 15th consecutive month to 12.48% in April from 13.34% in March. The decline was driven predominantly by waning base year effects and exchange rate stability. Food and core inflation similarly recorded a decline to 14.8% and 10.9% respectively. As we approach the second half of 2018, there are strong indications that inflation may have reached an inflection point. Risks to the consumer price basket in the near term include commencement of the planting season, Ramadan fast and increased election spending. Nonetheless, regular government interventions towards the agricultural sector may likely mitigate inflationary risks and dampen the adverse effect of food shortages.

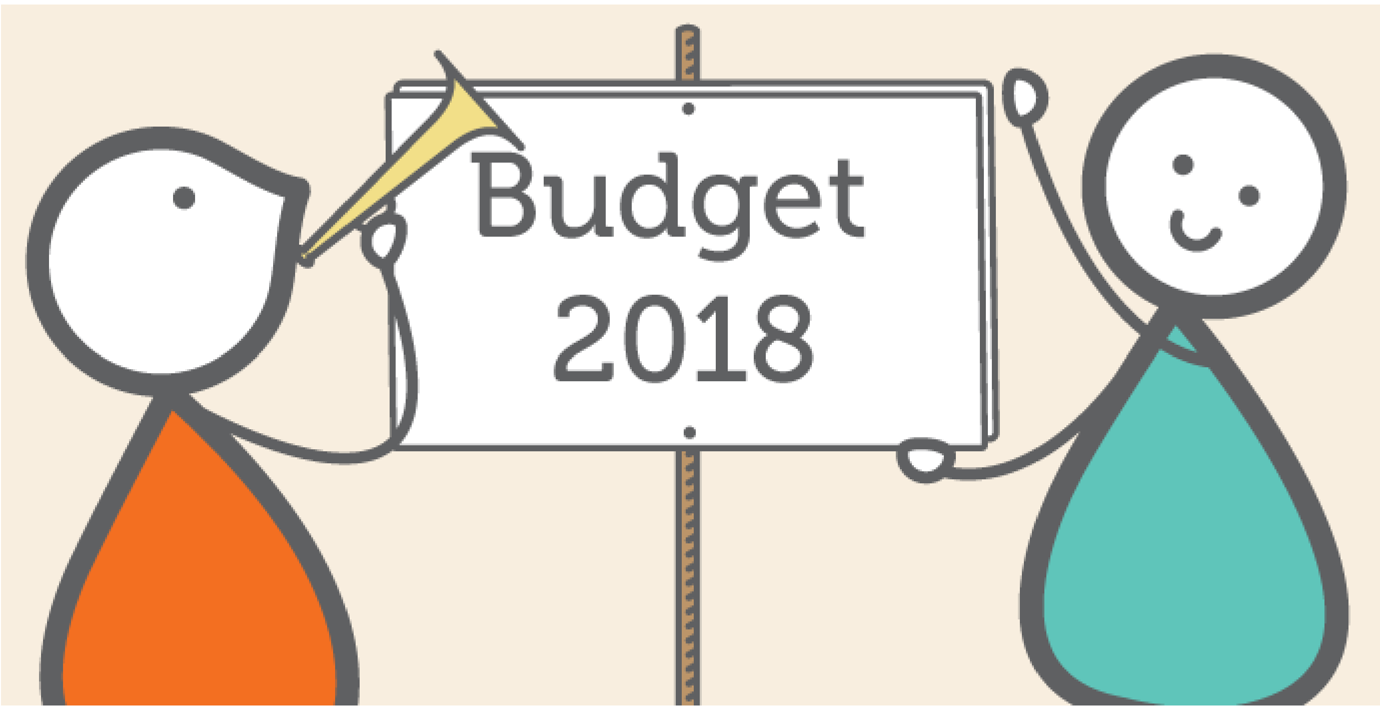
2018 BUDGET PASSED AT LAST, SO WHAT NEXT?

The Senate has finally passed the long awaited budget after a 6- month delay. This comes as no surprise, as the budget has usually been passed around this period in the last few years. Nonetheless, in all things we give thanks.

The passage came after a 6% (~N510bn) increase in the budget to N9.12trn from an earlier estimate of N8.61trn. Whilst the percentage increase looks insignificant, half a trillion naira is quite a sum in nominal terms- some will say. The increase is less than a month's FAAC, 2.07% of money supply and an infinitesimal part of the GDP. With that said, what assumptions were tweaked to arrive at this increase?

Assumptions	Initial Budget Projec-	Passed Budget	% Change
Oil price benchmark	$45pb	$51pb	13.33
CAPEX	N2.43trn	N2.87trn	18.11
Recurrent	N3.49trn	N3.52trn	0.86
Debt service Provision	N2.01trn	N2.20trn	9.45

The exchange rate and oil production assumptions were left unchanged at N305/$ and 2.3mbpd respectively.



Implications of budget increase

Higher oil price benchmark

The average oil price YTD is $69pb, 35.29% above the new benchmark price of $51pb. Compared to earlier budget projections, it is a 53.33% increase. Hence, a higher oil price benchmark will reduce Nigeria's savings accruable to the Excess Crude Account (ECA) to $18pb from $24pb that would have been saved using a benchmark of $45pb.[1] The positive side is that the government has more funds to spend on its capital projects. What you don't save, you spend!!! However, beware of an oil price shock.

Higher capital and recurrent expenditure

An 18.11% increase in capital expenditure means more spending on infrastructure, which has a positive multiplier effect. The increase in recurrent expenditure will allow for salary arrears to be cleared, which will boost consumer disposable income.

Higher debt service provision

The fiscal deficit is projected to decline to 1.73% of GDP from above 2%. Hence the government may not need to borrow as much to fund its deficit gap. However, to keep interest rates at current levels, this may justify the need for a higher debt service provision.

What Next?

The next step is for the President to sign the budget into law and issue an authority to incur. This will initiate the disbursement process and increase the amount of money in circulation and the level of economic activity. As a result, we expect to see mounting pressure on consumer prices and the exchange rate. This is also an election period. Hence campaign funds and the possible upward review in the minimum wage would increase liquidity in the market.

[1] Using the average oil price YTD as at May 18, 2018

NIGERIA'S RISK PROFILE: AN ASSESSMENT OF THE THREE MAJOR THREATS TO OUTLOOK

Nigeria is projected to record a growth of 2% this year. However, this forecast is based on assumptions of a certain degree of economic, social and political stability. What happens if one of these variables moves in a negative direction?

Nigeria has three major threats to its growth outlook: oil price, security and political environment.

Oil Price Risk

The volatility of the global oil market remains one of the major risks to Nigeria's growth trajectory. The oil market has rallied in the last couple of months, but an unexpected imbalance in supply or demand can swing the price pendulum to the other spectrum.

In the first week in January, oil prices gained on an anti-government crisis in Iran, one of OPEC's largest oil producers. Prices were also propped up by market concerns over a possible cancellation of the US-Iran nuclear deal. Oil prices gained 3.26% in January alone.

In the first week in February, geo-political tensions waned; prices reached a point of inflection and dipped sharply by 9% to $62.75pb. This was driven by a big jump in US rig count, production and inventory levels, which prompted a massive sell off in energy stocks, further pushing down prices.

By March, geo-political tensions were back at the forefront. The oil narrative was dominated by the looming trade war between China and US. Following US tariff hikes against Chinese metals, and retaliatory actions from Asia's economic giant, the oil market enjoyed another bullish run.

In April, oil prices gained 6.97% on the back of tensions between the three oil superpowers: Russia, US and Saudi Arabia. The looming proxy war between Russia and Saudi Arabia could erode the countries willingness to work together. This reduces the probability of an extension of the Declaration of Cooperation deal, as was implied by UAE oil minister earlier in the year. More recently, the US-Iran tensions have re-emerged, as President Trump announced the withdrawal of the US from the Iran nuclear deal. So far this year oil prices have gained 15.06%.

The on-and-off-again global geo-political tensions can cause one to lose sight of market fundamentals, which have remained largely unchanged. Supply is still at record high, thanks to US shale production, while growth in Asian and European demand have softened year-on-year.

A significant increase in supply or a sharp dip in global demand could lead to a plunge in global Brent prices. This will reduce Nigeria's oil proceeds which have up until now supported economic growth and fiscal spending. Additionally, the reduction in forex flows will have implications for the exchange rate and could lead to currency depreciation, re-introduction of forex spending restrictions and higher inflation.

Security Risk

Niger Delta: The fundamental regionalism[2] and a growing discontent of the residents of the oil producing regions present a risk to Nigeria's oil production. The recession of 2016 proved that domestic oil production is as important to Nigeria's economy as oil price. Oil prices lost over 40%, falling to $63.26pb in June 2015, from $113.41pb in June 2014. This triggered a slowdown, and GDP dipped to 2.81% in 2015 from 6.3% in 2014. However, it was the sharp fall in production that pushed the economy into recession. Oil output averaged 1.6mbpd in 2016, 14.4% lower than 2015 average; consequently, economic activity nosedived to -1.55% growth rate in 2016. Oil output averaged 1.47mpbd in Q3'2016, when GDP growth rate reached its bottom of -2.34%. Any shock in production will have negative implications for Nigeria's trade balance, exchange rate and external reserves. Additionally, because of the government's over-dependence on oil revenue and the banking sector's exposure to the oil industry, there will be an impact on FAAC, salary payments, and bank's NPLs and profitability. This will ultimately lead to a contraction in private consumption, investments and general economic activity.

Fulani Herdsmen: The recent rise in regional conflict has been further exacerbated by the herdsman mayhem. The migration of herdsmen with their cattle is not a new development in Nigeria. Over decades, Nomads typically move with their cattle through towns in search of pasture and grasslands, especially during times of drought in the North. The risk, however, rises when the herdsmen trespass farmed lands in local communities, destroying crops, and essentially livelihood. In retaliation, farmers fortify their territories to avoid intrusion. This has led to increased force by herdsmen who often carry weapons to attack, and sometimes kill, any opposition. In February 2018, over 40 people were reportedly killed by Fulani herdsmen in a clash with farmers in Benue state. While the resulting displacement of residents is negative for the state's economic activity, the major risk is the fact that such events brew tribalism, and further segregates regions.

[2]Regionalism refers to a political ideology where the interest of a sub-national unit, or region are focused on.

