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IMF's Review and Outlook of Nigeria

The IMF, in its latest review of Nigeria, raised some concerns about Nigeria's revenue shortfalls and low private sector lending. According to the Fund, Nigeria's recovery from the 2015/2016 recession was supported by higher oil prices and short-term portfolio inflows. The Fund has also raised its forecast for Nigeria's growth rate in 2019 to 2.3% from its earlier projection of 1.9%, driven by an improved outlook on global oil prices. IMF noted the following positive events that have occurred in the Nigerian economy:

- The expansion of real GDP to 1.95% in Q1'18 compared to -0.91% in Q1'17.
- Stable external reserves level at approximately $47bn, despite the reversal of foreign inflows since April.
- Declining headline inflation to its lowest level in over two years. Inflation rate eased for the 16th consecutive month to 11.61% in May.
- Improved business environment through reforms such as the Company and Allied Matters Act (CAMA), Power Sector Recovery Plan.
- Improved corporate tax collection efforts by the government with schemes such as Voluntary Asset Income Declaration Scheme (VAIDS) and increased tax audits.

Concerns of the Fund

Whilst the Fund reaffirmed its growth forecasts for Nigeria at approximately 2% in 2018, it raised a few concerns about Nigeria's policy environment and the sub-optimal performance of its non-oil and non-agricultural sectors. According to the IMF, Nigeria's revenue remains stifled by net losses from its retail fuel sales and sub-optimal performance of its non-oil sectors (non-oil growth in Q1'18 was 0.76% compared to a growth rate of 14.77% in the oil sector). High borrowing rates (ranging between 20%-21% p.a.), which has kept private sector lending at a low level, was also a concern raised by the Fund. The current policy environment in Nigeria was also a key issue for the Fund. It is imperative for Nigeria to adopt policies that reduce its vulnerabilities (to both domestic and international shocks), ensure inclusive growth and promote adherence to budget targets.

Outlook for Nigeria

IMF gave the following outlook for Nigeria in 2018 with the brewing political environment:

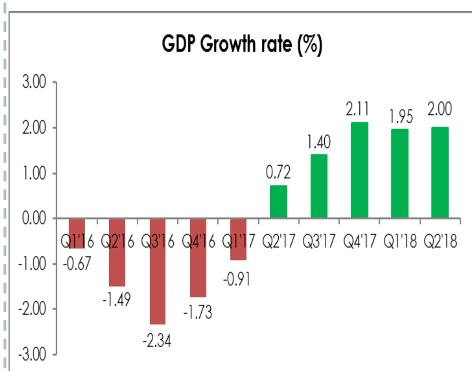
- Growth would be hindered by lower oil production and weak agriculture growth.
- Inflation would reverse its downward trend in H2'18, driven by higher spending and supply constraints in the agriculture sector.
- FGN interest-to-revenue ratio would absorb a significant portion of its revenue in 2018.

Implications on the economy

IMF's outlook of Nigeria's headline inflation rate is in line with many analysts who believe that inflation rate is approaching an inflection point and would start creeping up by Q3-end. With the third MPC meeting for 2018 scheduled for July 23rd and 24th, we expect the reaffirmation by the Fund to reflect in the Committee's decision. Therefore, there is a 60% probability that the Committee would vote to maintain status quo on all policy parameters. Whilst the revenue potentials of Nigeria remain largely untapped, we expect the yields from tax administration measures like VAIDS to manifest in the near term. This would help fill the gap created by net losses and sub-optimal revenue generated from Nigeria's non-oil sectors.

Expectations for Q2'18 GDP Growth Consensus vs Outliers Projections

The GDP growth figure for the second quarter is scheduled to be released on July 30, after the monetary policy committee (MPC) meeting on July 23/24. The real GDP growth trend is usually one of the major considerations in determining the monetary policy parameters. In spite of the positive growth recorded in the last 4 quarters, driven primarily by stable oil production, the pace has remained slow. At 1.95% (Q1'18), Nigeria's real GDP growth is below its potential of 4.9%.



