FDC Bi-Monthly Update

Volume 8, Issue 12

June 14, 2018

A Financial Derivatives Company Publication

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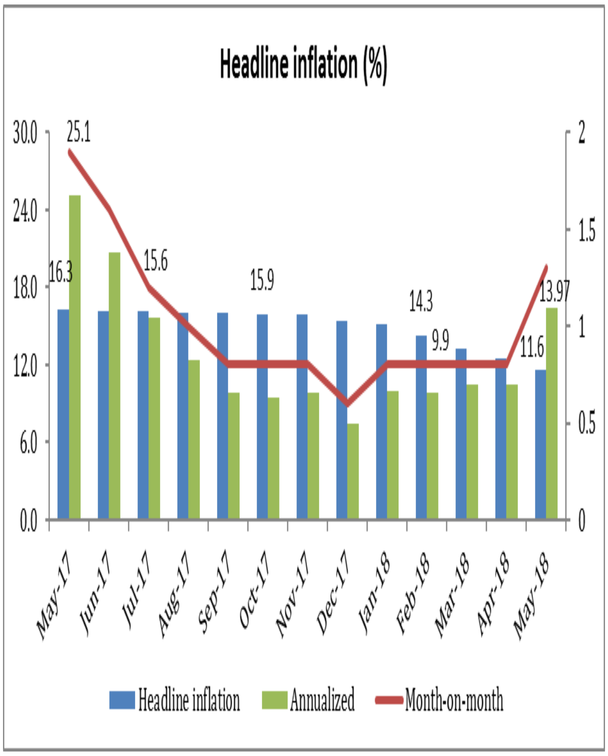
NIGERIA'S INFLATION DECLINES AGAIN TO 11.61% IN MAY

KWARA STATE- THE BEST PERFORMING

Nigeria's headline inflation dipped for the 16th consecutive month to 11.61% in the month of May from 12.48% in April, in line with analysts' expectations and general consensus. Also noteworthy is the fact that core and food inflation as well as urban and rural inflation declined. Cumulatively, inflation rate has declined by 3.52%, supported mainly by the base year effects.



[1]

A troubling trend is the increase in month-on-month inflation (a better reflection of current prices and inflation expectations) to 1.09%, which is annualized at 13.97%. This was primarily due to the spike in food prices, driven by a confluence of factors- Ramadan fast, planting season shortages and increased logistics cost (diesel prices- N205.67/litre).

Data Breakdown

Food inflation plunged further

The food sub-index (year-on-year) slowed to 13.45% from 14.80% in April. However, month-on-month food index recorded an increase of 42bps to 1.33% in May. This is largely attributed to higher food prices as a result of the confluence of the Ramadan fast and the planting season.

Core inflation

The core sub-index (inflation less seasonalities) declined marginally to 10.7% from 10.9% in April. On the other hand, month-on-month core inflation increased by 11bps to 0.98% in May from 0.87% in the previous month owing to increased cost of logistics. The average price of diesel increased 4.91% to N205.67/litre in May.

Imported inflation

Imported inflation eased by 15bps to 15.3% from 15.45% in April. This was partly supported by a relatively stable exchange rate.

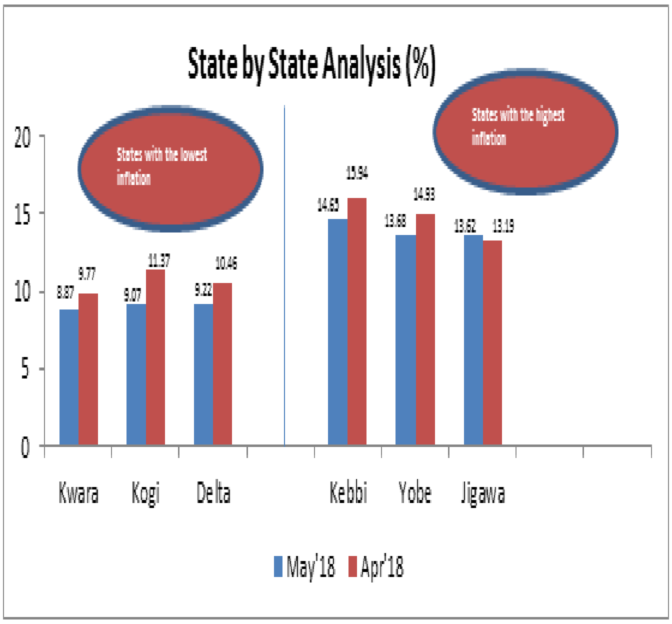
[1]Source: NBS; FDC Think Tank

Rural & Urban Indices

Rural and urban inflation rate (year-on-year) declined to 11.2% and 12.08%, from 12.13% and 12.89% in April. Month- on-month, both rural and urban indices increased sharply to 1.08% and 1.10% from 0.82% and 0.85% respectively in April.

State by State Analysis

Kwara state's inflation rate declined further to 8.87%, maintaining its position as the state with the lowest inflation rate, followed by Kogi (9.07%) and Delta (9.22%). The states with the highest inflation rates are Kebbi (14.65%), Yobe (13.68%) and Jigawa (13.62%).



[2]

Sub-Saharan Africa

With the exception of South Africa and Ghana, most of the SSA countries under our review have released their inflation data for the month of May. Angola and Uganda recorded a decline to 19.84% and 1.7% respectively. This was driven mainly by the decline in food and non-alcoholic beverages, housing and utilities. However, Kenya's inflation rate increased owing to higher prices of food and non-alcoholic beverages.

All the Sub-Saharan African (SSA) countries under review except Ghana maintained status quo at their May monetary policy meeting.

Country	May Inflation (%)		May Policy rate (%)	
Nigeria	11.8**	↓	14	↔
Angola	19.84	↓	18	↔
Kenya	3.95	↑	9.5	↔
South Africa	4.5*	↑	6.5	↔
Ghana	9.6*	↓	17	↓
Uganda	1.7	↓	9[3]	↔

Outlook

The sustained decline in inflation brings the CBN closer to its single digit target. This increases the possibility of a rate cut at the next MPC meeting which will hold on July 23rd. However, the upside risk to the moderating trend could be the liquidity and forex demand pressures associated with the budget implementation which could trigger inflationary pressures in the coming period.

[2]NBS, FDC Think Tank
[3]Source: Trading Economics; FDC Think Tank

NIGERIA'S FOREIGN TRADE :
REVIEW AND IMPLICATIONS

According to the National Bureau of Statistics (NBS), Nigeria's trade balance improved by 20.95% to N2.18trn ($7.14bn) in the first quarter of 2018, as the country recorded increases in both exports and imports.[4]

Imports into the country rose to N2.52trn ($8.2bn) in Q1, 19.22% higher than the previous quarter. This was primarily driven by a rise in other oil imports, which jumped 122.7% q-o-q to N846.31bn ($2.77bn). The effect of this increase was dampened by the decline recorded in other categories such as agricultural goods and solid minerals which dipped 5.87% and 17.27% respectively. Major suppliers of imports are China (21.1%), Netherlands (12.1%) and Belgium (10.6%).

Import Category	Value	Q-o-Q Change	Share of import bill
Manufactured goods	N1.19trn ($3.9bn)	-1.65%	47.2%
Other oil products	N846.3bn ($2.77bn)	+122.7%	33.7%
Raw materials	N284.81bn ($933mn)	+1.93%	11.1%

Nigeria's total exports rose by 20.02% to N4.69trn ($15.37bn) in Q1 2018. All of our export categories, except raw materials recorded ample growth during the quarter. Agricultural exports rose 63.8% to N73.24bn ($240m) with Cocoa- raw or fermented (40%), Sesame seeds (36%), and Cashew nuts (6.8%) as the top agricultural exports. Crude oil exports rose 10% to N3.58trn ($11.73bn), accounting for 76% of total export earnings (compared to 83% in Q4 2017). This can be attributed to the 9.48% increase in average oil prices in Q1 and 1.5% rise in domestic oil production.

The major markets for our exports include Netherlands (20.5%), India (18.2%) and Spain (8.3%).

[4]National Bureau of Statistics, June 6, 2018, Foreign Trade Statistics Report Q1

Export Category	Value	Q-o-Q Change	Share of export revenue
Crude Oil	N3.58trn ($11.7bn)	+10%	76.3%
Other oil products	N535.8bn ($1.75bn)	+10.53%	11.5%
Manufactured goods	N434.4bn ($1.42bn)	+684.1%	9.16%

Implications

Higher trade surplus is positive for exchange rate, terms of trade and current account balance. Increased inflow is also the reason for the 19.2% accretion in the external reserves recorded in Q1, giving the Central Bank more room to support the currency. Additionally, export revenue from oil accounts for two-thirds of the government's revenue. Thus, this upward trend is positive for fiscal spending. It also means Nigeria would have less need for borrowing and debt financing.

However, a trade surplus does not necessarily indicate economic strength. In fact, some of the strongest economies have the highest trade deficits. In March, the US recorded a trade deficit of $49bn, while the UK's widened by 162% to £3.09bn ($4.15bn)[5]

Outlook

In Nigeria's case, the primary reason for the improvement in the balance of trade was higher oil prices and production. Thus, it follows that any shock to price or production would have a significant impact on fiscal revenue, and foreign exchange. Oil prices are expected to stay strong in the short-term supported by geopolitical tensions and supply concerns. This will keep exports firm in Q2-Q3. Nigeria's exports for the full year are projected at $61.3bn, a 33.84% increase from 2017 levels[6].