Boko Haram: Terrorism and religious extremism pose a threat to agricultural output. An escalation in Boko Haram activities would continue to encourage massive emigration from northern Nigeria to the south, or neighboring countries, as residents seek asylum and peace. A significant portion of the country's agricultural output comes from the north, which means that the insecurity has negative implications for food prices, and could lead to an artificial famine. This could also severely hurt the balance sheet of agricultural corporations, posing risks to the Nigerian stock market. Additionally, the movement of low-skilled labor to areas where their farming expertise is less relevant could lead to increased unemployment, inequality, and potentially higher crime rates.

Political risk

Although President Buhari has announced his decision to seek a second term, there are still concerns over his health and ability to stay in office for another four years. The President spent a total of over 124 days receiving treatment abroad in 2017, and was absent from several meetings even while he was in Nigeria. So far this year, he has spent 4-days abroad on sick leave. His failure to address and fully disclose his condition will provide an opportunity for his opponents to stoke the fire and encourage voters to assume the worst. If his health deteriorates further and he is unable to finish his term, or run for re-election, this could intensify frictions within his party over who his successor should be. The fall out of such elevated political tensions will be a slowdown in foreign investment flows, as investors adopt a wait-and-see approach.

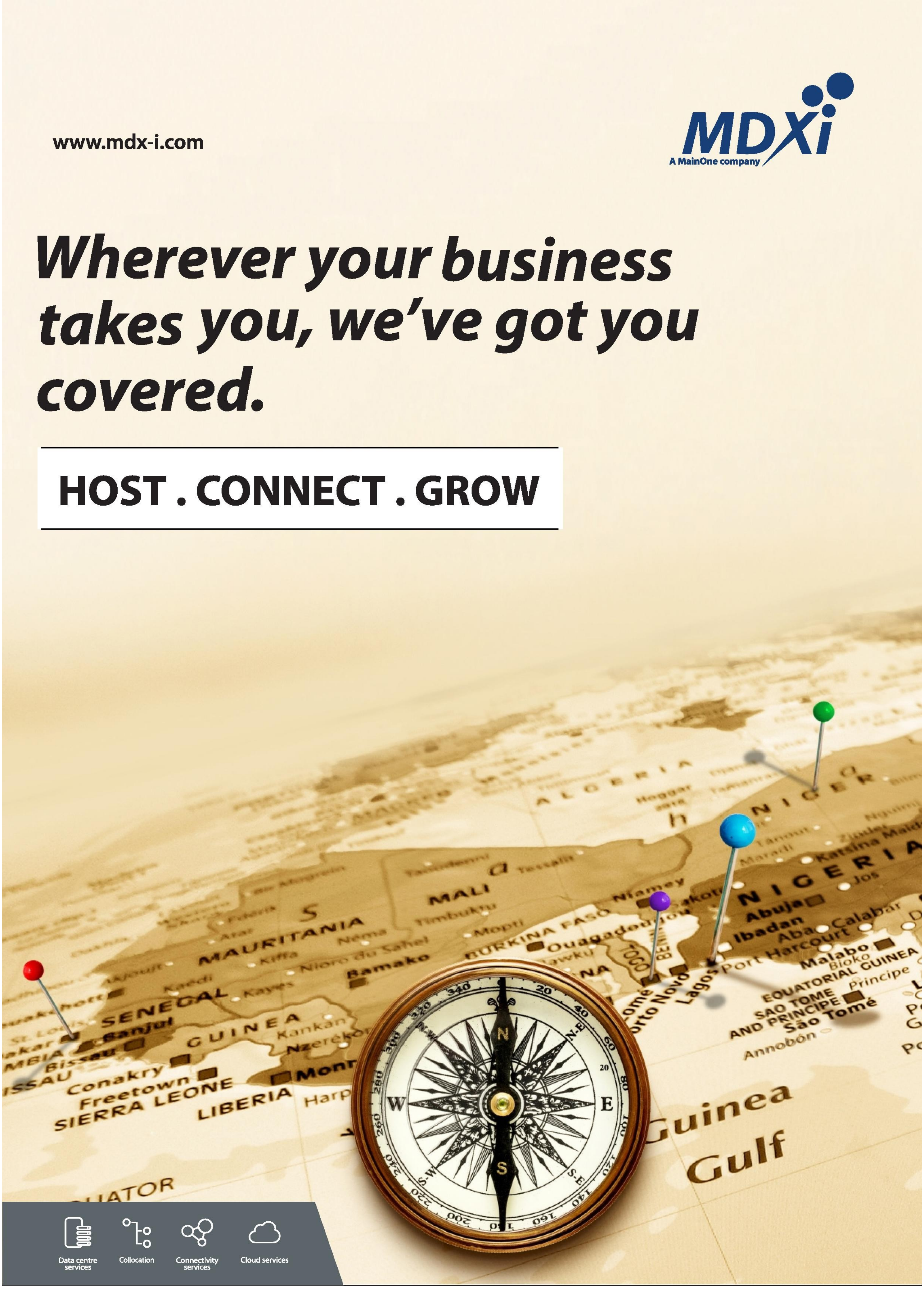
Conclusion

Whether or not these are within Nigeria's control, it must have mitigants in place.

Revenue diversification remains on the critical path for Nigeria to reduce its dependence on oil. Nigeria should focus on creating an enabling business environment, this will in-turn boost activity and support export diversification.

When it comes to security, the government needs to be bold to address issues driven by religion and regionalism, through a combination of combative and diplomatic measures. These include using the military or calling for meetings to negotiate a cease fire.

Finally, the unpredictability of politics makes it less easy to manoeuvre or mitigate. At the moment, Buhari is the only player on the field with enough clout to pull majority votes. Nevertheless, it might be too soon to tell. In 2014, Buhari was elected as APC's running candidate in the primaries in December, just 2 months before the gubernatorial elections. In the words of the American diplomat, John Jay, all that's left to do is 'hope for the best but prepare for the worst'.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AN UPDATE ON THE OIL & GAS SECTOR

GLOBAL DEVELOPMENTS

Oil prices breached the resistance level of $70 per barrel in April 2018 (highest point since 2014), supported by – the rebalancing of supply and demand, geopolitical tensions over Syria and the OPEC -Russian alliance to cut production. Oil markets also reacted negatively to news of rising trade tensions between the US and China. Global benchmark Brent crude ended the month at $75.17pb – up 6.9% from $70.27pb at the end of March.

According to the OPEC monthly oil Market Report for March, world oil demand growth in 2018 was revised higher by 30tbd, to 1.63mbpd. This upward revision was supported by positive momentum in the OECD in Q1'18 due to better-than-expected data, improved industrial activity, colder than-anticipated weather and strong mining activities in the OECD Americas and the OECD Asia Pacific.

OPEC's recent success in wiping out the global oil glut has been aided by accidental output losses in Venezuela – amounting to six times the amount promised – as an escalating economic crisis affects its oil industry. Another OPEC member, Angola, is also now suffering sharp declines in under-invested offshore fields. The fall in output has exceeded pledged output cuts by around 200%. Deep water operations in Angola are relatively costly to maintain, while insufficient capital spending has caused its deposits to decline at a rate more than double the global average at between 13% to 18%.

With losses set to accelerate, it could lead to a situation where the supply tightening becomes too much and prices rise too high. This could backfire by incentivising rival US supplies or stifling demand. One source of geopolitical risk has been taken away by the diplomatic breakthrough in the Korean peninsula following the historic meeting between the leaders of North and South Korea. Another potential hiccup on global supply is the uncertainty surrounding US-Iran relations and the possibility of the nuclear deal being ditched. Oil traders are already unwilling to sign contracts for Iranian crude and refined products that would be valid beyond May 12 – the deadline for Trump's decision to re-impose sanctions. OPEC is looking to prolong its alliance with Russia and other non-OPEC countries and will meet again in June to review the impact of its current output curbs and possibly set new inventory targets that extend present cuts.

Domestic Production

In March, domestic crude oil production increased to 1.81mbpd from 1.792mbpd in February. The addition of condensates takes Nigeria's output level to 2.02mbpd – 277,000bpd below the 2.3mbpd benchmark for budget 2018. Condensates are not recognized by OPEC as part of its members' output. We expect oil production figures for April to rise as the Trans Forcados Pipeline reopens after a temporary shutdown. Oil production will also receive a boost from output from Oil Mining Lease (OML) 30 which peaked at 75,000 bpd from zero level in March 2017. According to Baker Hughes, Nigeria's oil rig count dipped 25% to 12 in March from 16 in February, in tandem with the global trend. Global rig count fell 4.05% to 2179 – reflective of low investor sentiment despite higher prices.

Royal Dutch Shell – the parent company of SPDC – has announced a $15bn investment plan for Nigeria. This includes its counterpart funding for its 25.6% share in the construction of Trains 7 and 8 in the Nigeria Liquefied Natural Gas plant located in Bonny, Rivers State, as well as drilling and production in the Bonga Southwest deep offshore oil field. This could potentially increase Nigeria's oil reserves by over a billion barrels. This is in spite of the volatile security situation in the Niger Delta region. In 2016, Nigeria's oil output was cut by about 40% due to incessant attacks from militants. The government is yet to finalize a permanent deal that would channel funding and development to satisfy the demands of these militants who purportedly represent the host communities. There is the threat of another rise in militant attacks if their demands are not satisfactorily met. According to the Minister of State for Petroleum, Dr. Ibe Kachikwu, investments in the oil and gas sector have hit $60bn since 2016 when it was down to zero. The peace and stability that has been restored in the Niger Delta has been responsible for this and daily production has increased since calm was restored.

Policy

Petroleum Industry Bill

One of the most sensitive parts of the Petroleum Industry Bill (PIB) is the part dealing with fiscal incentives. This typically sets the tone for investment in oil & gas exploration and production. Oil companies operating under Production Sharing Contracts (PSCs) in Deepwater are set to lose significant revenue as the fiscal terms will be altered to favour the Federal government much more than it previously did. Analysts estimate that the state's take in deepwater licences will lead to a loss of 20%-30% in the overall receipts from crude oil production by companies operating licences that were signed in 1993. These licences had very lenient financing framework in favour of operators. Acreages in shallow water and onshore, taxation and royalties will be in the same band as the extant law and will favour Nigerian independents marketers over International Companies.

The PIB was first introduced to parliament in 2008 and split into different parts by the legislature for easier legislative work. The section dealing with the administrative part of the law – Petroleum Industry Governance Bill (PIGB) has been passed. The other parts include bills on Upstream Petroleum Licence and Lease Administration; Downstream Oil and Gas Administration; Petroleum Fiscals; Petroleum Revenue Management and Petroleum Host Community Fund (PHCF). These are likely to be passed before the general elections in 2019.