[1]

In Q2'18, there were some notable economic activities which are likely to have direct and indirect impact on the GDP numbers. The intensity of the herdsmen and farmers' crisis in some of the food producing regions amid planting season is expected to limit agricultural output. This will affect the performance of the sector. Nigeria's oil production also declined in the review quarter, following several disruptions and force majeure implemented on key pipelines such as the Trans-Forcados and Nembe Creek pipelines. Nigeria's oil output dropped from 1.78mbpd in Q1'18 to 1.69mbpd. In addition, average power output from the grid declined marginally by 1.34% to 3,834MWh/h from 3,886MWh/h in the preceding quarter, in spite of the raining season. The average price of diesel fell to N205.01/litre in Q2'18 from N210.04/litre in Q1'18. There were several system collapses during the quarter, driven partly by gas pipeline ruptures and leakages. These factors are expected to impact the growth numbers in Q2. A quick look at some business proxies that are pointers to the level of activity in the economy showed a negative performance. The CBN's Consumer confidence index which measures the degree of consumer's optimism remained in the negative region at -6.3%. This coincided with a decline in the Purchasing Managers Index (PMI), to a negative territory of 49.8.

The general consensus among analysts is a pick up in the real GDP growth rate within a range of 2%- 2.5%.

	GDP forecast (%)
ARM Research	2.1
UBA Capital	2.4
Vetiva Research	1.8
FDC	2.0 [2]

At FDC we are projecting that Q2 growth rate will flatten out at 2% as most output indicators were constrained in the second quarter. Also, the real sector activities remain limited by high cost of funds despite the availability of foreign exchange and stable exchange rate. The services sector on the other hand will continue to be the largest contributor to GDP.

[1]NBS, FDC Think Tank
[2]Various analysts' Q1 GDP report

The Impact of the Development of LNG Train 7 in Nigeria

The Nigeria Liquefied Natural Gas (NLNG) used to be the fastest growing LNG Company globally, with the development of new trains between 2000-2007. However, since train 6 (in 2007), no new train has been developed. The 6 trains have a total production capacity of 22mn tonnes/annum of LNG and 5mn tonnes/annum natural gas liquids (NGL) from 3.5bn cubic feet of natural gas reserves. This has been detrimental to NLNG and Nigeria at large as LNG contributes only 9.6% to the country's export earnings.

In October 2017, approval for the Final Investment Decision for the production of the Bonny Train 7 was given by NLNG Ltd. The Bonny NLNG is one of the biggest success stories of the Nigerian oil and gas industry since it began operation in 1995, as the project has generated approximately $90bn in revenue, $30bn in dividends and contributed 4% to the country's Gross Domestic Product (GDP) since inception. In the build-up towards the FID in 2018, NLNG Ltd is seeking $7bn from the global financial markets for the sustainability of its operations through investment in Nigeria's upstream gas sector, and expansion project. The project is expected to increase total production capacity by approximately 36% to 30mn tonnes/annum.

Impact

The project is advantageous for both Nigeria and NLNG Ltd. The expected increase in production capacity would increase Nigeria's gas export, enabling the country regain its place as one of the top three gas exporters globally, and encourage diversification of energy resources. An increase in gas exports will boost LNG export earnings by 17% to approximately $5.13bn. This will create more buffers to enable the CBN support the naira. In addition, it would boost fiscal revenue through royalties, profits and taxes from NLNG Ltd.

The project is expected to cut down poverty through the creation of massive job opportunities. Consecutively, this will increase fiscal and forex revenue thereby boosting industrialization which will drive economic activity and growth.

In addition, it is expected to improve electricity distribution and kick-start Nigeria's power industry as sporadic power supply continues to persist due to constant gas constraints. So far in July, gas constraints accounted for 59% (30,192MWh/h) of total constraints (50,945MWh/h) in spite of Nigeria's 192 trillion standard cubic feet of gas reserves. This will help ensure long term energy security and reduce environmental hazards associated with gas flaring. Furthermore, the project aims to rebuild investor confidence in Nigeria.