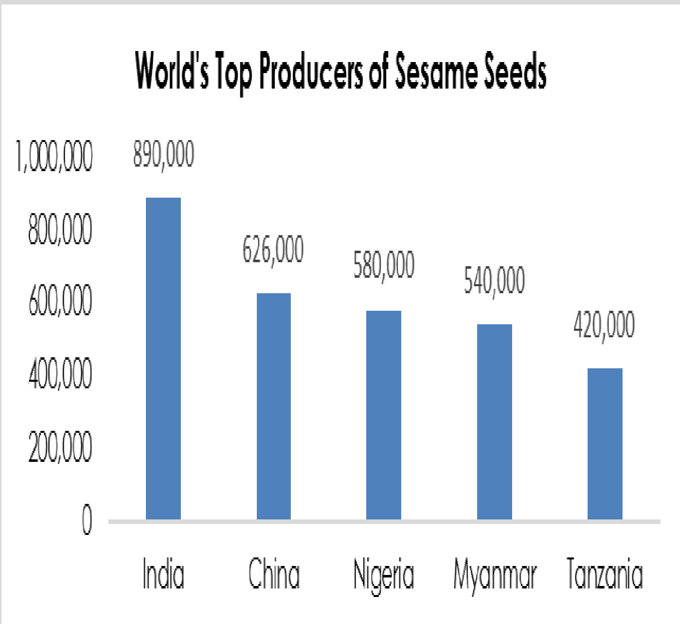
On the flip side, higher oil prices would mean increased landing costs of refined petroleum products. This will push up Nigeria's import bill. Additionally, the increased availability of forex will continue to support import demand. The effect of these will, however, be partially dampened by the expected decline in the global prices of agricultural imports, such as sugar. Imports are expected to total $45.2bn in 2018, 38.22% higher than 2017[7].

[5]Trading Economics, Balance of Trade, https://tradingeconomics.com/country-list/balance-of-trade
[6]EIU, June 2018, Country Forecast- Nigeria
[7]Ibid.

SESAME SEEDS: A DIAMOND IN THE ROUGH

There has been increased focus on the Agriculture sector as the government attempts to grow its non-oil revenue. Nigeria has an abundant variety of commodities growing on its land, which have the potential to generate revenue and foreign exchange for the government. One of such commodities is sesame seeds.

Sesame seed is a cash crop with wide varieties in Africa. Based on its colour, it is classified into the white and brown varieties. The white grain (Food Grade) is used by bakeries for pastry garnishing and salad while the brown grain, often referred to as the oil grade, is used in the production of sesame oil. The four major states that produce this commodity in Nigeria are Taraba, Jigawa, Nasarawa and Benue. Nigeria is the largest producer of sesame seeds in Africa, and the third largest in the world, with about 580,000 tonnes produced in 2017[8]. 90% of sesame seeds produced in Nigeria are exported. In Q1'18, it was the most exported non-oil commodity, contributing 0.57% to the total export value and 36.39% of agricultural exports[9].



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[8]World Atlas. 2017. "Top Sesame Seed Producing Countries In the world"https://www.worldatlas.com/articles/world-leaders-in-sesame-production.html
[9]National bureau of statistics. Foreign trade in goods statistics Q1'18.
[10]Source: World Atlas; FDC Think Tank

Sesame seeds present huge opportunities for Nigeria in terms of generating fiscal and export revenue. To take advantage of these opportunities and enhance its competitiveness, Nigeria needs to focus on improving processing and yields.

Sesame seeds- a golden opportunity?

Sesame seeds present a huge opportunity for Nigeria because of several reasons.

1. The global demand for the commodity is on the increase, global sesame seed market is expected to grow at a 4.2% compound annual growth rate (CAGR) between 2018 - 2024[11]. Nigeria exports to China, Turkey, Japan, Vietnam and South Korea. The commodity has numerous health and industrial benefits and is widely used for baking, medicine, cosmetics and animal feeds. It also has a high oil content (44–60%)[12]. Considering its health benefits and the growing preference for organic foods, the demand is likely to continue to grow, which is positive for Nigeria.
2. In Nigeria, about 37.33% of the land area is arable[13]. This offers a solid foundation for the cultivation of the crop. The fact that sesame seeds are also drought-resistant and require little or no fertilizer makes them cheaper to cultivate.

Challenges that can hinder production of sesame seeds

Nigeria's sesame production is not without its challenges; one of the major challenges is the lack of mechanized and modern farming techniques. Small-scale farmers use outdated skills and have limited access to finance and technology. This continues to inhibit local production. The yield per hectare in Nigeria is 0.5 – 1.0 tonnes; this is small compared to 1.4 – 1.6 tonnes per hectare in china[14]. This underperformance in yield is due to the knowledge gap and poor crop management practices adopted by smallholder farmers in Nigeria. Also, poor processing procedures are also affecting yields.

[11]Envision intelligence. 2018 "What is The Demand For The Sesame Seeds in The World?" https://www.envisioninteligence.com/blog/demand-sesame-seeds-world/
[12]Overview of the Nigerian Sesame Industry. https://www.agmrc.org/media/cms/sesame_subsector_overview_4CC9DED606F8A.pdf
[13]Trading Economics. https://tradingeconomics.com/nigeria/arable-land-percent-of-land-area-wb-data.html
[14]Food and Agriculture organization of the United Nations. 2016. http://www.fao.org/faostat/en/#data/QC

In addition, Nigeria has only three functional processing plants for sesame seeds (two in Kano and one in Lagos). Aggregate processing capacity of the three plants is 300 tonnes, with each producing 100 tonnes[15]. The poor number of functional processing plants has affected the quality of the seeds, as most seeds are processed manually. For a country that produces over 1200 tonnes per day, manual sorting and processing of these seeds is inefficient. It has also affected the pricing of the two variants. White sesame seeds are more expensive as they are better processed than the brown variant. A tonne of white and brown sesame seeds is internationally sold for about $1,600 - $1,800 and $700/tonne - $1000/ tonne respectively. Locally, a tonne of white sesame seed is sold for N340,000 while the brown is sold for N320,000.

How can Nigeria improve its sesame cultivation?

To address these challenges, Nigeria needs to develop new, high yielding and disease-resistant seed varieties such as Kenana 44, which yields about 1tonne per hectare[16]. Also, further research into new and improved sesame farming techniques, and modern agronomy practices will improve crop yield and expand production.

New processing plants are needed to improve the quality of sesame seeds produced and processed in Nigeria in order to meet international standards and help with better pricing. The manual sorting and processing technique has limited the use of sesame seeds to oil extraction and animal feed (the brown variant). This is because confectioneries and bakeries have specific seed requirements such as colour and flavour which the Nigerian sesame seeds do not meet as a result of poor processing[17]. For example, India has several large-scale processing plants and factories capable of processing up to 22,000 tonnes annually.

Increased government focus and private sector participation would also help boost the revenue and foreign exchange that can be obtained from the production and export of this commodity. With a potential output of 1mn tonnes per annum, sesame seeds can be the next big thing for Nigeria in terms of agric exports.

[15]Foraminifera Market Research. 2013. “Establishing a sesame seed cleaning and Dehulling plant In Nigeria, the Feasibility Report”. http://foramfera.com/marketresearchreports/agriculture-agro-processing-forestry-and-fishing/establishing-a-sesame-seed-cleaning-and-dehulling-plant-in-nigeria-the-feasibility-report/

[16]Daily Trust. 2017. Farmers can make fortune from sesame seed. https://www.dailytrust.com.ng/news/agriculture/farmers-can-make-fortune-from-sesame-seed-experts/200110.html

[17]Agriculture Nigeria. “Sesame seed”. https://agriculturenigeria.com/farming-production/crop-production/cash-crops/sesame

A LOOK AT NIGERIA'S CREDIT ECONOMY

In general, a credit system refers to a platform where financial institutions or lenders act as intermediaries in transactions. It provides funds to various economic agents and stimulates activity. Forms of credit range from loans to lines of credit, mortgages and credit cards. This system works to improve market efficiencies and fill the gap in consumption.

Importance of financial credit

A robust credit system is necessary for Nigeria's economic growth. When additional funds are made available to consumers, producers and other corporate participants, activity in the economy increases. Ultimately, more jobs are created, wages grow, private consumption accelerates and living standards improves.

Credit is essential for business performance. Access to finance remains one of the largest constraints to micro-small-medium enterprises (MSMEs). Increased credit invested in physical infrastructure or human capital has a multiplier effect on business performance, as it helps boost productivity. Businesses can invest in infrastructure, inventory, and innovation and make more sales.

Credit is essential for private consumption growth. A look at developed countries shows how much of a contribution an effective credit system makes to private consumption. The US private debt to gross domestic product (GDP) ratio equals 200%. Household debt alone soared to $13.15 trillion as of December 2017, equivalent to 70% of GDP[18]. Similarly, the UK recorded a private debt to GDP ratio of 217% in 2017[19]. Total household debt stood at a modest $1.93trn (as of October 2017)[20]. Consequently, this implies that there is a direct relationship between credit availability to the private sector and living standards. Credit gives access to consumption that will have otherwise been unavailable. By providing the funds needed to finance spending on health care, education, consumer products and services, an effective credit system will improve the quality of life. A study of Latin America shows that growth in the credit system led to an increase in the share of middle class households to 40.7% in 2010 from 20.9% in 1995. In this period, poverty decreased by 50%[21]. Thus, a financial credit system is paramount for income growth and middle-class expansion.

[18]Tae Kim, Feb 13, 2018. "Total US household debt soars to record above $13 trillion", CNBC, US Economy, https://www.cnbc.com/2018/02/13/total-us-household-debt-soars-to-record-above-13-trillion.html

[19]Trading Economics, "United Kingdom Private Debt to GDP, 1995-2018", https://tradingeconomics.com/united-kingdom/private-debt-to-gdp

[20]Financial Times, March 16, 2018 UK Consumer Credit, https://www.ft.com/content/e81469c4-b8ab-11e7-8c12-5661783e5589

[21]Zulma Barrail Halley, 2017. "Expansion of the middle class, consumer credit markets and volatility in emerging countries," Boston College PHD Dissertation, https://dlib.bc.edu/islandora/object/bc-ir:107373

Tracking Nigeria's Progress

Nigeria's credit system is growing in baby steps, especially when it concerns credit infrastructure, sets of laws and institutions that facilitate access to finance[22].