DOWNSTREAM SECTOR

Refining

According to the Minister of State for Petroleum Resources, two modular refineries – located in Rivers and Delta states – will be compepleted and commissioned by December 2018. They are among 38 modular refineries that were issued licenses ranging from high scale refineries of 50,000 to 100,000 barrels to operate in the Niger Delta. Nigeria currently has a daily domestic refining capacity of 6 million litres, while the daily consumption stands at 35 million litres. Hence, it has to import the bulk of what it consumes.

Implications

The move is part of the FGN's resolve to bring an end to illegal bunkering in the region and Nigeria's importation of refined petroleum products. The construction and commissioning of the two modular refineries should send the right signals and boost investor confidence. The FGN's actions have cleared doubts about its commitment to attracting investment in the construction of more modular refineries. The downstream sector in Nigeria has gone through changes in recent years and is expected to evolve further. The industry operates under a tightly regulated fixed margin but could be deregulated especially given its impact on the Nigerian currency and import bill.

Infrastructure

The Nigerian Pipeline and Storage Company (NPSC) has announced plans to begin a broad audit of petroleum products and crude oil pipelines under its watch. This is to be executed by the National Engineering and Technical Company (NETCO) – an upstream subsidiary of the NNPC. It covers the conduct of integrity tests on crude pipelines, the products pipelines and depots, with special emphasis on refinery attached depots and refinery evacuation lines.

Implications

The NPSC was part of the old Pipelines and Products Marketing Company (PPMC). It currently has over N5,000km of oil pipelines under its purview. As the FGN seeks to expand its pipeline network, this audit and assessment exercise will provide guidance in arriving at informed decisions and enable the formulation of suitable strategies in planned Private Public Partnership (PPP) arrangement for the pipelines.

Policy

Subsidy

According to the Minister of State for Petroleum Resources, Nigeria presently records about N1.4trn annually as under-recovery from its importation and sale of Premium Motor Spirit (PMS) at the government regulated price of N145/litre at the pumps. This is so because the NNPC is currently the sole importer of the product. They are importing at a higher price of over N170 per litre and selling at N145/litre, and their losses are indirectly being borne by the Federation account. So, in practice, there is no subsidy being paid to oil marketers but there is under-recovery. However, oil marketers are still being owed over N650bn by the Federal government. The NNPC is alleged to have paid N216bn in fuel subsidies in 2017 – a move a senate probe has deemed illegal. The senate has directed further subsidy payments to be halted. The subsidy payments were unapproved by the lawmaking arm of government and were neither part of the 2017 budget nor the proposed 2018 budget. In March, the NNPC announced that it spent N774mn daily on petrol subsidy – N282.5bn annually.

Implications

Rising oil prices means the NNPC will have to bear increasingly higher under-recovery costs. The failure to deregulate the downstream sector and eliminate subsidies/under-recovery will continue to keep investors at bay. Higher oil

prices and the lack of domestic oil refining capacity once again put the spotlight on the cost of aviation fuel (JetA1) in the airline industry. Currently accounting for 35-40%, on average, of total operating costs of domestic airlines, the high and growing cost of JetA1 leaves them disadvantaged among their international peers. Airlines are already burdened with the high cost of routine maintenance, personnel, overhead, mandatory charges and multiple taxes. Already squeezed margins will be further affected.

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Data Integrity

The National Bureau of Statistics (NBS) has reported that all data about Nigeria's daily consumption of refined fuel are either outdated or "guesstimates". According to Dr Yemi Kale, the Statistician General of the Federation, Nigeria is a net importer of refined petroleum products in spite of its status as an oil exporter. Also, no government agency has reliable data on daily fuel consumption regardless of various figures being showcased in the media. Earlier this year, the Nigerian National Petroleum Company (NNPC) had reported that daily fuel consumption went up from 35 million litres to 55 million litres as a result of cross-border smugglers who had taken advantage of the fuel scarcity.

Implication

Data integrity has been a major challenge in Nigeria and this calls into question the veracity of data which have long been used to feed assumptions on which policy decisions have been based. Fuel imports have been reported to account for about 30% of foreign exchange demand and this information has been used in the allocation of forex.

Noteworthy Events

Forte Oil Divests Upstream Investment, Divests from Ghana

In a note to investors, Forte Oil has announced plans to sell its upstream services and power businesses in Nigeria and shift its focus on its core fuel distribution operation. This is in addition to divesting from Ghana – where it has declared losses over the last three years. Forte Oil has 57% stake in Amperion Power Distribution Company – which has a lot of receivables due from the state-backed off-taker while its upstream unit accounted for less than 7% of the group earnings over the past three years. Proceeds from the divestment would be channelled into expanding its downstream business in Nigeria.

This comes as a surprise to many following its previous plan, announced in August 2017, of aggressively pursuing M&A opportunities along the energy value chain and acquiring marginal oilfields to boost its upstream business. Talks were ongoing with a major refinery to form a strategic partnership for local refining of petroleum products. Forte Oil now has a total market value of N57.3bn ($188mn). It plans to seek shareholder approval for the sale on May 23 and appoint advisers.

AN UPDATE ON THE CONSTRUCTION SECTOR

THE CONSTRUCTION ENVIRONMENT IN NIGERIA

The construction sector is a critical part of any economy. A uniqueness of the sector resides in the fact that it provides ancillary support to other sectors of the economy. For instance, the manufacturing, agriculture, hospitality and oil and gas sectors would require one form of construction or the other to thrive. Infrastructural projects, commercial and residential properties are also tied to construction. The sector contributed approximately 3.77% to Nigeria's total GDP in 2017 and leading firms in Nigeria's construction space include Julius Berger, Reynolds Construction Company, John Holt and Setraco among others. The sector has been driven by several factors such as economic cycles, government capital expenditure and government regulation among others. The multiplier effect of construction spending, especially on infrastructure is usually felt on GDP and employment levels. In April 2018, there were some noteworthy developments in the Nigerian construction space. This piece contains the analysis of these developments on the Nigerian economy. Subsequent sections would also provide updates on the performance of construction companies listed on the Nigerian Stock Exchange, alongside their financial performance in the first quarter of 2018.

RECENT DEVELOPMENTS IN NIGERIA'S CONSTRUCTION SPACE

Event 1 - FEC sets up committee for completion of east-west expressway

The Federal Executive Council has set up a 4-man committee to oversee the speedy construction of east-west road in the Niger Delta and other road networks across the country. The East-West highway links five major oil producing states – Delta, Bayelsa, Rivers, Akwa Ibom and Cross River. The committee consists of the Minister of transportation, Rotimi Amaechi, Minister of information and culture, Lai Mohammed, Minister of Niger Delta Affairs, Usani Usani and the Minister for power, works and housing, Babatunde Fashola. The committee would be chaired by the Minister for Transport.

Meanwhile, the committee has pledged to undertake an inspection tour of the East-West road with a view to ensuring its completion.

Implications

The completion of the East-West highway would be a remarkable achievement by the current administration. Every government since the return of democracy in 1999 has promised to complete the highway, without any significant progress. The completion of the project would ease transportation among states linked by the road network and spur economic activities. Also noteworthy, improved infrastructure development would further subdue militant tensions in the region. This would stabilize Nigeria's crude oil output and entice new oil and gas investments in South-South Nigeria, the country's main oil and gas producing region.

Event 2- FEC approves N187bn for various road construction projects in Nigeria

The Federal Executive Council has approved N18.87bn for the maintenance of the Third Mainland Bridge in Lagos as part of the federal government's National Bridge Maintenance Strategy. The third mainland bridge contract has been awarded to one of the original contractors for the project, Italian Borini Prono. The construction company was expected to carry out maintenance works on 33 out of the 177 piles of the bridge which were in critical condition. Part of the repair works on the bridge will also involve the maintenance of general expansion joint replacement and will be completed within 27 months.

Furthermore, the FEC approved N80.19bn as a revised amount for the second section of the 84KM Lagos-Ibadan expressway project. The council also approved N38.03bn for the construction of the 9th mile-Orikam road in Enugu state which has a length of 72KM. In addition, N47bn was approved for three road projects by the federal government. The projects include Baban Lamba-Sharam Road in Plateau state, Otta-Abeokuta road and the Enugu–Port Harcourt Road at N19.2bn, N22bn and N6.31bn respectively.

Implications

Poor road transportation infrastructure has been a major set-back to economic activities in Nigeria. Out of the 195,000KM road network in the country, only about 31% are tarred. Also, not all of these tarred roads are in good condition. The federal government's ambition to embark on extending the country's road network would ease and expedite the distribution of goods across the country. It is also expected to further enhance Nigeria's operating environment for businesses.

Construction companies' performance on the NSE in April

Three out of the 169 listed companies on the Nigerian Stock Exchange are construction firms. These include Julius Berger Plc, Arbico Plc and Roads Nigeria Plc. The capitalization of these firms currently stands at N37.91bn, representing 0.25% of total market capitalization. Stock prices of these firms gained an average of 2.77% in April, outperforming the overall market's performance by 3.34%. Stock prices of Arbico and Road Nigeria were flat in April. Julius Berger gained 8.3% in the month.

Company	Share Price (March) (N)	Share Price (April) (N)	%Change	Directional Movement
Julius Berger Plc	25.90	28.05	8.30	↑
Arbico Plc	4.79	4.79	0.00	↔
Roads Nigeria Plc	6.60	6.6	0.00	↔

Financial performance in Q1’18

Julius Berger Nigeria Plc.

Julius Berger Nigeria Plc’s revenue was up 3.42% year-on-year in Q1’18 to N35.32bn. The company’s earnings per share rose to N2.23 in the period. PBT and PAT also increased sharply to N2.21bn and N1.49bn respectively from loss positions of (N17.11mn) and (N426.95mn) respectively in Q1’17. The firm reported a N2.1bn forex translation loss in Q1’17.

Arbico Plc.

Arbico Plc. reported a 10.57% decline in topline to N1.1bn in the first quarter of 2018 compared to Q1’17. The company’s earnings per share jumped by 275% to 60k year on year. PBT and PAT were equal at N89.24mn in Q1’18, representing a sharp increase of 277.66% from the same period in 2017. The spike in bottom line is partly attributed to a 6.6% decline in operating expenses to N137.93mn in the period under review.