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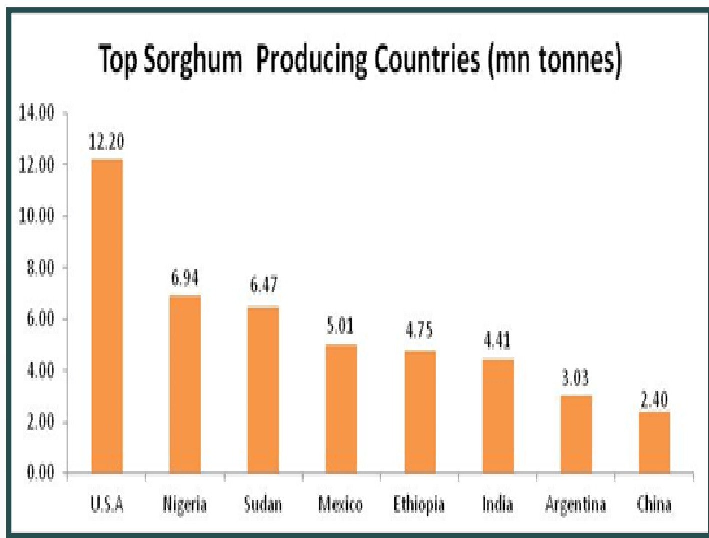
Imperatives for Higher Sorghum Production in Nigeria

The US and China have recently engaged in a trade dispute largely due to trade imbalances between both economies. The US sustained a trade deficit of $376bn in 2017, when its imports from China exceeded exports to that market.[3] In a move to reduce this imbalance, the US imposed heavy tariffs on some goods it imports from China. The Chinese retaliated by replicating the same measure on some of its imports from the US. One of the US commodities hit by China's counter tariff is sorghum.[4]The Chinese government imposed a 179% import duty.[5] One repercussion of this action is that China will now start to look into other sorghum producing countries to meet its domestic demand. Meanwhile, Nigeria, the world's second largest sorghum producer (after the US), should be a prime consideration for the Chinese. However, Nigeria currently has a sorghum demand gap estimated at 4mn tonnes. Nigeria needs to step up its production to fill its domestic demand gap and provide additional sorghum to the Chinese market.

Nigeria, US and China in the sorghum production

The US is the world's largest producer of sorghum, with a production of approximately 12.2mn tonnes, representing over 18% of total global production. Nigeria follows the US with an annual production estimated at 6.94mn tonnes, while China occupies the eighth position with an output of 2.4mn tonnes.[6]

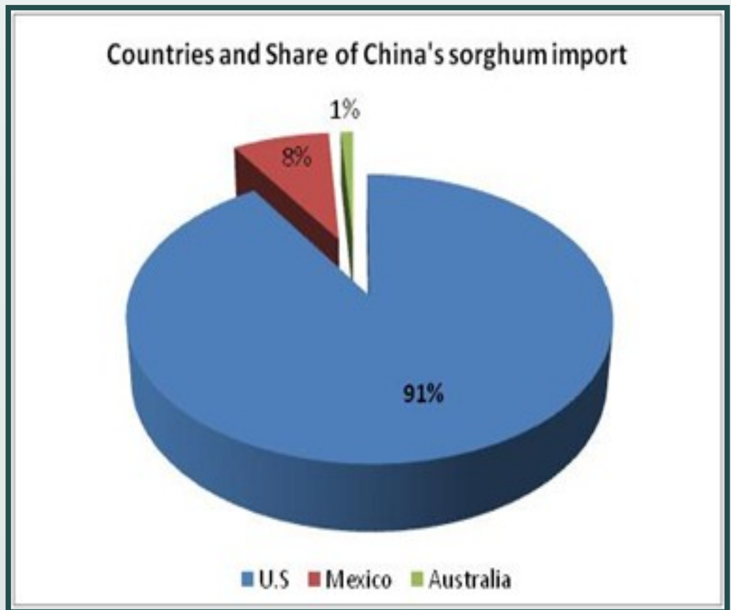
[3]United States Census Bureau, 2018. "Trade in Goods with China". U.S. Federal Statistical System, https://www.census.gov/foreign-trade/balance/c5700.html#2017
[4]Sorghum, also called millet or guinea corn, is a direct food source for humans. It is also used for beer production and animal feeding
[5]Forbes Media, 2018. "China Targets Trump Base With 179% Tariff on American Sorghum". https://www.forbes.com/sites/danielrechtschaffen/2018/04/17/china-targets-trump-base-with-179-tariff-on-american-sorghum/#c6285f245941
[6]The Food and Agriculture Organization Corporate Statistical Database, 2018. Food and Agriculture Organization (FAO), "Crops", http://www.fao.org/faostat/en/#data/QC