The country ranks sixth globally on the Getting Credit sub-index of the Ease of Doing Business. The index focuses on the credit infrastructure and assesses the laws that surround credit information gathering and movable collateral.

In 2017, the Central Bank of Nigeria (CBN), in partnership with the International Finance Corporation (IFC), established a National Collateral Registry. The centralized system allows lenders to register their security interests over movable assets owned by borrowers. Additionally, Nigeria currently has three credit bureaus which provide credit profiles on both corporate and individual entities, making it easier for lenders to make informed decisions. They are supported by the Bank Verification Number (BVN), which collates biometric data.

Indicator	Nigeria[23]	Sub-Saharan Africa
Strength of Legal Rights Index (0-12)[24]	10	5.1
Depth of Credit Information index (0-8)[25]	8	3.0
Credit registry coverage (% of adults)[26]	0.1	6.3
Credit bureau coverage (% of adults)[27]	7.8	8.2

[22]"Credit infrastructure", World Bank, Understanding Poverty/Topics. http://www.worldbank.org/en/topic/creditinfrastructure

[23]Where Lagos is used as a proxy

[24]Measures the degree to which collateral and bankruptcy laws protect rights and facilitate lending. The highest available score is 12.

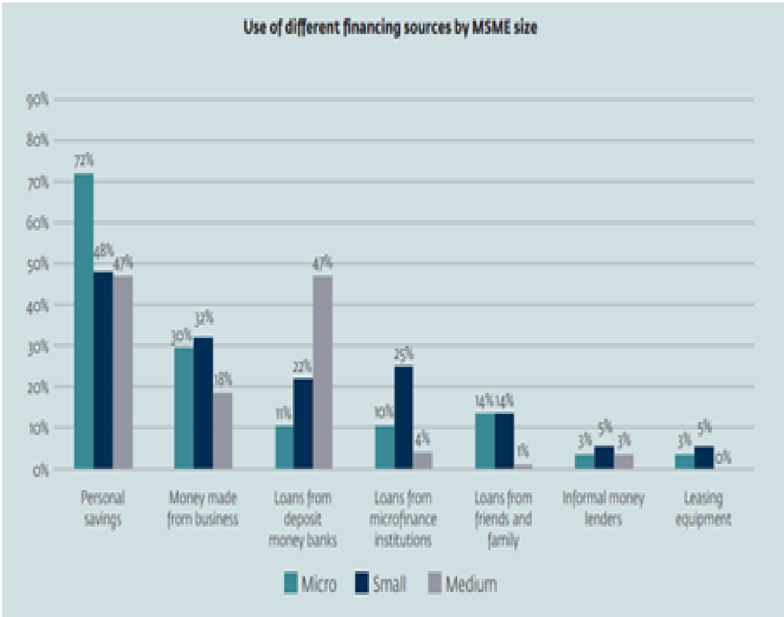
[25]Measures the rules and practices that affect the coverage, scope and accessibility of credit information through both public and private credit bureaus; the highest possible score is 8.

[26]Measures the percentage of individuals and businesses listed in a public credit registry with credit history from the past five years

[27]Percentage of individuals and businesses with credit history from past five years listed by a private credit bureau

However, when it comes to credit availability, there appears to be significant gaps. Domestic credit to the private sector has been weak, easing 0.18% (YTD) to N22.25trn as at April 2018. This is equivalent to 17.02% of GDP, compared to the SSA average ratio of 45.5% and the global average of 129%. On the other hand, credit to the government has risen 46.63% YTD to N5.22trn.

A survey by IFC, shows that only 31% of Nigerian MSMEs have ever obtained a loan from a commercial or microfinance bank[28]. The main reason for this low figure is that MSMEs lack the assets or collateral required by banks to guarantee the borrowed funds[29]. Thus, lending remains concentrated to sectors where tangible assets are available. In Q1, 21.9% of total banking credit was allocated to the Oil & Gas sector, while another 13.29% was given to the manufacturing sector. On the other hand, sectors such as Agriculture and Education account for only 3.21% and 0.47% respectively



In addition, credit options are limited. While more developed countries have an array of formal financial institutions offering credit in the form of private equity, venture capital, credit union loans and peer to peer-financing, Nigeria's formal sector is limited to banks and non-banks. In Q1 2018, commercial banks accounted for 69.5% of total private sector credit.

The current high interest rate environment makes credit an expensive option for MSMEs. With the monetary policy rate (MPR) stagnant at 14%, commercial bank official lending rates range from 20 -25% pa while microfinance banks offer as much as 40% to 50%. Thus, it is no surprise that while the economy is growing at 1.95% (Q1'18), interest-rate sensitive sectors such as Trade, Real Estate and Construction continue to contract.

Lastly, in a bid to reduce non-performing loans (NPLs), lending houses appear to have become rigid and risk averse, especially when it comes to individual or household lending. Thus, facilities

[28]Central Bank of Nigeria & the IFC, nd. "The credit crunch: How the use of movable collateral and credit reporting can help finance inclusive economic growth in Nigeria." World Bank, https://www.ifc.org/wps/wcm/connect/24a7f2ae-768e-4449-aa56-5a57b999b987/Nigeria+Financial+Literacy+Baseline+Survey+28+2+17_Single+Pages.pdf?MOD=AJPERES

[29]Ibid., Central Bank of Nigeria & the IFC.

Summary

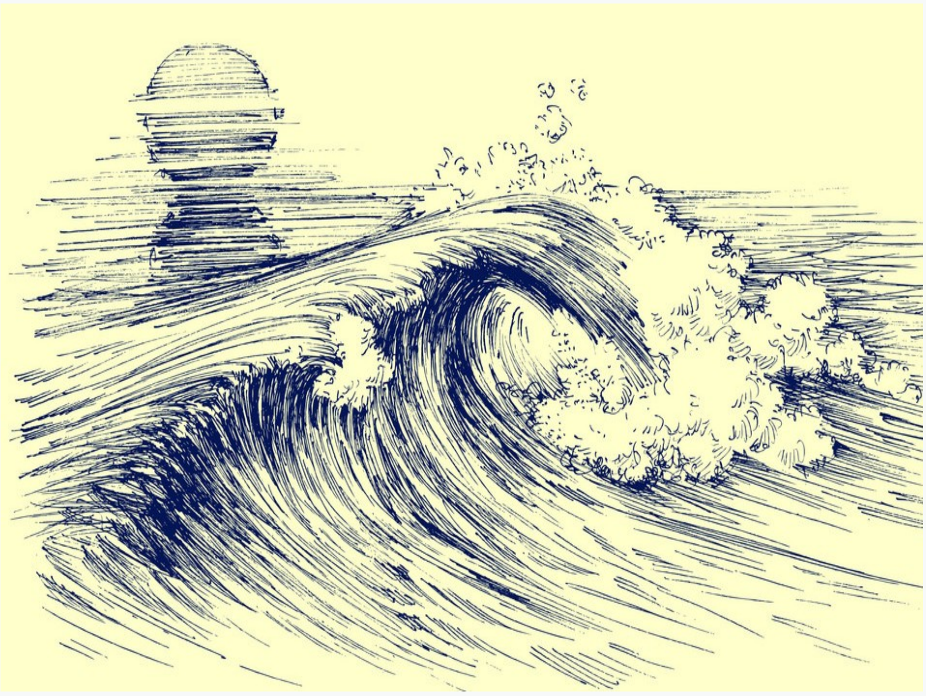
Nigeria's credit economy is still very much at its infancy stage. Although the country has made significant progress when it comes to developing the accompanying infrastructure, it still lags when it comes to actual credit availability and provision. High interest rates, lack of collateral and a low risk appetite from financial institutions will continue to hinder the growth of credit provision in the country. This means that private sector activity will remain subdued and private consumption growth will remain at sub-optimal levels. The introduction of an accommodative interest rate environment will help resolve this issue. A reduction in the MPR will have a trickle-down effect on lending rates of financial institutions and, boost the appeal of credit to MSMEs and private citizens. MSMEs account for over 90% of private sector activity, 80% of job creation and 50% of GDP. Thus, a boost in their performance, supported by credit financing, will have a positive impact on the economy as a whole.

THE SURGE IS OVER

Why $50pb oil is now more likely than $100

Hedge funds convinced themselves that they understood market fundamentals better than the professional. The spring fever is passing. After three months on the rise, the oil market has turned. In a single day, on Friday (May 25) the price of a barrel of Brent crude fell by 2.5% while the US benchmark crude — West Texas Intermediate — was down by 4.5%. The market is now set for a further fall as the hype and speculation that led to the increase is replaced by a cold return to fundamentals.

A Martian watching the oil market from outer space during the past few months will have noticed one thing above all else. There is no shortage of supply and no imbalance of supply and demand. Any shortfalls in production from places such as Venezuela have been easily covered by production from elsewhere, not least the US where output continues to grow month by month; thanks to the continuing shale revolution. The run-up in prices was driven by politics. Some traders came to the conclusion that supplies were going to be disrupted by war in the Middle East between Saudi Arabia and Iran or between Israel and Iran. This was fuelled by rhetoric on both sides and by President Donald Trump's disavowal of his predecessor's deal with Iran over its nuclear ambitions. The traders began to speculate on what they thought might happen next and the price rose.