Outlook

Nigeria’s construction sector is expected to remain strong in May as construction activities remain in the upbeat. Electioneering and influence peddling ahead of the 2019 polls would trigger the expedition of some abandoned infrastructure projects. In addition, the 2018 budget is expected to be passed in May. The quick assent of the appropriation bill by the Presidency would free more resources for infrastructure spending in the near term. The relatively stable exchange rate environment should also ease the acquisition of imported raw materials by construction firms. The stock prices of listed companies are expected to react positively to these developments.

HERE'S WHAT OIL AT $70 MEANS FOR THE WORLD ECONOMY

Global Perspective: Culled from Bloomberg

Rising oil prices are a double-edged sword for the world economy.

With the price of crude up 14% this year and now trading at the highest since 2014, exporters of the fuel get to enjoy a windfall while consuming nations get hurt.

Much ultimately depends on the reason why prices are pushing higher. An oil shock on the back of constrained supply is a negative though higher prices due to robust demand may just reflect solid global growth.

Either way, there are winners and losers, especially among emerging economies. Countries who rely on imported energy will be squeezed as costs go up, balances of payments become strained and inflation accelerates. For exporters, government coffers will get a fillip.

U.S. President Donald Trump's plan to withdraw from the 2015 accord to curb Iran's nuclear program poses fresh uncertainty although Bloomberg Economics reckons that and similar supply shocks account for half of oil's recent rise.

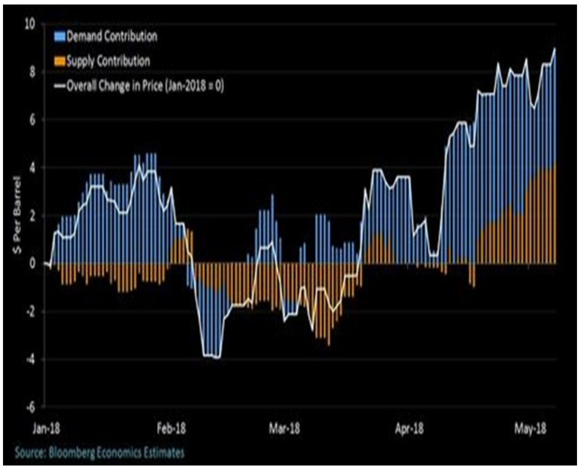
U.S. President Donald Trump's plan to withdraw from the 2015 accord to curb Iran's nuclear program poses fresh uncertainty.

1. What does it mean for global growth?

The world economy is enjoying its broadest upswing since 2011 and higher oil prices would drag on household incomes and consumer spending, but the impact will vary. Europe is vulnerable given that growth and industrial activity already are moderating and many of the region's countries are oil importers. China is the world's biggest importer of oil and could expect an uptick in inflation -- prices already are tipped to increase 2.3 percent in 2018 from 1.6 percent in 2017. For a sustained hit to global growth, economists say oil would need to push higher and hold those levels. Seasonal effects mean energy costs often increase during the first half of the year before easing. Consumers can also switch energy sources to keep costs down, such as biofuels or natural gas.

2. How will Iran impact the market?

Oil prices have risen 14 percent this year -- half of this increase reflects stronger global demand, a Bloomberg Economics model suggests. The rest is likely due to heightened tensions with Iran and other supply shocks. The return of U.S. sanctions could crimp Iranian oil exports, but the global supply shock might be mitigated by increased pumping elsewhere, according to the analysis.



3. Who wins from higher oil prices?

Most of the biggest oil-producing nations are emerging economies. Saudi Arabia leads the way with a net oil production that's almost 21 percent of gross domestic product as of 2016 -- more than twice that of Russia, which is the next among 15 major emerging markets ranked by Bloomberg Economics.

Other winners could include Nigeria and Colombia. The increase in revenues will help to repair budgets and current account deficits, allowing governments to increase spending that will spur investment.

4. Who loses?

India, China, Taiwan, Chile, Turkey, Egypt and Ukraine are among those on the worry list. Paying more for oil will pressure current accounts and make economies more vulnerable to rising U.S. interest rates. Bloomberg Economics has ranked major emerging markets based on vulnerability to shifts in oil prices, U.S. rates and protectionism.

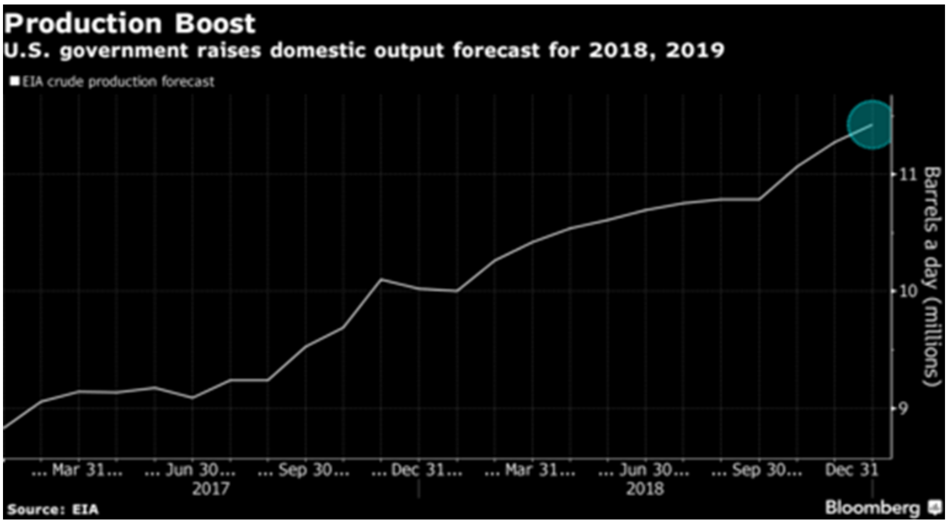
Analysts at RBC Capital Markets created an "oil sensitivity index" to judge the economies most exposed in Asia. They warn that Malaysia, Thailand, China and Indonesia could face the most volatility from an oil-price spike.

5. What does it mean for the U.S. economy, the world's biggest?

A run-up in oil prices poses a lot less of a risk to the U.S. economy than it used to, thanks to the boom in shale oil production. The old rule of thumb among economists was that a sustained $10 per barrel rise in oil prices would shave about 0.3 percent off of U.S. GDP the following year. Now, says Mark Zandi, chief economist at Moody's Analytics, the hit is around 0.1 percent. And that all but dissipates in subsequent years as shale oil production is ramped up in response to the higher prices. The Baker Hughes U.S. rig count already is at a three-year high.

As the U.S. nears the tipping point between net oil importer and exporter, some forecasts are less upbeat. Gregory Daco, the U.S. chief for Oxford Economics, estimates that if WTI crude prices average $70 a barrel this year, U.S. growth will lose half the 0.7 percentage point gain it would otherwise earn from tax cuts passed earlier in 2018.

Oil-producing states such as North Dakota, Texas and Wyoming should benefit from higher extraction activity, though Daco warns that productivity enhancements could limit that upside. Poorer households have the most to lose. They spend about 8 percent of their pre-tax income on gasoline, compared to about one percent for the top fifth of earners.



6. Will it lead to higher inflation around the world?

While the influence of energy prices in overall consumer price baskets varies widely by economy, the category claims a double-digit share in economies such as Indonesia, Malaysia and New Zealand, according to RBC Capital Markets tallies.

Energy prices often carry a heavy weight in consumer price gauges, prompting policy makers including those at the Fed to focus simultaneously on core indexes that remove volatile food and energy costs. But a substantial run-up in oil prices could provide a more durable uptick for overall inflation as the costs filter through to transportation and utilities and other associated industries.

7. What does it mean for central banks?

If stronger oil prices substantially boost inflation, central bankers on balance will have one less (big) reason to keep monetary policy on hold while the Fed moves ahead in its tightening cycle.

Among the most-exposed economies, central bankers in India could have a big headache from a surge in crude oil prices. Alongside sharp weakness in the rupee, economists already are pushing forward their forecasts for the Reserve Bank of India's interest-rate increases as India's biggest import item gets more expensive.

Greater overall price pressures also could prompt faster monetary policy tightening in economies such as Thailand and Indonesia, which otherwise have used benign inflation as among reasons to stay patient on interest rates

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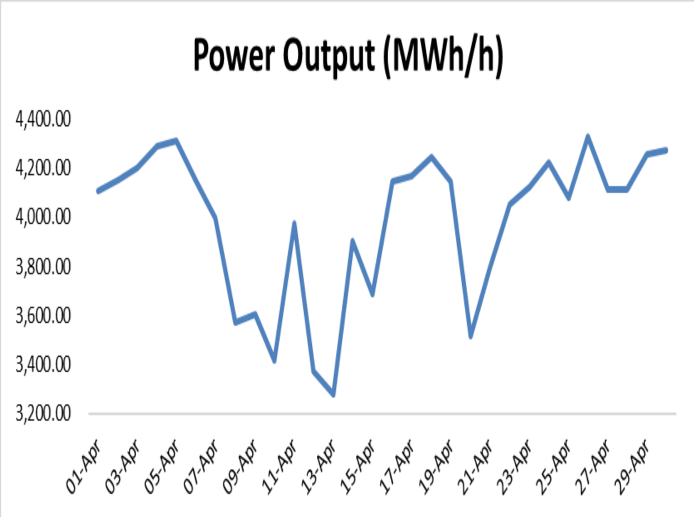
Macroeconomic Indicators

Power Sector

In April, the on-grid power output increased by 4.09% to 4,272MWh/h as of April 30th, from 4,104MWh/h on April 1st. The average power output from the national grid was 3,965.18MWh/h, 1.60% lower than March's figure of 4,029.48MWh/h. The dominant constraint remains gas in power stations and unavailability of distribution infrastructure. The sector lost a total of N1.27bn, annualized at N461.01bn in April.



[3]

Outlook

The rainy season will boost hydro-power. Nevertheless, due to the persistent gas constraint, gas powered GenCos are projected to produce an average of 3500-4000MWh/h of generated power in May at the transmission and distribution stages.