[7]

In terms of consumption, China ranks as the world's largest market with an annual sorghum consumption estimate of about 10mn tonnes. This huge appetite for the commodity, coupled with its low domestic production, translates to a demand gap of 7.6mn tonnes. This gap is mainly filled through imports from the US and Mexico.[8] Amid ongoing trade tensions between China and the US, China has imposed a 179% tariff on its sorghum imports from the US.[9] This suggests that there will be less demand for US sorghum in China as the duty causes the price to spike. Consequently, the Chinese will likely look towards meeting its import demand from other producers. Nigeria will likely be a prime consideration, owing to its leading position among other producers, the relative proximity of Nigeria to China and the already existing positive trade ties between both economies. China is currently one of Nigeria's top trading partners. The country accounts for approximately 20% of Nigeria's total imports and 4.5% of total exports. [10]

Meanwhile, Nigeria's sorghum production is unable to meet its domestic demand which is estimated at 8.5mn tonnes. This makes it somewhat unrealistic for the country to meet the additional Chinese demand. The need to fill its demand gap and benefit from the anticipated demand from China intensifies the need to immediately step up the domestic production of sorghum.



[7]The Food and Agriculture Organization Corporate Statistical Database, 2018. Food and Agriculture Organization (FAO), Ibid, http://www.fao.org/faostat/en/#data/QC

[8]The Grain and Grain Processing Information, 2018. "China's appetite for sorghum continues". http://www.world-grain.com/articles/news_home/World_Grain_News/2018/01/Chinas_appetite_for_sorghum_co.aspx?ID=%7B97A50C7A-4971-4CA8-80BD-24A1605155E6%7D

[9]Forbes Media, 2018.Ibid. https://www.forbes.com/sites/danielrechtschaffen/2018/04/17/china-targets-trump-base-with-179-tariff-on-american-sorghum/#c6285f245941

[10]National Bureau of Statistics, 2018. "Foreign Trade in Goods Statistics Q1 2018". Federal Government of Nigeria, http://nigerianstat.gov.ng/elibrary

Constraints and the way forward

Given its vast arable land, Nigeria's potential sorghum output is estimated at 13.5mn tonnes, 94.5% above current production.[11] The attainment of this potential means that Nigeria would have enough to meet its domestic demand and produce an excess of about 5mn tonnes available for exports. In order to achieve this, the country will have to address some of the constraints that have kept current production at sub-optimal levels.

One factor that has been a major contributor to sub-optimal sorghum production in Nigeria is small scale cultivation by Nigerian sorghum farmers. Small scale farmers generally contribute about 80% of Nigeria's total agricultural output.[12] Farmers have, however, raised concerns over the absence of government subsidies on agricultural inputs.[13] Given the absence of subsidized inputs, farmers resort to acquiring inputs their limited incomes can afford. Thus, small-scale farming is a consequence of limited ability to purchase inputs, and in the big picture, sub-optimal production of sorghum is a result. This highlights the need for the Nigerian government to intensify efforts at providing subsidies particularly to sorghum farmers.