[30]https://www.ft.com/content/ec6101b0-6187-11e8-a39d-4df188287fff

Another Middle East war would indeed be devastating but is it really likely to happen? Israel will continue to use its superior firepower to limit the threat posed by Iranian activity in Syria and Lebanon but that is very different to launching an all-out conflict. Mr Trump is an unconventional president but I do not believe he wants to take America to war in the Middle East again. He wants Iran to give way and waves a big stick. So far the big stick is the threat of yet more sanctions. That would be disruptive for Iran and for western companies doing business there but does anyone seriously think that Russia and China and India are going to obey the sanctions or stop buying Iranian oil? They have not done so before and there is no obvious reason why they should now. Speculation got ahead of the reality. At the same time reality moved in the opposite direction. The rise in prices has helped bring on more production — not least in the US. Across the world, producers have pushed production up to take advantage of a price surge which they believe is temporary. OPEC — and in particular Saudi Arabia — have decided that the surge has gone too far. Last week they began to indicate that they do not want to see oil prices rising to the point where demand is choked off.

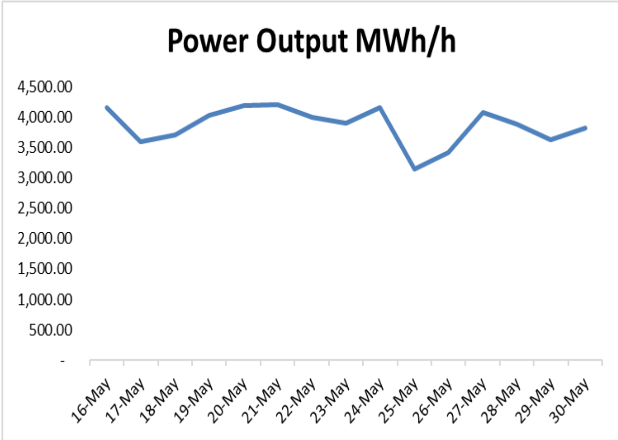
So the tide turns. How far out will it go?

On the supply side there is more production due on stream this year from Iraq and the US and a continuing gradual increase in demand that so far has only been modestly tempered by the recent price rise. Supply and demand remain in balance. Since there is no physical shortage the answer is that instead of rising to a $100 as some commentators have suggested, the price is more likely to fall towards $50 per barrel. This seems to be the level at which some US shale production becomes uneconomic. If it gets too low the Saudis and others will try to reassert their production quotas and so a reasonable bet on where the market balances would be around $50 to $60.

That, not by chance, is the expectation of several of the major oil companies that have never embraced the spring speculation and continue to plan on a baseline price around $50. They have enjoyed the surge in prices but continue to focus on controlling costs and imposing discipline on new investments. The losers in all this are the hedge funds that have managed to convince themselves they understood the market better than the professionals. Their fingers are badly burnt but no doubt they will lick their wounds and then return — trying to trade the price down to $5 or some other unrealistic level. It is hard to feel too much sympathy for them.

POWER SECTOR

Average power output from the national grid was 3,938MWh/h within the period of May 16th – 30th. This is 5.89% lower than the average of 4,105MWh/h in the corresponding period in April. The decline in power output occured despite heavy rainfall during the period.



[31]

Outlook

We expect the impact of the raining season to improve hydropower output and result in average power supply to be between 3,900-4,000MWh/h in the coming weeks.

MONEY MARKET

Average opening position for banks during the period closed positive despite declining to N150.10bn compared to N475.28bn in the corresponding period in April. The CBN issued less OMO bills in the last half of May at N191.48bn relative to N776.68bn in the corresponding period in April. However, OMO maturities were higher at N959.47bn, compared to N502.76bn in the second half of April. The net inflow in review period in May was N767.99bn, relative to a net outflow of N273.92bn recorded in April.

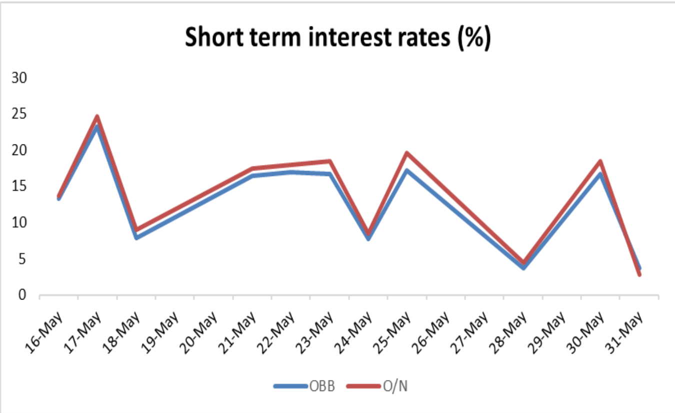
During the period, T/Bills rates in the primary and secondary markets were as follows:

Tenor	Primary market (May 16th, 2018) (%)	Primary market (May 30th, 2018) (%)	Secondary market (May 16th, 2018) (%)	Secondary market (May 30th, 2018) (%)
91-day	10.00	10.00	12.23	11.59
182-day	10.50	10.30	11.72	11.43
364-day	10.70	11.00	12.88	12.62

[31]Source: FGN

Average NIBOR (OBB, O/N) was 13.57% pa within the review period, compared to 2.93% pa in the corresponding period in April. The increase in short term rates was despite increased market liquidity following FAAC disbursements, OMO and bond maturities.

Lending rates declined to 23% pa from 25% pa. This was due largely to the declining interest rate environment.



[32]

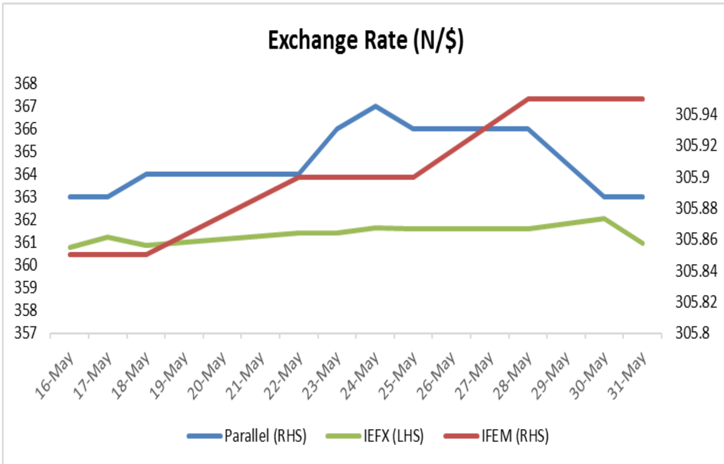
Outlook

Naira liquidity in the coming weeks would remain driven by the passage of the 2018 budget and increased demand for the currency by summer tourists. This would keep short term interest rates at an average of 10% pa.

FOREX MARKET

Exchange Rate

At the parallel market, the naira depreciated against the dollar by 1.4% to N367/$ as at May 24th before appreciating to N363/$ on May 30th. The decline in value was driven by anticipation of the release of funds once the budget is signed into law. At the interbank foreign exchange market the naira depreciated by 0.03% to close at N305.95/$ with IEFX rate following in tandem, depreciating by 0.05% to close at N360.97/$. Total forex traded at the IEFX window was $2.91bn, compared to $2.69bn in the corresponding period in April.



[33]

Outlook

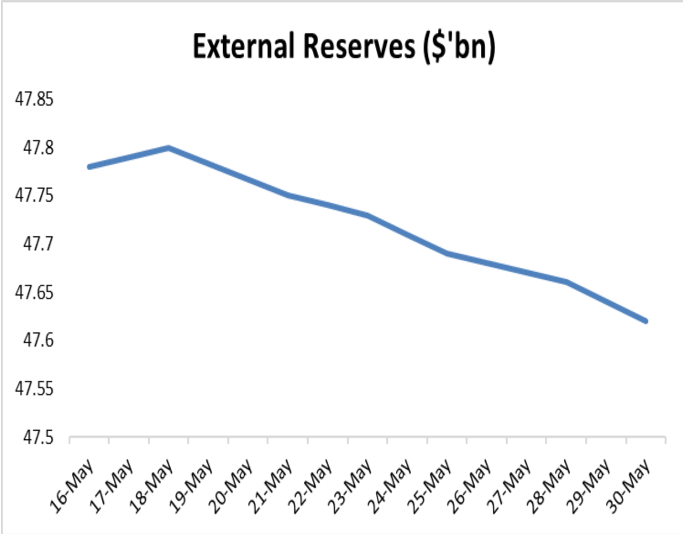
In the coming weeks, we expect increased pressure on the naira. The risk of speculative demand, higher demand from travelers (pilgrims and tourists) may lead to occasional bouts of naira volatility. However, we expect the CBN to continue its frequent interventions in the market to maintain naira stability.

[32] Source: FMDQ

[33] Source: FMDQ, CBN, FDC Think Tank

EXTERNAL RESERVES

External reserves declined by 0.33% from $47.78bn on May 16th to $47.62bn on May 30th. The decline was driven primarily by an increase in the CBN's intervention to address rising forex demand pressures. The CBN sold a total of $1.43bn in May compared to $837mn in April and this was reflected in the external reserves level declining 11 times in May.