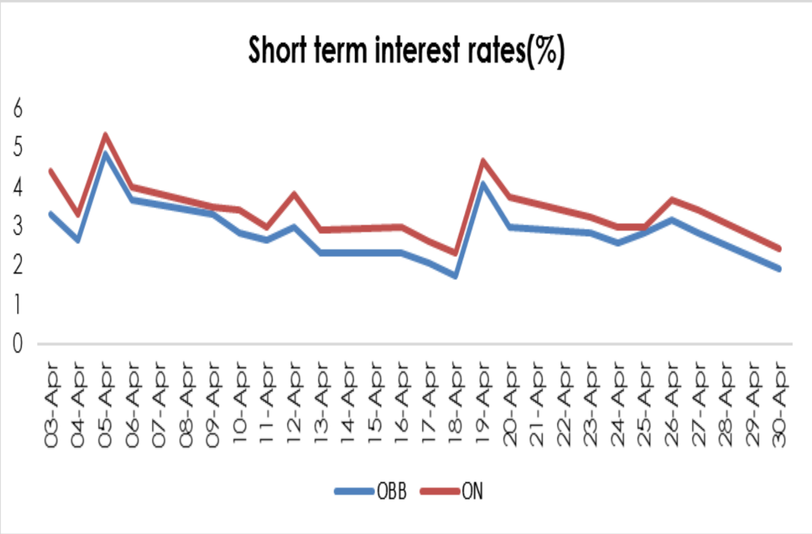
Money Market

Markets opened at N662.44bn long in April relative to March's opening position of N628.19bn long. The average liquidity in April was N541.62bn long relative to March's position of N238.30bn long. Increased liquidity in the money market is attributable to OMO maturities of N1.07trn in total compared to N711.36bn in the preceding month.

Short term interbank rates (OBB, ON) averaged 3.17% per annum (pa) in April, which was 1,144bps lower than 14.61% pa recorded in March. The OBB and O/N rates started the month at 3.33% pa and 4.42% pa before closing at 1.92%pa and 2.42%pa respectively. Also, at the primary market auction, Treasury bill rates decreased further to 10.9%, 12% and 12.08% from the preceding auction's stop rates of 11.75%, 12.70% and 13.04% for the 91-day, 182-day and 364-day T/Bills respectively.

In the secondary market, the yields for T/bills all declined to 10.72%, 10.89% and 11.79% from 12.51%, 14.21% and 13.22% for the 91, 182 and 364-day bills. The 91-day T/bill fell below 10% for the first time since July 2016, to 9.90% on April 24th before recovering.

[3]Source: Nigerian Electricity Supply Industry



[4]

Outlook

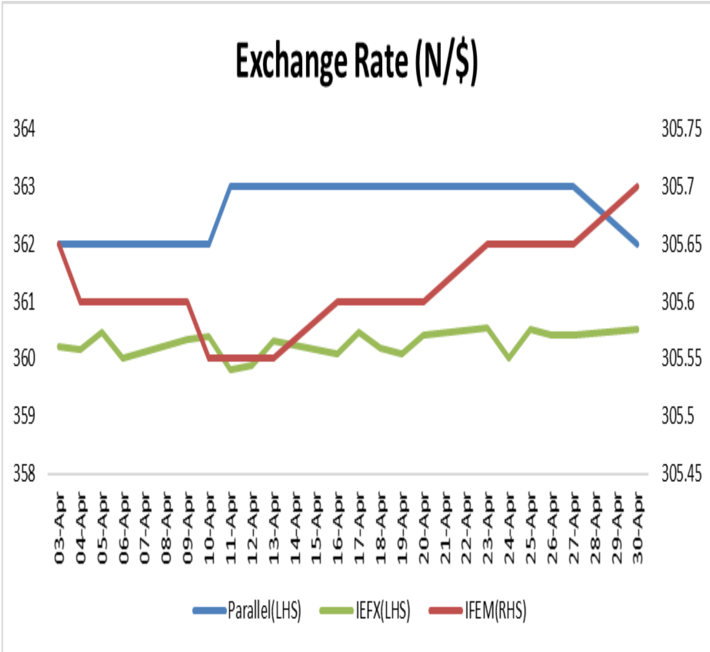
We are in an era of declining interest rates and we expect this trend to continue especially on the back of anticipated inflows from the budget.

Forex Market

Exchange Rate

In April, the naira was relatively stable between N362/$ and N363/$. The first 6 days saw a flat exchange rate of N362/$. It depreciated by 0.28% to N363/$ and stayed on that level for 2 weeks before appreciating back to N362/$ on the last day of April.

Similarly, at the interbank market, the naira traded between a tight band of N305.55/$-N305.65/$. At the Investors and Exporters Foreign Exchange (IFEX) window, the naira closed at N360.42/$ on April 27, 0.06% lower compared to N360.2/$ in March. Total turnover at the IEFX window was flat at $5.14bn.



[5]

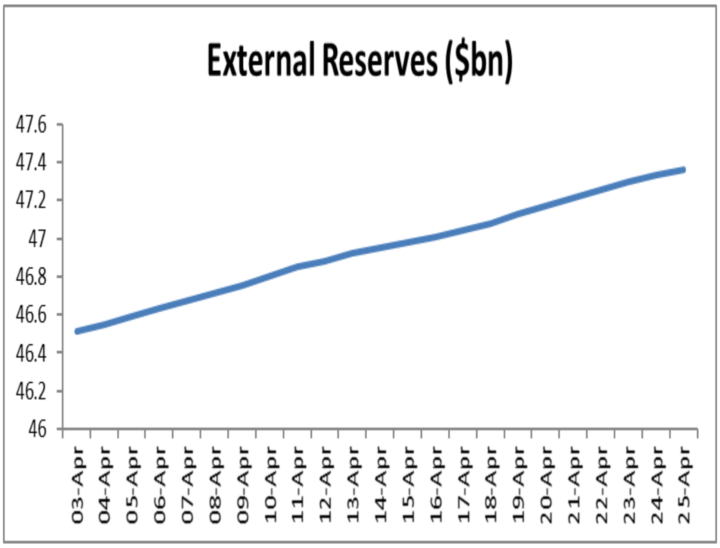
Outlook

The increased liquidity could trigger forex demand pressures which have so far being mild. The 2018 budget is expected to be passed in the month of May. This coupled with a liquid market could be detrimental to forex stability.

[4]Source: CBN, FMDQOTC, FDC Think Tank
[5]Source: FDC Think Tank

External Reserves

According to the CBN Governor, the level of Nigeria's gross external reserves has increased to $47.93bn. On the CBN's website, Nigeria's gross external reserves recorded an accretion of 1.83% ($850mn) to $47.36bn as at April 25th from $46.51bn recorded on April 3rd. The accretion in the external reserves was due to higher oil production and prices. The gross reserves import and payment cover increased to 13.31 months from 12.92 months.



[6]

Outlook

We expect the accretion in the gross external reserves level to continue on the back of robust oil market dynamics on the domestic and international front. However the threat of rising forex demand as a result of increased naira liquidity could slow the pace of accretion in subsequent months.

[6]Source: CBN, FDC Think Tank

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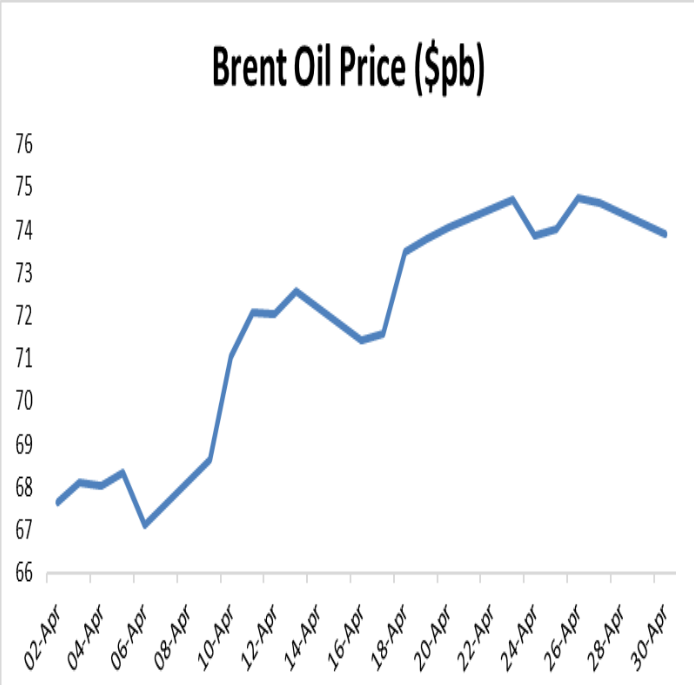
Commodities market - Exports

Oil prices

In April, the average Brent price increased by 7.46% to $71.70pb, compared to March's average of $66.72pb. Oil prices touched $75 on April 23rd, the highest level since November 2014. The trend was sustained by expectations that supplies will tighten just as demand reaches record levels in Asia. The U.S will decide on May 12 whether to abandon a nuclear deal or re-impose sanctions on Iran. Fears have begun to mount over such a move as Iran is OPEC's third biggest oil producer and it would lead to further tightening of global supply. However, prices briefly extended losses in post-settlement trading after data from the American Petroleum Institute showed a buildup of 1.1 million barrels of the U.S crude oil inventories for the week ending April 20th.



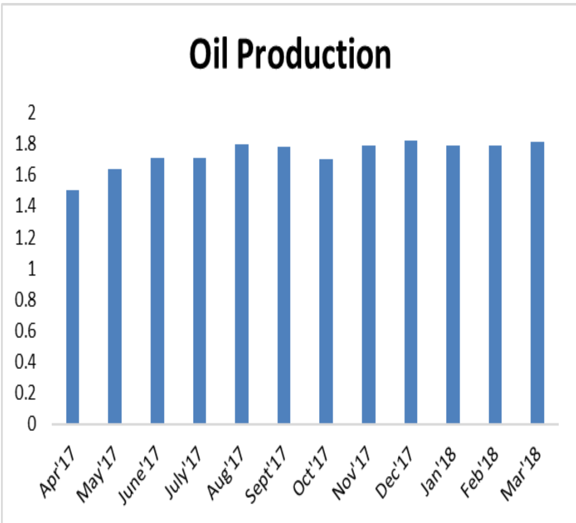
[7]

Outlook

Oil prices have gained 12.12% year to date (YTD). Crude prices are now at the highest level in three years, reflecting ongoing concerns around geopolitical tensions in the Middle East. Stable oil production and a continuous improvement in power will boost output growth. Favorable terms of trade, trade balance and accretion in external reserves will help support government finances in the event of a sharp decline in oil prices.

Oil Production

According to OPEC, Nigeria's oil production in March expanded by 1.12% to 1.81mbpd, from 1.79mbpd in February. The latest data from OPEC shows that the commercial stock level declined by 300 million barrels in March 2018. Nevertheless, the current commercial stocks remain above levels seen before the market downturn. The decline further indicates a 149% compliance level so far by producers who agreed to curtail their output.