There are also concerns about credit accessibility in Nigeria. Less than 3% of the country's adults have access to credit facilities.[14] The agricultural sector is no different and this has filtered into weak output of commodities like sorghum. The inaccessibility of credit facilities and the shortage of government subsidies constrain the ability of farmers to acquire inputs and boost production. If Nigeria is to take advantage of this opportunity, the Central Bank of Nigeria and the Bank of Agriculture need to provide more accessible credit to farmers, with sorghum farmers given priority.

Furthermore, sorghum is predominantly grown in the northern states of Nigeria. Meanwhile, the region has been facing terrorism and pastoral clashes that have slowed economic activities. This unrest partly explains the 1% decline in sorghum production in the country since 2015.[15]

[11]FDC Think Tank
[12]USDA Foreign Agricultural Service, 2017. "Nigeria Grain and Feed and Feed Annual". United States Department of Agriculture, https://gain.fas.usda.gov/Recent%20GAIN%20Publications/Grain%20and%20Feed%20Annual_Lagos_Nigeria_4-6-2017.pdf
[13]USDA Foreign Agricultural Service, 2017. "Nigeria Grain and Feed and Feed Annual". Ibid, https://gain.fas.usda.gov/Recent%20GAIN%20Publications/Grain%20and%20Feed%20Annual_Lagos_Nigeria_4-6-2017.pdf
[14]Central Bank of Nigeria, 2017. "2016 Annual report national financial inclusion strategy implementation". Available at https://www.cbn.gov.ng/out/2017/ccd/2016%20annual%20report%20on%20nfis%20implementation.pdf
[15]The Food and Agriculture Organization Corporate Statistical Database, 2018. Food and Agriculture Organization (FAO), Ibid, http://www.fao.org/faostat/en/#data/QC

If Nigeria attracts investment into this area, intervention of some type will be needed to stop the attacks. A possible solution may be to increase security personnel to face militants. An increase in defense spending on equipment and personnel may also be required.

Nigeria needs to implement these measures if it wants to boost the country's sorghum production. If output remains weak, the country will continue to fill its demand gap through imports and more importantly, lose the opportunity to take full advantage of the trade war between China and the US. China's second largest supplier of sorghum - Mexico - is also struggling with production.[16] There is, therefore, a window of opportunity for Nigeria to proactively increase production right now.

The good news is sorghum has a short growing season. It takes just three-five months from planting to maturity.

The choice seems obvious. Now is the time for Nigeria to step forward and fill the gap. Sorghum needs to be a priority.

[16]USDA Foreign Agricultural Service, 2017. "Mexico- Grain and Feed and Feed Annual". United States Department of Agriculture, https://gain.fas.usda.gov/Recent%20GAIN%20Publications/Grain%20and%20Feed%20Annual_Mexico%20City_Mexico_3-14-2017.pdf

The case for financial integration in West Africa

It is well known that micro, small and medium enterprises (MSMEs) play an important role in developing a robust economy. At a time when unemployment is as high as 18%, credit support for small business owners might be what is needed to create jobs and strengthen the market place. Unfortunately, Nigeria has never taken credit availability seriously. It is notoriously difficult to borrow at affordable interest rates, without valuable collateral or a recognizable family name. Anecdotal evidence suggests that very few MSMEs can obtain loans from financial institutions in Nigeria. Apart from government debt crowding out private credit, the lack of a viable credit history database has deterred domestic banks from injecting more credit into the economy. Nigeria's credit-to-GDP ratio is 23%, considerably lower than Ghana (35%) and South Africa (178%).[17] Even with legislative efforts to remove internal credit barriers, such as the Credit Reporting Act 2017 and the Secured Transactions in Movable Assets Act 2017, Nigeria's financial capital remains shallow.

Nigeria's credit-to-GDP ratio is 23%, considerably lower than Ghana (35%) and South Africa (178%). Even with legislative efforts to remove internal credit barriers, such as the Credit Reporting Act 2017 and the Secured Transactions in Movable Assets Act 2017, Nigeria's financial capital remains shallow.