[34]

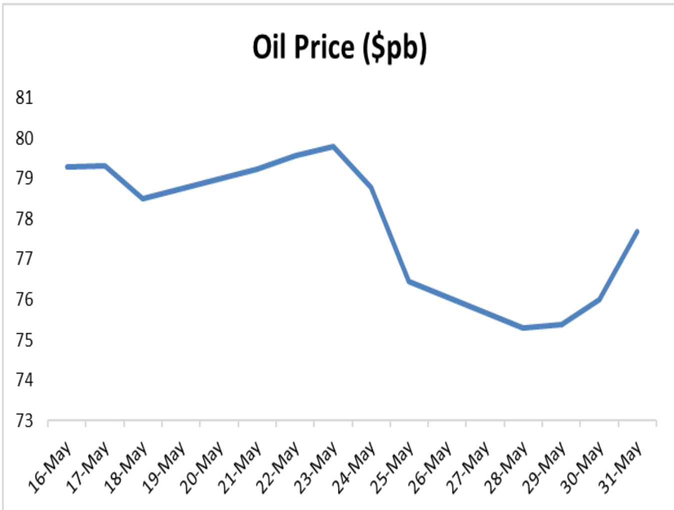
Outlook

The increased strain on external reserves has reduced the import cover from 13.27 months to 13.24 months within the period. The current level is however still strong enough to allow the CBN intervene in the event of an economic shock. We expect robust oil proceeds to mitigate the impact of heightened forex demand pressures on the external reserves in the near term.

COMMODITIES MARKET - EXPORTS

Oil Prices

Brent price crossed $80pb (intra-day) driven by the sanctions on Iran's oil output. However, the 4-year high price was not sustained as prices declined by 2.04% to $77.66pb. The decline resulted from an increase in U.S. active rig count from 989 in March to 1,011in April. Average oil price for the period was $77.94pb compared to $73.77pb in the corresponding period in April.



[35]

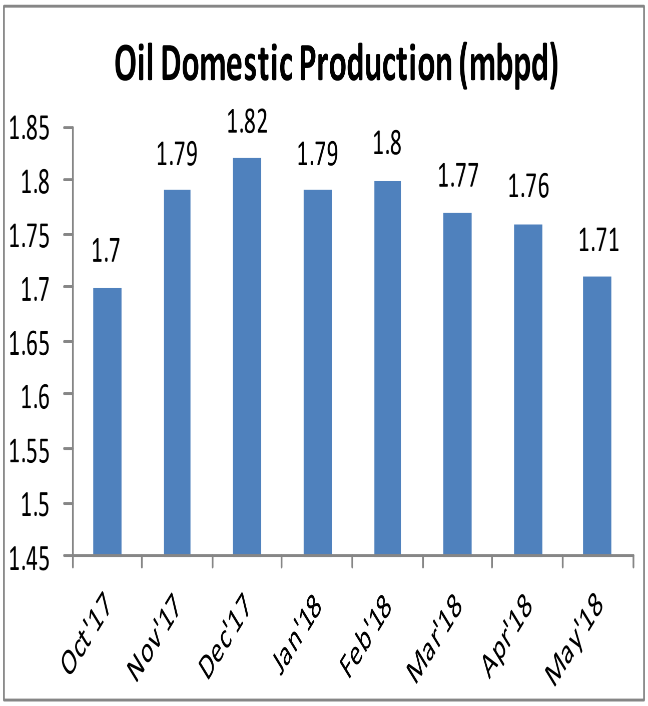
Outlook

Global supply of Brent oil in the coming weeks is expected to decline following the drop in both Iran and Venezuela's output. This would push Brent prices to hover around $75pb-$80pb. OPEC's next meeting is also scheduled to hold on June 22nd which would play a key role in determining the movement of Brent prices in the near term.

[34]Source: CBN
[35]Source: Bloomberg

Oil Production

According to OPEC's monthly oil report, Nigeria's domestic oil production declined by 2.84% to 1.71mbpd in May from 1.76mbpd in April. The decline in production occurred despite an increase in Nigeria's oil rig count from 13 in April to 14 in May.



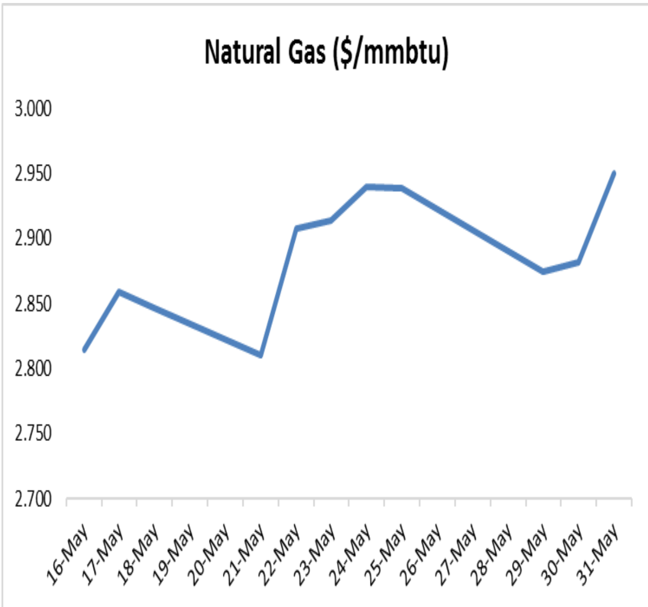
[36]

Outlook

The re-opening of the Trans-Forcados pipeline is expected to keep Nigeria's oil production stable around 1.70mbpd – 1.75mbpd in June.

Natural Gas

The price of natural gas increased by 3.16%, to close at $2.90/mmbtu on May 31st, from $2.82/mmbtu. Higher prices were supported by expectations of increased Chinese demand.



[37]

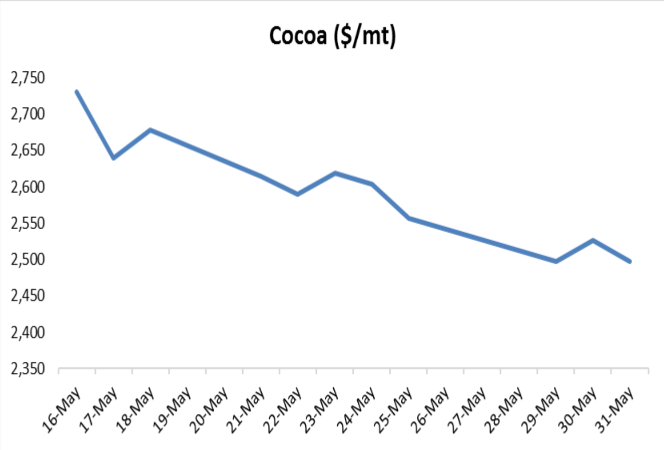
Outlook

The new development to extend Russia – Turkey gas pipeline to Europe would likely increase global supply. This is expected to reduce prices in the near term.

Cocoa

Cocoa prices declined by 8.53% to $2,497/mt on May 31st, from $2,730/mt on May 16th. Cocoa prices continued the downward trend despite expectations of reduced supply from Ivory Coast in the 2018/2019 harvest.

[36]Source: OPEC
[37]Source: Bloomberg



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Outlook

The steady decline in cocoa prices together with adverse weather conditions has discouraged farmers from investing in fertilizers and pesticides. This would lead to crop infestation, a further decline in global supply and may reverse the trend of prices in the near term.

IMPORTS

Wheat

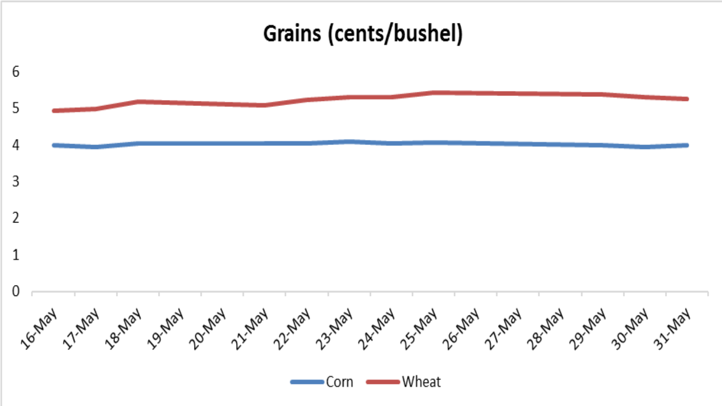
Wheat prices increased by 6.07% to $5.24/ bushel on May 31st, from $4.94/bushel on May 16th. The increase was driven by adverse U.S. weather conditions.

Grains- Outlook

We expect grain prices to trend downwards in the near term due to improved weather conditions in key growing areas.

Corn

Corn prices dipped by 0.63% to $3.97/bushel from $3.99/bushel. This was driven primarily by the trade tensions between the U.S. and China.



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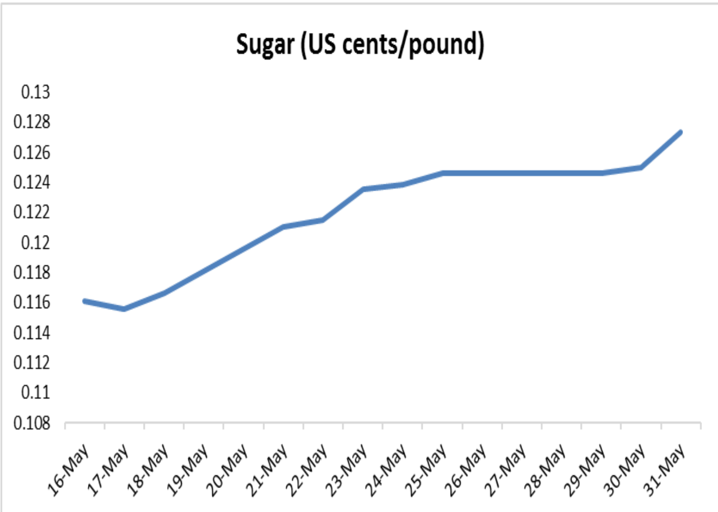
Sugar

Sugar prices advanced 9.65% to $0.1273/ pound on May 31st from $0.1161/pound, despite concerns about ample global supply.

Outlook

We expect prices to decline in the near term on the back of increased global supply and reduced demand due to heightened health consciousness.



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[38] Bloomberg.
[39] Bloomberg.
[40] Bloomberg.