[8]

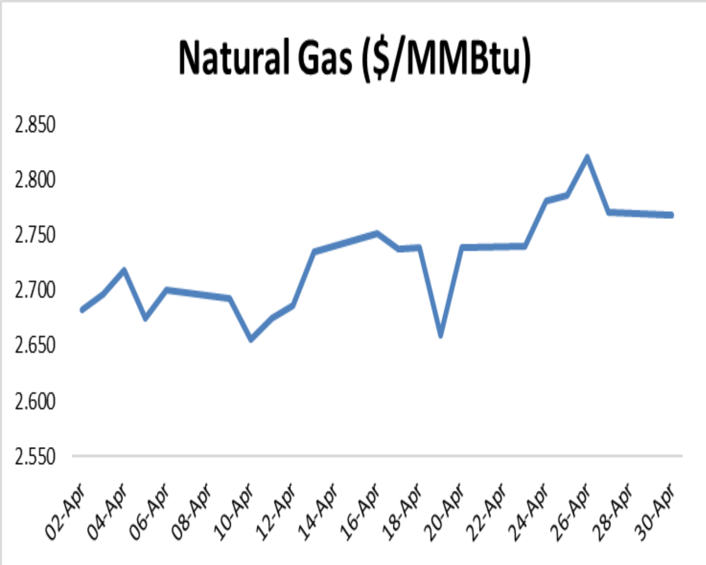
[7] Source: Bloomberg, FDC Think Tank
[8] Source: OPEC, FDC Think Tank

Outlook

Nigeria's oil production is expected to remain stable and strong. The risk is that if Nigeria continues to cross or at least tread dangerously close to its limit, it could be a major consideration at the next OPEC meeting in June.

Natural Gas

Natural Gas closed at a price level of $2.768/ MMBtu in April. This represents a 9.42% decline in prices from the start of the year and 1.28% lower than the corresponding period in March.



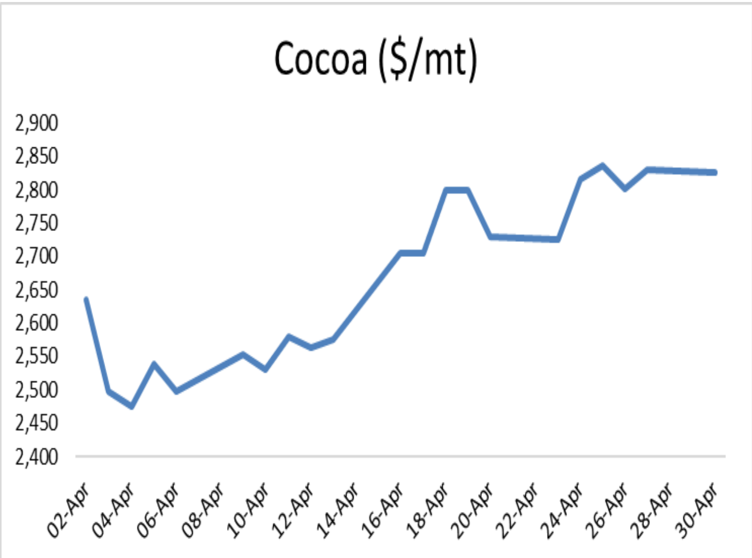
[9]

Outlook

Natural Gas prices are expected to remain low pending any significant increase in the demand for natural gas.

Cocoa

Cocoa prices strengthened during the period to reach an average of $2,660/mt in April from $2,499/mt in March, 6.44% higher than the previous month. Gains were driven by the production shortfalls in West Africa and the suspension of a program that distributes high-seedlings to farmers in Ivory Coast.



[10]

Outlook

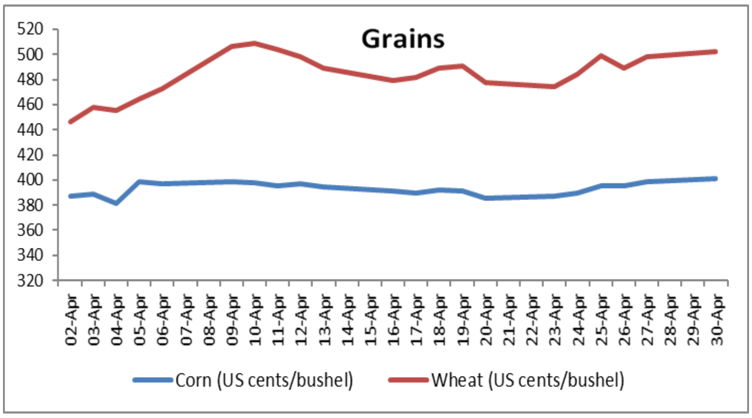
Improved production outlook in West Africa remains a bullish factor for cocoa prices. Cocoa production surplus is expected to continue in May due to favourable weather conditions.

[9] Source: Bloomberg, FDC Think Tank
[10] Source: Bloomberg, FDC Think Tank

Commodities market - Imports

Wheat

Wheat prices closed at $5.03/bushel in April, 11.53% higher than $4.51/bushel in March. However, average wheat prices increased by 1.68% to $4.84/bushel from $4.76/bushel in the corresponding period. Wheat prices increased as weather conditions in the US threaten production.



[11]

Corn

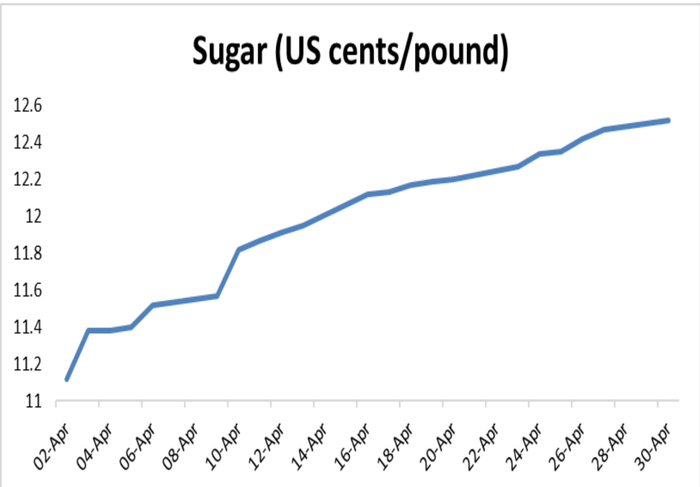
Corn prices averaged $3.93/bushel in April, 2.61% higher than the average of $3.83/bushel in March. This is due to reports of delays in US planting.

Outlook

Grain prices are expected to maintain the bullish trend in May. The grain market will see increasing demand, as oil prices climb above $70pb.

Sugar

Sugar prices averaged $0.1196/pound in April, 2.98% lower than the average of $0.1283/pound in the previous month. Prices reached a high of $0.1252/pound and a low of $0.1112/pound.



[12]

Outlook

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

[11] Source: Bloomberg, FDC Think Tank
[12] Source: Bloomberg, FDC Think Tank

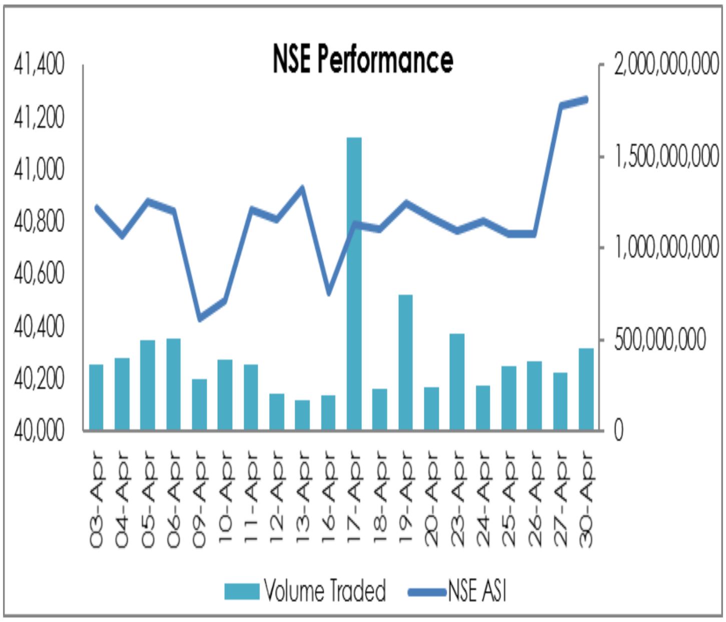
STOCK MARKET

The NSE-All Share Index (NSE ASI) recorded a marginal decline of 0.57% to close at 41,268.01 on April, 30 from the close of 41,504.51 in the preceding month. As a result, the YTD return on the index stood at 7.91%.

The market capitalization moved in tandem as it marginally lost 0.27% (N156.05bn) to close the period at N14.95trn from N14.99trn recorded in March. The stock market is currently trading at a price to earnings (P/E) ratio of 11.79x (April 30th), a 2.64% decline compared to its close of 12.11x as at 13th of April 2018.

During the review period, the NSE recorded 9 days of gains and 11 days of losses. The market breadth remained negative at 0.49x, as 32 stocks gained, 65 stocks lost and 72 stocks remained unchanged in the review month

Trading activity on the bourse declined in April compared to the previous month. Average volume traded declined by 12.59% to 423.17mn compared to 484.17mn recorded in March. Similarly, the average value of transactions fell by 18.18% to N5.31bn in the review period.



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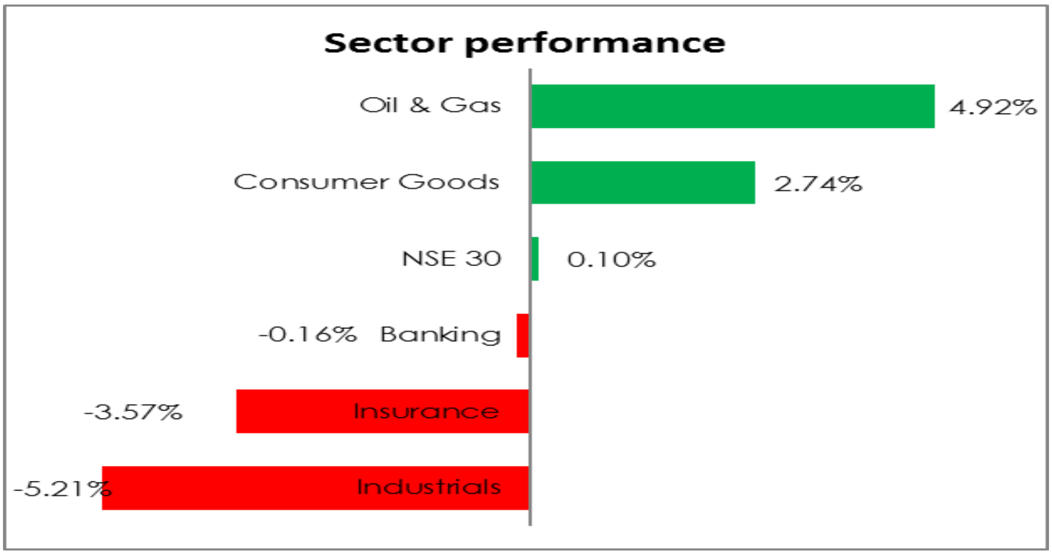
SECTOR PERFORMANCE

In the review period, three out of six NSE sectorial indices closed positive, with the Oil & Gas sub-index performing the best, gaining 4.92%. The uptick in performance was driven primarily by strong oil demand, geopolitical tensions in the Middle East and the potential of the re-introduction of US sanctions against Iran. In addition, the gains recorded by Oando Plc (53%), Seplat Plc (15%) and Forte Oil Plc (8%) bolstered the sector's performance.