More can be done to improve access to external credit for Nigerian businesses and reduce their dependency on domestic banks. With the support of neighboring countries, i.e. financial integration, the challenge of limited access to credit can be assuaged. In essence, a financially integrated Nigeria would see capital move from Lagos to Abidjan, the capital city of Ivory Coast, as easily as it can move to Kano in northern Nigeria. This would increase the capital options available to MSMEs which in turn should drive down the cost of access to capital as competition increases.

[17] World Bank Group. 2018. "Domestic credit provided by financial sector (% of GDP)". http://data.worldbank.org/indicator/FS.AST.DOMS.GD.ZS

Why financial integration?

To understand the importance of financial integration it is best to look to one of the most successful examples, the European Union. The free movement of capital is a long-standing objective of the European Union (EU) and a fundamental freedom at the core of the European single market. Before the establishment of the single market, European capital markets were fragmented along national lines and European economies were heavily reliant on their banking sectors to meet their funding needs. This made them more vulnerable to tightening monetary conditions. Today, European businesses can tap into diverse sources of capital from anywhere within the EU. Moreover, by opening up a wider range of funding sources and more long term investments, the vulnerability of EU citizens and businesses to banking shocks has reduced drastically.

If Nigeria, by comparison, was more financially integrated into the ECOWAS region, Nigerian companies would face significantly lower barriers to raising capital outside the country. Currently, Nigeria is ranked 13th out of 15 ECOWAS states for financial integration, which highlights the scope for improvement.[18] One notable cause of this is the poor exchangeability of the naira in the ECOWAS region. A more convertible currency would reduce the cost of financial transactions and thereby the cost of capital by freeing up funds that would have otherwise been used to cover fees and expenses associated with currency exchange. This is one accepted benefit of the common currency of the Euro zone. Linking a more convertible naira with the potential for banks and investors to grow in size and efficiency, ECOWAS would have a larger and more efficient pool of capital to deploy into the private sector. The Eco has been proposed as a common currency for the region by the West African Monetary Zone. The aim is to merge Eco with the West African CFA Franc, and then ultimately create a common currency for West Africa. However, given the extensive convergence criteria, implementation of a common currency is still a long way off.

Financial integration would also allow Nigerian financial sector companies to benefit from economies of scale and scope, leading to improved and more innovative products and services at lower prices. For instance, banks in Senegal and Ghana could compete to provide the most attractive rate, and this process could help reduce notoriously high interest rates in Nigeria and the wider ECOWAS region.

[18] https://www.integrate-africa.org/rankings/country-profiles/country/nigeria/

Markets could also become more resilient as lending institutions can diversify their risk. This would reduce the impact of naira depreciation on the banking system as banks would also have non-naira/non-dollar assets. The same applies to investors as more diversification allows them to invest in riskier businesses without having a large impact on their overall investment risks.

Subsequently, a lack of viable investment or lending opportunities in other countries could motivate banks and investors in those countries to deploy their funds in more sustainable opportunities, e.g. Nigeria. International financial integration makes it easier for them to do so, and in order to take advantage, Nigerian companies would need to showcase themselves as innovative and efficient. Such an incentive would have a significant beneficial impact on the real economy.

Disadvantages of financial integration

One drawback of financial integration is that it could increase Nigeria's susceptibility to capital flow reversals. Economists would argue that a quick injection of liquidity into the Nigerian economy could generate inflationary pressures, while a sudden exit of capital could exacerbate any shocks to the economy, such as a decline in the oil price. Additionally, any reductions in interest rate could result in excessive borrowing and lead to a potential debt crisis. However, a crisis could be easily avoided if the proper levels of banking supervision are in place to ensure lending rules are robust and debt capacities sustainable.

Both internal and external focus is required for Nigeria to ensure a healthy environment for the private sector to play a greater role in the growth of the economy. Improving the access of external capital into Nigeria from other African states could result in a larger and cheaper financial capital market for the private sector to thrive on.