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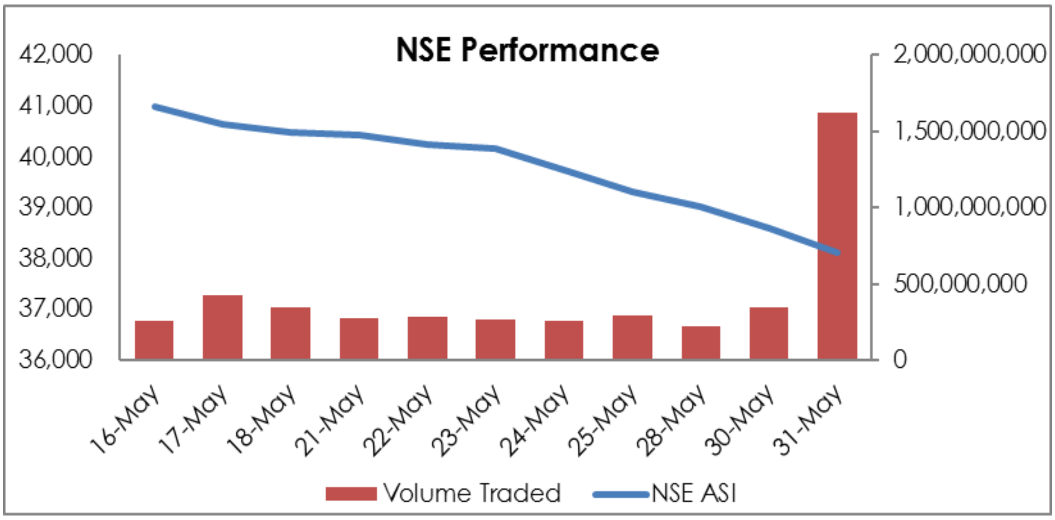
The Nigerian stock market maintained its bearish trend in the second half of May 2018 (16 May – 31 May).

The NSE-All Share Index (NSE ASI) lost 6.18% to close at 38,105.54points on May 31st from the 15th of April's close of 40,615.42points. The YTD return on the index stood at -0.36%. The bourse has lost all gains recorded in 2018 primarily due to negative sentiments from the election cycle and profit taking activities.

The market lost 6.18% (N909.52bn) as the market capitalization closed the period at N13.80trn. The stock market is currently trading at a price to earnings (P/E) ratio of 10.89x (May 31st), a 5.30% decline compared to its close of 11.50x as at 15th of May 2018. During the review period, the NSE recorded 11 days of losses.

The market breadth was negative at 0.49x, a 26% decline, compared to 0.66x recorded in the first half of May. The number of losers (65) outpaced the number of gainers (32) while 72 stocks remained unchanged.



[41]

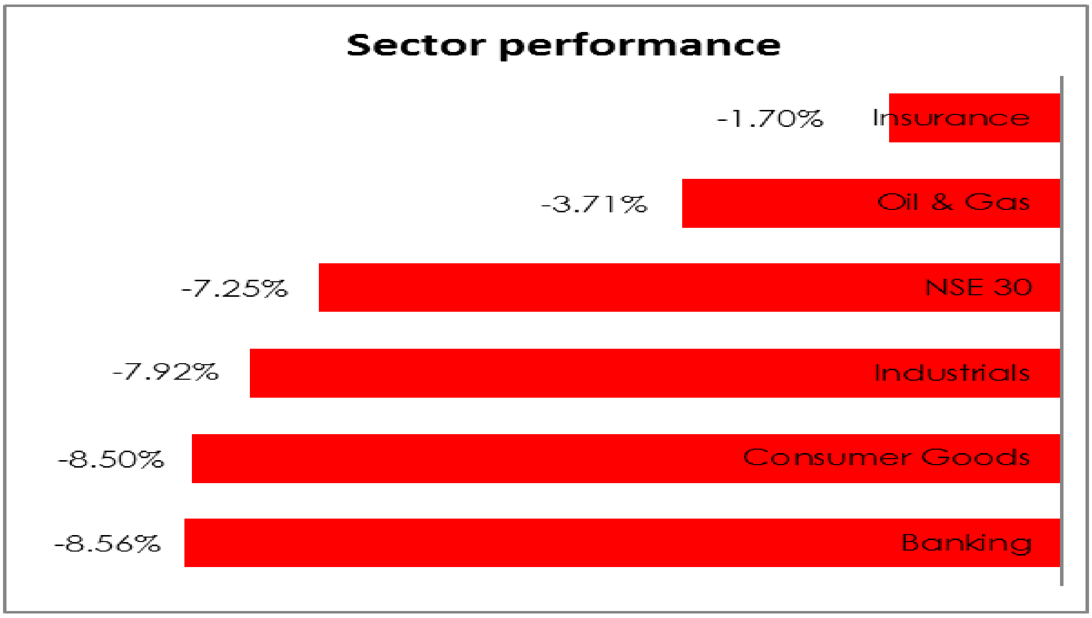
Trading activity on the bourse increased in the second half of May. Average volume rose by 44% to 417mn units compared to 289mn units recorded in the first half of May.

Similarly, average value surged by 107% to N10.06bn from N4.85bn recorded in the first half of May. This was primarily due to the high turnover of N71.2bn recorded on the 31st of May as a result of an 11.35% increase in Standard Bank's stake in Stanbic IBTC Holdings Plc. The parent company now controls 64.44% stake.

[41]Source: NSE, FDC Think Tank

SECTOR PERFORMANCE

In the review period, all sub-sector indices were in the red. The insurance sub-sector, although negative (-1.70%), performed the best. Gains recorded by Sovereign Trust Insurance (29%), Consolidated Hallmark Insurance (21%) and Mutual Benefits Assurance (20%) were reversed by losses posted by Equity Assurance (-29%), AIICO Insurance (-16%), Veritas Kapital Assurance (-13%) and Linkage Assurance (-10%).



[42]

Banking index continued its losing streak (-8.56%), performing the least, as bellwether stocks dragged performance. Investors reduced their positions in banks due to the negative impact of IFRS 9 on earnings. Most banks recorded a loss in the review period.

The best performing stocks were IKEJA HOTEL PLC (41%), SOVEREIGN TRUST INSURANCE PLC (29%), CONSOLIDATED HALLMARK INSURANCE PLC (21%), LAW UNION AND ROCK INS. PLC (21%) and MUTUAL BENEFITS ASSURANCE PLC (20%).

TOP 5 GAINERS				
Company	May 31'18	May 15'18	% Change	Absolute Change
IKEJA HOTEL PLC	2.51	1.78	41%	0.73
SOVEREIGN TRUST INSURANCE PLC	0.27	0.21	29%	0.06
CONSOLIDATED HALLMARK INSURANCE PLC	0.34	0.28	21%	0.06
LAW UNION AND ROCK INS. PLC	0.94	0.78	21%	0.16
MUTUAL BENEFITS ASSURANCE PLC	0.36	0.30	20%	0.06

[42]Source: NSE, FDC Think Tank

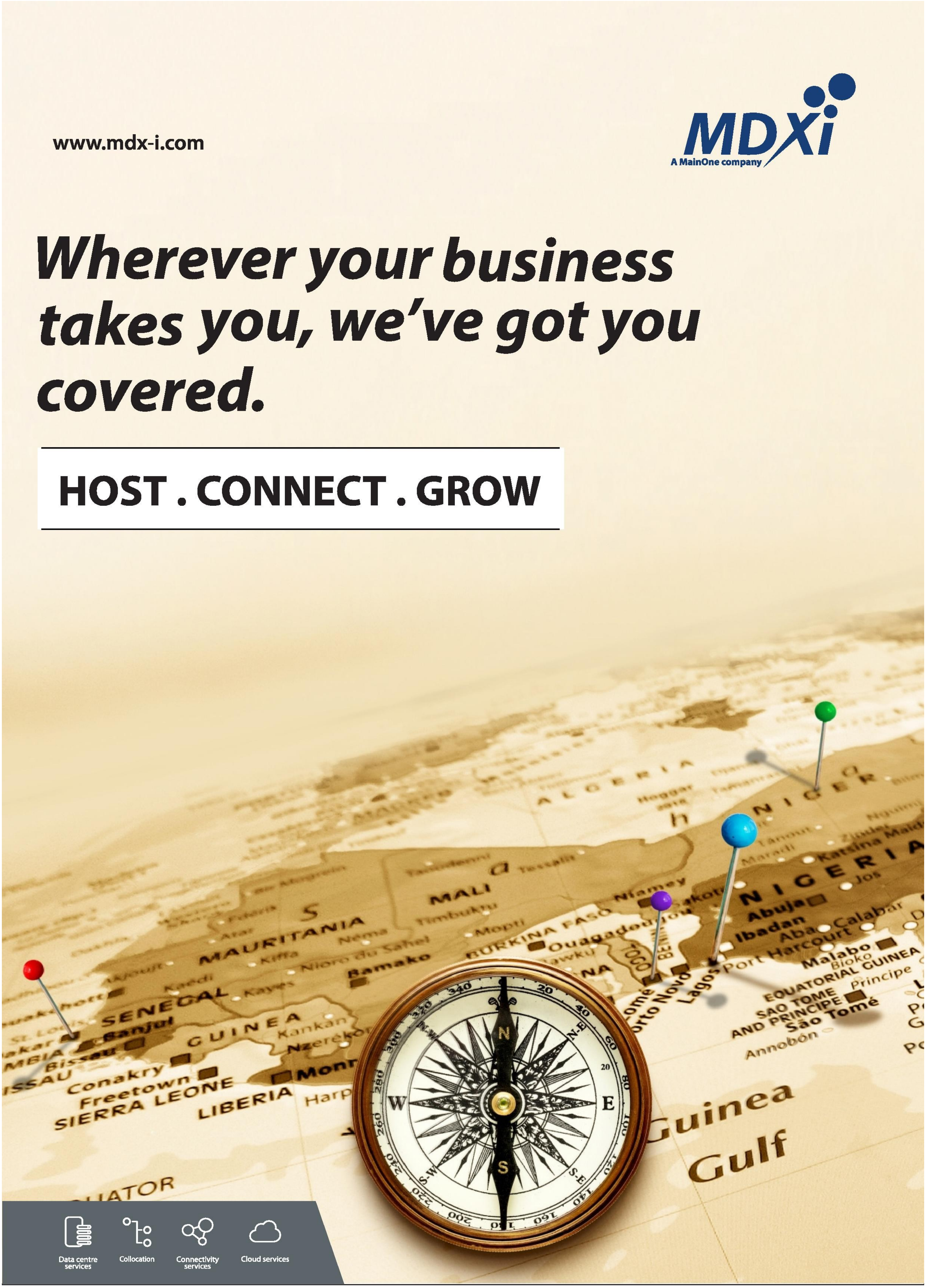
The least performing stocks were JAPAUL OIL & MARITIME SERVICES PLC (-27%), NIGER INSURANCE CO. PLC (-20%), OANDO PLC (-19%), DIAMOND BANK PLC (-19%) and CONSOLIDATED HALLMARK INSURANCE (-18%).