Alternatively, the industrial sub-index performed the least, losing 5.12% in the review period. This was due to the losses recorded by major companies in the sector- Lafarge Africa Plc (-7%) and Dangote Cement Plc (-5%).



14

[13] *Source: NSE, FDC Think Tank*
[14] *Source: NSE, FDC Think Tank*

The best performing stocks were OANDO PLC (53%), LEARN AFRICA PLC (39%), ECOBANK TRANSNATIONAL INCORPORATED (23%), AIICO INSURANCE PLC (16%) and NESTLE NIGERIA PLC (16%).

TOP 5 GAINERS (N)

Company	Apr 30'18	Mar 29'18	% Change	Absolute Change
OANDO PLC	9.15	5.99	53%	3.16
LEARN AFRICA PLC.	1.35	0.97	39%	0.38
ECOBANK TRANSNATIONAL INCORPORATED	20.10	16.35	23%	3.75
AIICO INSURANCE PLC.	0.72	0.62	16%	0.10
NESTLE NIGERIA PLC.	1,599	1,380	16%	219.00

The least performing stocks were MUTUAL BENEFITS ASSURANCE PLC (-29%), GLAXO SMITHKLINE CONSUMER NIG. PLC (-29%), UACN PROPERTY DEVELOPMENT CO. LTD (-22%), JAPAUL OIL & MARITIME SERVICES PLC (-19%) and UNITY BANK PLC (-18%).

TOP 5 LOSERS (N)

Company	Apr 30'18	Mar 29'18	% Change	Absolute Change
MUTUAL BENEFITS ASSURANCE PLC.	0.24	0.34	-29%	-0.10
GLAXO SMITHKLINE CONSUMER NIG. PLC.	24.00	34.00	-29%	-10.00
UACN PROPERTY DEVELOPMENT CO. LIMITED	2.46	3.15	-22%	-0.69
JAPAUL OIL & MARITIME SERVICES PLC	0.48	0.59	-19%	-0.11
UNITY BANK PLC	1.00	1.22	-18%	-0.22

OUTLOOK

The All Share Index (ASI) has recorded a cumulative gain of 7.91% YTD largely due to bargain-hunting activities. In the coming month, we expect bargain hunting to continue as investors take position in value stocks with forward earnings expectations as the Q1'18 earning season begins. We expect this to impact positively on the NSE.

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Equity Report :
CADBURY NIGERIA PLC

Analyst Recommendation: SELL

Market Capitalization: N25.92bn

Recommendation Period: 12 Months

Current Price: N13.80

Industry: Consumer Goods

Target Price: N5.63

Analyst's note

The Nigerian food and beverage industry was one of the hardest hit during the recession (Q1'16 – Q1'17). Even today, it continues to face challenges due to increasing input costs, tight monetary and fiscal policies, 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 13.34% in April 2018) and high interest rates (MPR[15] at 14%), 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.

Cadbury Nigeria Plc was impacted negatively by these trends. It recorded a negative bottom-line earning of N296.40mn in FY'16 despite an income tax credit of N266.47mn. However, as the economy exited a recession and began to grow, although slowly, the company recorded a positive bottom-line earning of N299.99mn in FY'17 and N22.03mn in Q1'18.

Although Cadbury 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 Cadbury Nigeria Plc.

[15] Monetary Policy Rate

CIRCA 2% REVENUE GROWTH

Cadbury recorded revenue of N8.24bn in Q1'18, which represents a 2.03% increase compared to N8.07bn posted in Q1'17.Although the selling price fell by 2% on average, a marginal contraction in volume was recorded in Q1'18 compared to Q1'17.

EFFECTIVE OPERATING COST MANAGEMENT STRATEGY

Cadbury's management continues to keep its operating costs under control. The company recorded a 1.9% decline in its selling, distribution, and administrative expenses to N1.62bn in Q1'18 from N1.66bn in Q1'17. In addition, other income rose by 353% to N29.58mn in Q1'18 from N6.53mn in Q1'17.

FINANCE COSTS AND INCOME TAX EXPENSES WEIGH ON PROFITABILITY

Cadbury's profit before tax (PBT) plunged by 67.16% to N31.47mn in Q1'18 from N95.83mn recorded in Q1'17. This was due to a 233.3% surge in financing costs to N207mn, as a result of increased borrowings of N4.3bn recorded in Q1'18 compared to N3.60bn at the start of the year. Furthermore, the 30.16% decline in finance income weighed on PBT.

In the same vein, profit after tax (PAT) fell by 76.3% to N22.03mn in Q1'18 from N92.95mn posted in Q1'17. This was driven by a 228.35% increase in income tax expenses to N9.44mn in Q1'18 compared to N2.88mn in Q1'17.

EARNINGS PER SHARE (EPS) PLUNGE

Cadbury reported EPS of 1 kobo in Q1'18 compared to 5 kobo posted in Q1'17. This represents an 80% decline.

AFC

Cadbury Buttermint

Bournvita

Cadbury Hot Chocolate

Cosy

Solite

Tang

TomTom

Industry and Company Overview

Industry has lots of potential but plagued by structural challenges

Nigeria's large population makes the market lucrative for investors as the potential investors can tailor their products to suit the tastes and purchasing power of the people. However, the food and processing industry faces a couple of challenges. Nigeria imports most of its packaged foods with the costs of these items steadily increasing as the population grows. Capacity utilization in local factories is at an average of 35% which signals external impediments such as sporadic power supply.[16] In addition, the food processing industry in Nigeria is plagued by structural deficiencies such as storage facilities. Nigeria remains one of the highest cost markets in Africa with a highly price sensitive consumer base. This makes competitive pricing difficult for food producers and affects Nigeria's export capabilities to the West African region and world at large. The government, in a bid to support local food producers, placed an import ban on various food products, increased import duties, and implemented the dual inspection policy. It also introduced policies aimed at self-sufficiency in the production of major agricultural products to ensure cheaper raw materials for food processing companies.

Overview of Cadbury Nigeria's performance

Cadbury Nigeria Plc was founded in the 1950s to source cocoa beans for its parent company, Mondelēz International Inc,[17,18] and to market its famous Cadbury products to the Nigerian consumer market, and has since expanded to produce and sell Cadbury branded FMCGs to the Nigerian market. It is listed on the Nigerian Stock Exchange (NSE) and Mondelēz International holds a majority stake of 74.97% through its holding in Cadbury Schweppes Overseas Ltd.

The company focuses on three segments: beverages, confectionery and intermediate cocoa products.

i. The beverage segment includes Bournvita and Cadbury 3-in-1 Hot Chocolate; Bournvita is the company's major brand, amounting for 55% of Cadbury's total revenue. The company unveiled its automated $50mn Bournvita plant in Agidingbi, Lagos, in 2015, which increased its production capacity and improved its efficiency and competitiveness in the food and beverage industry.

ii. The confectionery segment includes Tom Tom and Buttermint candies. The brands include Tom Tom Classic, Tom Tom Strawberry, Tom Tom Lemon, Buttermint, Clorets and Trident. Tom Tom is an iconic brand in the Nigerian candy market. This segment accounted for 31% of Cadbury's total revenue. Its contribution to revenue dropped by 300bps in FY'17 from 34% in FY'16.

iii. The intermediate cocoa product segment includes the manufacturing and sale of cocoa powder, cocoa butter and cocoa cake, which are also exported to international customers. These products are processed in the Cadbury Nigeria Plc Cocoa Processing Plant, of which Cadbury owns a 99.66% share. The plant also provides all cocoa powder required for the manufacturing of Cadbury Bournvita. The segment contributed 14% to total revenue in FY'17, up 300bps from 11% recorded in FY'16.

[16] BMI Research.2017. "Nigeria Food & Drink Report".

[17] Nigeria was the world's second largest producer of cocoa before the discovery of crude oil in the 1970s.

[18] An American multinational confectionery food and beverage company.

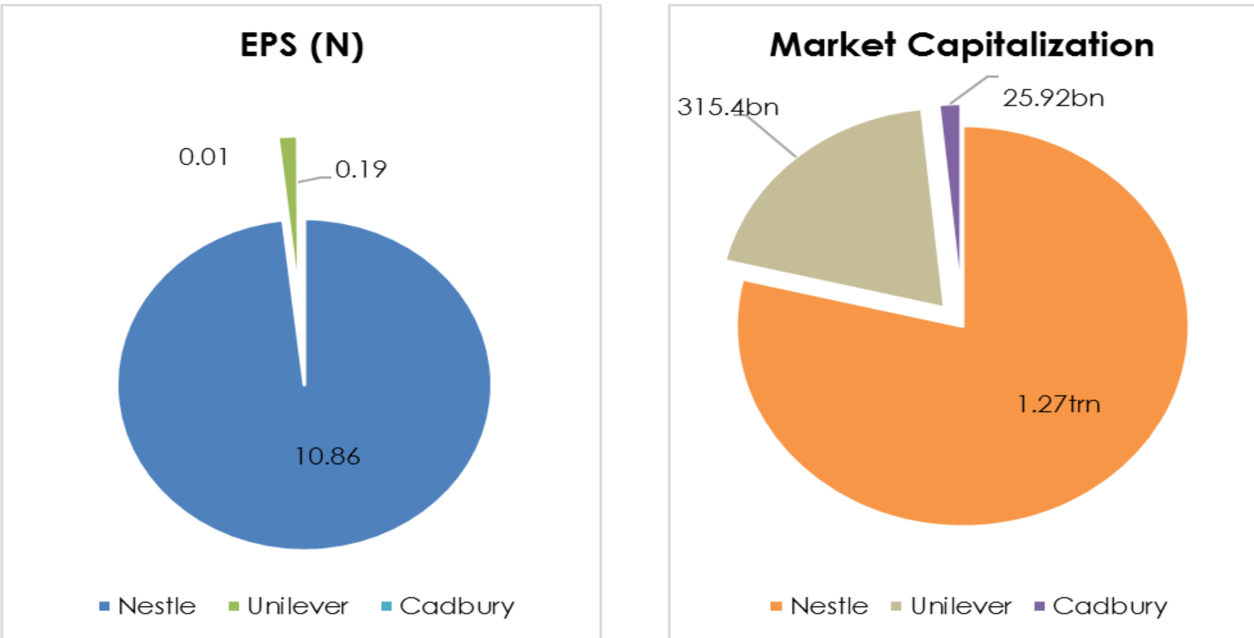
Cadbury Plc's rivals remain Nestlé and Unilever. Nestlé Nigeria Plc is currently the largest in the food and nutrition segment with bottom-line earnings of over N8.61bn compared to N22.03mn posted by Cadbury in Q1'18.

Nestlé's revenue grew by 10% to N67.46bn in Q1'18 from N61.15bn in Q1'17 due to a favorable volume-product mix. Its beverage segment grew by 17% despite relatively flat product prices, while its food segment grew by 7% owing to a 5% price increase. Nestle recorded a 4.5% decline in PBT to N13.64bn in Q1'18 from N14.28bn in Q1'17. However, Nestlé's PAT was up by 2.95% to N8.61bn in Q1'18 compared to N8.36bn posted in Q1'17. This was due to the 15% fall in tax expense to N5.04bn in Q1'18.

Other players include domestic food processing companies such as UACN Foods which manufactures snacks and a range of sweets.

The picture below gives a breakdown of leading players in terms of EPS and market capitalization.

Figure 2: Leading players in the consumer goods sector



Source: NSE, company financials

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

Income Statement for Cadbury Nigeria Plc (FY Dec'17)					
N'000	**2013**	**2014**	**2015**	**2016**	**2017**
Revenue	35,760,753	30,518,586	27,825,194	29,979,410	33,079,446
Cost of Sales	(22,660,657)	(22,134,829)	(18,894,967)	(23,119,007)	(25,644,312)
Gross Profit	13,100,096	8,383,757	8,930,227	6,860,403	7,435,134
Other Income	59,032	38,151	21,263	76,434	99,337
Selling & Distribution Expenses	(5,970,810)	(4,878,200)	(5,621,160)	(5,595,702)	(5,228,425)
Administrative Expenses	(1,467,631)	(1,488,817)	(1,909,714)	(2,073,988)	(1,594,681)
Operating Profit	5,720,687	2,054,891	1,420,616	(732,853)	711,365
Finance Income	1,770,124	331,000	156,796	187,780	186,915
Finance Costs	(69,334)	-	-	(17,798)	(547,963)
Net Finance Income	1,700,790	331,000	156,796	169,982	(361,048)
Profit Before Tax	7,421,477	2,385,891	1,577,412	(562,871)	350,317
Income Tax (Expense)/Credit	(1,398,258)	(248,572)	(424,117)	266,468	(50,319)
Profit for the Year (PAT)	6,023,219	2,137,319	1,153,295	(296,403)	299,998

Balance Sheet for Cadbury Nigeria Plc (FY Dec'17)					
N'000	**2013**	**2014**	**2015**	**2016**	**2017**
Non-Current Assets					
Property, Plant and Equipment	16,929,458	16,132,914	15,365,655	14,187,437	13,882,124
Intangible Asset	11,698	342,076	283,218	397,439	300,635
Prepayments	-	-	23,148	-	-
Total Non-Current Assets	**16,941,156**	**16,474,990**	**15,672,021**	**14,584,876**	**14,182,759**
Current Assets					
Inventories	1,880,654	2,392,926	1,936,455	5,020,938	6,252,367
Trade and Other Receivables	6,390,008	6,093,315	5,166,194	4,968,703	4,890,318
Prepayments	211,649	164,950	234,118	823,169	499,656
Cash and Cash Equivalents	17,749,157	3,685,105	5,408,217	3,011,314	2,598,022
Total Current Assets	26,231,468	12,336,296	12,744,984	13,824,124	14,240,363
Total Assets	**43,172,624**	**28,811,286**	**28,417,005**	**28,409,000**	**28,423,122**
Equity					
Share Capital	1,565,187	939,101	939,101	939,101	939,101
Share Premium	11,543,821	272,344	272,344	272,344	272,344
Other Reserves	3,436,348	3,436,348	3,436,348	3,436,348	3,436,348
Share Based Payment Reserve	35,201	42,492	30,266	42,634	49,698
Retained Earnings	7,414,374	8,059,166	7,607,238	6,366,306	7,045,300
Total Equity	**23,994,931**	**12,749,451**	**12,285,297**	**11,056,733**	**11,742,791**
Non-Current Liabilities					
Deferred Tax Liabilities	476,448	523,867	348,294	187,708	290,024
Employee Benefits	4,314,464	3,235,863	4,131,780	4,328,231	3,860,721
Total Non-Current Liabilities	4,790,912	3,759,730	4,480,074	4,515,939	4,150,745
Current Liabilities					
Trade and Other Payables	13,541,296	11,742,702	11,104,368	12,582,771	8,860,338
Current Tax Liabilities	845,485	559,403	547,266	102,192	69,488
Bank Overdrafts	-	-	-	151,365	1,902,047
Short-term Loan	-	-	-	-	1,697,713
Total Current Liabilities	14,386,781	12,302,105	11,651,634	12,836,328	12,529,586
Total Liabilities	**19,177,693**	**16,061,835**	**16,131,708**	**17,352,267**	**16,680,331**
Total Equities and Liabilities	**43,172,624**	**28,811,286**	**28,417,005**	**28,409,000**	**28,423,122**

MANAGEMENT

Keen on capitalizing on potential growth opportunities

In a bid for Cadbury to sustain returns and drive growth in a period of fragile economic growth, the management aims to continue to reposition the company for improved cost efficiency which was evident in its FY'17 financial performance. The company reported a 163% increase in PBT to N350.31bn in FY'17 from a loss of N562.87bn in FY'16 due to a fall in selling expenses and administrative expenses by 6.56% and 23.11% respectively.

This has been achieved by continuous investment in human capital, innovative initiatives and acquisition of world class technology which in return will strengthen the company's capabilities and improve shareholder value. In addition, the business will continue to be built on price competitiveness, aggressive route to market initiatives, sustained customer driven activations and exponential growth in portfolio.

Furthermore, management will strive to improve sales by continued promotional activities such as price discounting. There is currently an ongoing promo, the buy-1-get-1-free promo, for the 450g Bournvita Hot Chocolate drink which will drive volume growth and ultimately revenue.

Mr. Atedo Peterside has been the non-executive chairman of Cadbury Nigeria Plc since April 21, 2010. He served as a Director between August 2009 and April 2010. He previously served as the non-executive chairman of Stanbic IBTC Plc and on the board of several companies such as Flour Mills Nigeria Plc and Nigerian Breweries. He has a BSc in Economics from City University, London and an MSc in Economics from the London School of Economics and Political Science.

Mr. Muhammad Amir Shamsi has served as the Managing Director (MD) since February 1, 2017. He has worked in Mondelēz for over eight years as the MD in Pakistan and West Africa, and a global role in the US managing innovation for Kids Wholesome. He has worked with other multinationals including Imperial Chemicals Limited and GSK. He has an MBA in marketing.

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.

Non-Executive Chairman

Mr. Atedo Peterside

Managing Director

Mr. Muhammad Amir Shamsi

THE BULL AND THE BEAR SAYS:

- A leading food and beverage company in Nigeria
- Superior and recognizable brand value
- Strong parent company
- Proposed upward review of minimum wage to bolster consumer spending
- Qualified, talented and experienced management team

- Intense competition from other leading players such as Unilever and Nestlé
- Volatility in global cocoa prices can impact Nestlé's profit margins negatively
- Persistent forex challenges could put pressure on earnings
- Persistent macroeconomic headwinds have dampened consumer demand
- Shift of market preference to low-priced products

RISK AND OUTLOOK

Weak macroeconomic fundamentals pressure growth potential

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

Cadbury's financials could be affected by commodity price fluctuations, particularly for raw materials such as cocoa, sugar and diary prices. The company is exposed to currency risks on sales and purchases denominated primarily in US dollars, pounds, euros and Swiss francs. Exposure could reduce profit accruable to equity holders in terms of high finance costs. The company ensures net exposures are kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary.

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.

The risks facing Cadbury 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.

APPENDIX - VALUATION

We derived our valuation for Cadbury Nigeria Plc by using the Discounted Cash Flow (DCF) methodology. Our fair value estimate for Cadbury stood at N5.23, which is a 62.1% downside on its current share price of N13.80 as at May 01, 2018. The discount rate [weighted average cost of capital (WACC)] of 17.9% is derived using a 16.2% risk free rate, a beta of 0.8612, and a market risk premium of 6.4%. The calculated long-term cash flow growth rate to perpetuity is 4%.

DCF Valuation (FY Dec'17)			
N'000	**2018**	**2019**	**2020**
EBIT	2,380,588	1,446,834	1,110,390
Less: Taxes	(761,788)	(462,987)	(355,325)
EBIAT	1,618,800	983,847	755,065
Plus: Depreciation & Amortization Expense	1,736,167	1,757,847	1,702,125
Less: CAPEX	(1,883,013)	(1,386,076)	(1,369,813)
Less: Change in working capital	(3,416,827)	(1,183,282)	935,715
Free Cash Flow (FCF)	(1,944,873)	172,335	2,023,091
WACC	18%	18%	18%
Present Value (PV) of FCF	(1,649,211)	123,921	1,233,589
Terminal Value @ Perpetual Growth Rate	**2018**	**2019**	**2020**
Terminal value as of 2020			15,106,946
Present value of terminal value	9,211,530		

DCF Calculation	
PV of explicit period	(291,701)
PV of terminal value	9,211,530
Enterprise Value	8,919,829
+ Cash	2,598,022
- Borrowings	(1,697,713)
Equity Value	9,820,138
Share price	**5.23**
Shares outstanding ('000)	1,878,202

Important Notice

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