TOP 5 LOSERS (N)				
Company	May 31'18	May 15'18	% Change	Absolute Change
JAPAUL OIL & MARITIME SERVICES PLC	0.21	0.35	-40%	-0.14
EQUITY ASSURANCE PLC	0.20	0.28	-29%	-0.08
STERLING BANK PLC	1.25	1.63	-23%	-0.38
TRANSNATIONAL CORPORATION OF NIGERIA PLC	1.27	1.65	-23%	-0.38
FIDELITY BANK PLC	1.81	2.30	-21%	-0.49

OUTLOOK

The All Share Index (ASI) has recorded a cumulative loss of 0.36% YTD. In the first half of June, we expect the market to be driven by economic developments. Also, we expect the market to maintain its downward trend as the market is now in a correction stage. Investors will continue to take positions in value stocks.

Furthermore, we expect the projected rise in US interest rates to affect performance on the bourse.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CORPORATE FOCUS : INTERNATIONAL BREWRIES PLC

ANALYST'S NOTE

The Nigerian food and beverage industry was one of the hardest hit during the recession. Even today it continues to face challenges due to increasing input costs and low consumer confidence (-6.4points in Q1'18) despite an improving economy. Earnings have been dampened by accelerating input prices and high unemployment and underemployment (40% in Q3'17). Weak macroeconomic factors, such as a high inflationary environment (food inflation at 14.80% in Apr'18) and currency volatility continue to affect the industry negatively.

During the collapse of global oil prices in 2014 and the disruption in production in the Niger Delta, consumers' purchasing power also declined. This resulted in a major shift from premium products to value-branded products. This change to value-brands remains even with an improving economy.

International Breweries Plc deals mainly in value products. However, it recorded a decline in financial performance in Q1'18. It recorded a loss of N2.24bn, which is a 264% plunge compared to a profit of N1.36bn recorded in Q1'17.

Our International Breweries valuation is derived using intrinsic valuation and its share price is currently overvalued. Accordingly, we place a SELL rating on International Breweries Plc.

International Breweries Plc

Analyst Recommendation: *SELL*

Market Capitalization: N445.27bn

Recommendation Period: *365 days*

Current Price: N41.80

Industry: Food, Beverage & Tobacco

Target Price: N22.02

Revenue growth driven by price increase

International Breweries Plc posted revenue of N25.97bn in Q1'18, a surge of 175.2% compared to N9.44bn recorded in Q1'17. The surge was driven by an increase in its beer prices in Q1'18. International Breweries' Trophy larger and Hero brands rose by 15% quarter-on-quarter (q-o-q) to N230 each. In addition, the company increased the packaging size of the Trophy lager and Hero bottles to 60cl from 50cl.

With the company currently operating at full capacity, we expect stronger revenue growth in the following quarters. Furthermore, the price hike in Q1'18 and the introduction of newer brands- Budweiser & Eagle will bolster revenue growth. However, the new excise duty on alcoholic beverages which took effect on June 4 would have an impact on consumers in the long run depending on the price elasticity of International Breweries products. This will affect the company's revenue negatively as demand for its products will decline.

Surge in costs weigh on profitability

Although International Breweries recorded an impressive revenue growth of circa 175% year-on-year (YoY), the rise in costs outweighed revenue growth of N29.57bn. The company reported a 226.5% increase in cost of sales to N16.79bn, 271.6% rise in marketing and promotion expenses to N1.53bn, 300.3% surge in administrative expenses to N6.29bn and 367.0% growth in finance cost to N3.60bn in Q1'18. These resulted in a loss before tax of N2.56bn in Q1'18 compared to a profit of N1.49bn recorded in Q1'17.

Furthermore, the company recorded a loss after tax of N2.24bn, a steep fall of 264.6% compared to a profit of N1.36bn posted in Q1'17.

Earnings per share (EPS) down 163.4%

International Breweries posted a loss per share of 26 kobo in Q1'18 compared to a profit of 41 kobo reported in Q1'17.

The Nigerian brewery industry remains the largest segment of the food and beverages sector. It is one of the 10 fastest growing beer markets in the world. It has evolved over the years from a duopoly (Nigerian Breweries and Guinness) to an oligopolistic market structure[43]. Nigeria is the second largest beer market in Africa. Nigeria boasts of a large youth and growing-class population which is a major factor contributing to the growth in its brewery industry. The industry is expected to grow at a compound annual growth rate (CAGR) of 5.6% between 2011 and 2020[44].

The industry is dominated by three key brewing giants which are subsidiaries of global brands. These include Nigerian Breweries (a subsidiary of Heineken International), Guinness Nigeria (a subsidiary of Diego) and International Breweries (a subsidiary of AB InBev[45] - formally SABMiller). Other players include Casapreco and other indigenous manufacturers dealing mainly in low end gin. Each of the brewing giants has numerous brands that compete for consumers' patronage in the market.

Over the years, AB InBev has remained resilient in gaining market share in the competitive market. However, Nigerian Breweries remains the dominant player with a market share of 71.5% as it continues to gain market share each year. In contrast, Guinness Nigeria has recorded a declining market share due to poor social engagement activities compared to its peers.

[43]A small number of firms have the majority of market share

[44]A Focus on the Nigeria Brewery Sector – GTI Research 2015

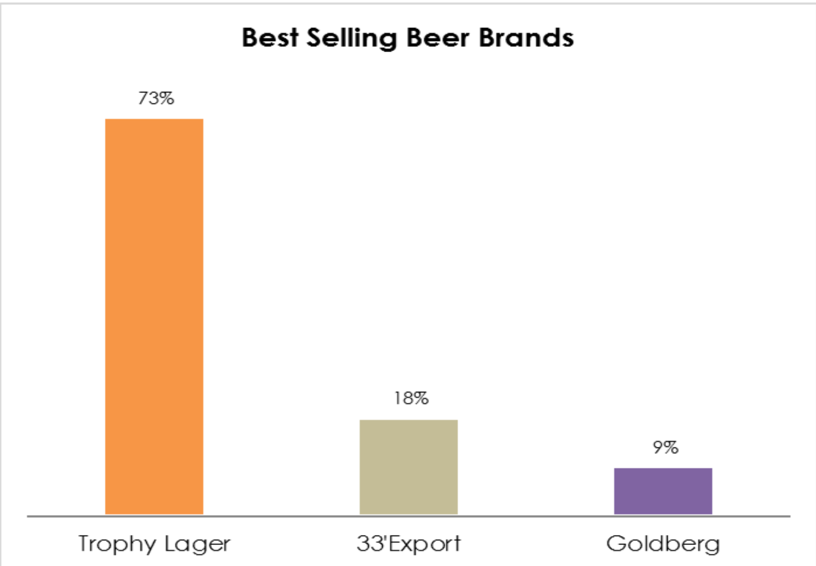
[45]Anheuser-Busch InBev

International Breweries Plc. was incorporated in 1971 as a private limited liability company under the name International Breweries Limited and commenced operations in December 1978. It became a public limited liability company in 1994 and was listed on the Nigerian Stock Exchange (NSE) in 1995. In August through November 2017, AB InBev acquired controlling interests in International breweries as it acquired 72.17% of SAB Miller's shares in the company.

In November 2017, International Breweries, Intafact Beverages Limited and Pabod Breweries Limited (all subsidiaries of AB InBev) consolidated their operations through a merger agreement. As a result, it listed an additional 5,301,612,656 shares on the NSE in December 2017 bringing the total issued and fully paid shares to 8,595,861,936. AB InBev plans to change the company's name this year to reflect the uniqueness of its brands.

Its key business activities remain brewing, packaging and marketing of beer, alcoholic and non-alcoholic beverages and soft drinks. International Breweries deals primarily in low priced products.

Figure 1: International Breweries Brands/Portfolio



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Trophy Lager, International Breweries major brand, has grown to be the best selling beer brand. Its acceptability has cut across all segments of the Nigerian market due to huge investments in its marketing strategies.

[46] BusinessDay Research & Intelligence Unit (BRIU). 2017. Nigerian Brewery Industry Snapshot

Following the merger with its sister companies, International breweries changed its reporting period to 1 January – 31 December from 1 April – 31 March. Its growth can be seen through its financial results.

Income Statement for International Breweries Plc						
N'000	**2013**	**2014**	**2015**	**2016**	**2017**	**2017**
Revenue	17,388,632	18,493,907	20,649,295	23,269,364	32,711,218	36,527,807
Cost of Sales	(9,687,402)	(9,591,273)	(11,587,817)	(12,560,429)	(17,546,759)	(22,819,920)
Gross Profit	**7,701,230**	**8,902,634**	**9,061,478**	**10,708,935**	**15,164,459**	**13,707,887**
Other Income	30,121	13,966	191,192	44,772	102,403	123,387
Marketing and Promotion Expenses	(2,201,408)	(2,412,707)	(2,859,260)	(3,596,407)	(5,089,755)	(6,086,719)
Administrative Expenses	(2,085,746)	(1,492,671)	(1,758,149)	(2,016,188)	(2,092,682)	(4,549,768)
Operating Profit/EBIT	**3,444,197**	**5,011,222**	**4,635,261**	**5,141,112**	**8,084,425**	**3,194,787**
Interest Income	308,974	41,620	1,327	225,101	2,983	532,971
Finance Cost	(197,625)	(1,127,342)	(1,821,034)	(1,709,387)	(5,195,659)	(6,927,374)
Profit Before Tax (PBT)	**3,555,546**	**3,925,500**	**2,815,554**	**3,656,826**	**2,891,749**	**(3,199,616)**
Income Tax Expense	(1,228,204)	(1,820,000)	(869,064)	(1,004,078)	(1,857,392)	4,628,936
Total Comprehensive Income for the Period (PAT)	2,327,342	2,105,500	1,946,490	2,652,748	1,034,357	1,429,320

Balance Sheet for International Breweries Plc						
N'000	**2013**	**2014**	**2015**	**2016**	**2017**	**2017***
Non-Current Assets						
Property, Plant and Equipment	15,496,354	18,677,771	22,679,842	25,216,244	31,748,068	191,554,980
Intangible Asset	24,765	22,444	54,383	54,923	45,738	432,592
Available for Sale Investment	1,000	1,000	1,000	-	-	1,481,590
Deferred Tax Assets	890,325	94,254	106,699	127,458	1,229,680	20,298,380
Total Non-Current Assets	**16,412,444**	**18,795,469**	**22,841,924**	**25,398,625**	**33,023,486**	**213,767,542**
Current Assets						
Inventories	2,439,885	2,236,649	2,800,392	2,909,333	3,835,324	16,204,786
Trade and Other Receivables	3,142,040	2,945,043	3,675,605	4,072,090	6,938,722	15,750,190
Cash and Cash Equivalents	1,042,393	393,379	853,668	1,102,058	1,165,203	8,098,186
Total Current Assets	**6,624,318**	**5,575,071**	**7,329,665**	**8,083,481**	**11,939,249**	**40,053,162**
Total Assets	**23,036,762**	**24,370,540**	**30,171,589**	**33,482,106**	**44,962,735**	**253,820,704**
Equity						
Share Capital	1,631,263	1,647,125	1,647,125	1,647,125	1,647,125	4,297,931
Share Premium	5,570,705	6,154,725	6,160,731	6,160,731	6,160,731	6,160,731
Retained Earnings	817,449	2,107,317	2,999,647	4,828,779	4,710,148	30,556,574
Total Shareholders' Equity	8,019,417	9,909,167	10,807,503	12,636,635	12,518,004	41,015,236
Other Reserves	1,360,756	1,360,756	1,360,756	1,360,756	1,360,756	1,360,756
Total Equity	**9,380,173**	**11,269,923**	**12,168,259**	**13,997,391**	**13,878,760**	**42,375,992**
Non-Current Liabilities						
Borrowings	3,789,474	3,854,913	4,901,221	-	-	18,170,989
Deferred Tax Liabilities	1,749,928	2,322,550	2,771,238	3,119,122	4,385,556	24,453,739
Employee Benefits	257,852	318,707	355,664	424,859	509,803	793,826
Other Payables	-	-	-	93,848	136,522	147,489
Total Non-Current Liabilities	**5,797,254**	**6,496,170**	**8,028,123**	**3,637,829**	**5,031,881**	**43,566,043**
				3,543,981		
Current Liabilities						
Trade and Other Payables	5,331,892	5,927,015	4,671,165	6,479,361	12,476,472	94,828,183
Employee Benefits	17,820	79,335	59,054	138,153	165,438	544,620
Borrowings/Financial Liabilities	2,421,689	771,856	4,844,127	8,552,420	11,987,582	69,871,674
Current Tax Liabilities	87,934	456,241	400,862	676,952	1,422,602	2,634,192
Total Current Liabilities	**7,859,335**	**7,234,447**	**9,975,208**	**15,846,886**	**26,052,094**	**167,878,669**
Total Liabilities	**13,656,589**	**13,730,617**	**18,003,331**	**19,484,715**	**31,083,975**	**211,444,712** [47]
Total Equities and Liabilities	**23,036,762**	**25,000,540**	**30,171,590**	**33,482,106**	**44,962,735**	**253,820,704**

[47]Source: International Breweries Plc Annual Reports

MANAGEMENT

Experienced management determined to explore growth opportunities but constrained by harsh macroeconomic conditions

International Breweries Plc's growth over the years can be attributed to its detailed regional and ethnic segmentation which has focused solely on the low-cost beer category to capture a larger consumer base.

In a bid to grow even stronger, it appointed experts with a wide range of experience both locally and internationally in the food and beverage industry. Mr. Sunday Akintoye Omole is the Chairman, effective March 2017. Mr. Omole has vast experience in accounting, auditing and tax, food and beverage industry restructuring, financial services and commodities future market. He is also on the boards of a few other companies including Universal Foods and Beverages. He was the Chairman of International Breweries Risk Management and Audit Committee.

In a bid to expand its product portfolio to reach a wider consumer base, Budweiser, a premium category AB InBev brand and the official beer of the 2018 FIFA world cup, was launched in Nigeria on April 14, 2018. In addition, International breweries unveiled its "Light Up the FIFA world campaign". The campaign involves the delivery of cold bottles of Budweiser from the St. Louis brewery to fans in Lagos before delivering to a stadium full of fans in Moscow, Russia. This will play a big role in increasing International Breweries market share, increasing revenue and growing earnings.

International Breweries is constructing a new brewery worth over $250mn in Sagamu, Ogun state. This will be the second largest brewery in Africa. This will lead to an increase in its capacity and production resulting in revenue growth.

Furthermore, its parent company- AB InBev- plans to increase foreign direct investment in Nigeria. This is a positive development for the company as it will provide needed funds for capacity expansion.

Even though market shift to value products and expansion plans are working well in increasing the growth of the company in Nigeria's fragile economy, future growth is only impeded by adverse macroeconomic conditions. The rise in the cost of input materials and currency volatility will constrain management's ability to increase market share, reduce cost and improve operational efficiencies to ensure growth in the medium term.

THE BULLS SAY

* Shift of market preference to low-priced products
* Rich product portfolio for alcoholic and non-alcoholic drinks
* Innovative malt brands
* Talented and experienced management
* Leverage on international parent company
* Increase in capacity to reduce unit cost of production

THE BEARS SAY

* Intense competition from other leading players such as Nigerian Breweries and Guinness as well as smaller local breweries
* Persistent foreign exchange challenges adversely affecting earnings
* Rising cost of raw materials and key inputs
* Increase in excise duties

Risks and Outlook

Great prospects with risks beyond its control

International Breweries faces interest rate risks, currency risks and persistent macroeconomic challenges. These risks could prevent International Breweries from achieving its goals of increasing revenue, reducing cost, boosting earnings, streamlining operations and improving operational efficiencies.

Most of the company's debt stems from foreign currency borrowings, purchases of some of its raw materials in foreign currency and interest expense. International Breweries undertakes its foreign transactions in USD, SA rand and euro and is at risk of exposure to high interest bearing debts. Increased pressure on the naira could lead to a further increase in financing costs hence a fall in its earnings. International Breweries currently does not have measures in place to manage these exposures. A further devaluation of the naira will increase the company's operating and interest expenses.

APPENDIX - Our valuation

We derived our valuation for International Breweries Plc by using the Discounted Cash Flow (DCF) methodology. Our fair value estimate for International Breweries is N22.02, which is a 47.3% downside on the price of its share as at June 11, 2018. The discount rate [weighted average cost of capital (WACC)] of 8.07% is derived using a 16.2% risk free rate, a beta of 1.0422[48], an after-tax cost of debt of 7.58%, and a market risk premium of 6.4%. The calculated long term cash flow growth rate to perpetuity is 5.0%.

DCF Valuation			
N'000	**2018E**	**2019E**	**2020E**
EBIT	9,136,729	10,554,697	12,739,138
Less: Taxes	(2,741,019)	(3,166,409)	(3,821,741)
EBIAT	6,395,711	7,388,288	8,917,396
Plus: Depreciation & Amortization Expense	2,261,489	2,576,746	2,757,071
Less: CAPEX	(5,846,151)	(6,603,331)	(5,806,336)
Less: Change in working capital	1,838,713	1,494,718	1,011,132
Free Cash Flow (FCF)	4,649,761	4,856,421	6,879,263
WACC	8.07%	8.07%	8.07%
Present Value (PV) of FCF	4,302,401	4,157,926	5,449,827
Terminal Value @ Perpetual Growth Rate (2020)	2018	2019	2020
Terminal value as of 2020			235,006,208
Present value of terminal value	186,174,455		

DCF Calculation	
PV of explicit period	13,910,154
PV of terminal value	186,174,455
Enterprise Value	200,084,609
+ Cash	1,165,203
- Borrowings	11,987,582
Equity Value	189,262,230
Share price	22.02
Shares outstanding ('000)	8,595,862

[48]Financial Times Data