Financial integration unlikely in Nigeria's near future

Efforts to further integrate Nigeria into the African financial ecosystem could reduce the time spent in seeking for capital. However, there is little hope of Nigeria being part of a financially integrated region. The country's recent hesitation at joining the African Continental Free Trade Area (AfCFTA) reflects a strong protectionist inclination among the country's political, business and labor elites. One of the biggest obstacles to progress will remain the lack of political will to open up domestic capital markets to greater external competition.

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The American president is stirring up trouble in a volatile oil market

"If he cannot arm-twist OPEC, he may unleash America's Special Petroleum Reserve"

IT USED to be said that America's shale producers were the new "swing factor" in global oil markets. It turns out that role is being taken by America's president.

At a time when oil prices are at three-and-a-half-year highs, markets are being buffeted by three countervailing forces unleashed by President Donald Trump: his geopolitical agenda, particularly sanctions on Iran; his domestic political agenda, to lower American petrol prices before the mid-term elections; and his looming trade war with China. If he does not get his way, he may have a dangerous weapon up his sleeve—America's Strategic Petroleum Reserve (SPR). His meddling risks making OPEC, the oil cartel that is a focus of his wrath, look like a paragon of predictability.

First, geopolitics. Despite an agreement late last month by Saudi-led OPEC and Russia to increase output by up to 1m barrels a day (b/d), the price of Brent crude, a benchmark, has risen to above $77 a barrel. The proximate cause this week was a brace of supply outages in Libya and Venezuela, both of which are in upheaval. But adding fuel to the price rally is the Trump administration's pressure on America's allies to cut oil imports from Iran to zero by November 4th, or risk punishment for violating American sanctions. This is more draconian than expected.

Brian Hook, an official at the State Department, said on July 2nd that more than 50 international firms, including energy ones, had agreed to pull out of Iran. Though America may allow some countries—possibly Turkey, France and others—to reduce imports rather than cut them completely, it will not grant any waivers.

According to Clearview Energy Partners, a consultancy, a "zero-barrel" response could see between 800,000 and 1.05m b/d of Iranian crude come off the market, with the squeeze starting in September, 60 days of shipping time before the sanctions kick in.

Mr Trump's Iranian ambitions are working against his domestic political ones, however. Higher oil prices mean the price of gasoline in America is hovering around $3 a gallon, just as Americans take to the road for the holidays. Those hurt most are drivers on lower incomes, who are more likely to vote Republican in the mid-term elections. Though some Republican states produce oil, and will therefore benefit from higher prices, the president is clearly worried. In an interview on Fox TV aired on July 1st, he ordered OPEC to stop manipulating the market, threatening some of its members with the loss of American protection if they do not.

Mr Trump also tweeted on the need for Saudi Arabia to increase production by up to 2m b/d—an unusually open attempt by an American president to intervene in the nitty-gritty of OPEC policy. The White House later backtracked from his claim that Saudi Arabia had agreed to the request, but not without affirming that the kingdom had 2m b/d of spare capacity.

Whether or not the Saudis can use that buffer is a different matter. Energy Aspects, a consultancy, says that the highest level of production Saudi Aramco, the state-owned oil giant, has tried for any length of time is 11m b/d (it is about 10.3m b/d at the moment). But keeping production at that level for several months would damage its reservoirs. Pumping 12m b/d would also take spare capacity in the global oil market to uncharted lows, leaving it dangerously exposed to supply shocks.

Complicating matters is the imminent risk of an America-China trade war. China has threatened tariffs on American oil imports if retaliation meets more retaliation. And China may pay no heed to American sanctions on Iran, which would further stoke tension between the two.

These factors, some bullish for oil prices, some bearish, may offset each other. But they have already had the unfortunate consequence of putting Mr Trump alongside the rulers of Saudi Arabia and Russia in the driving seat of global oil policy. Shale producers, who cannot respond to price signals anything like quickly enough to please Mr Trump, are sidelined.

He may yet exert his influence even more openly. Analysts predict that if petrol prices continue to rise ahead of the mid-terms, Mr Trump will use a release of up to 30m barrels from the SPR to flood the market. That would be tantamount to launching an oil war against OPEC and Russia, in addition to the trade war. But it cannot be ruled out.

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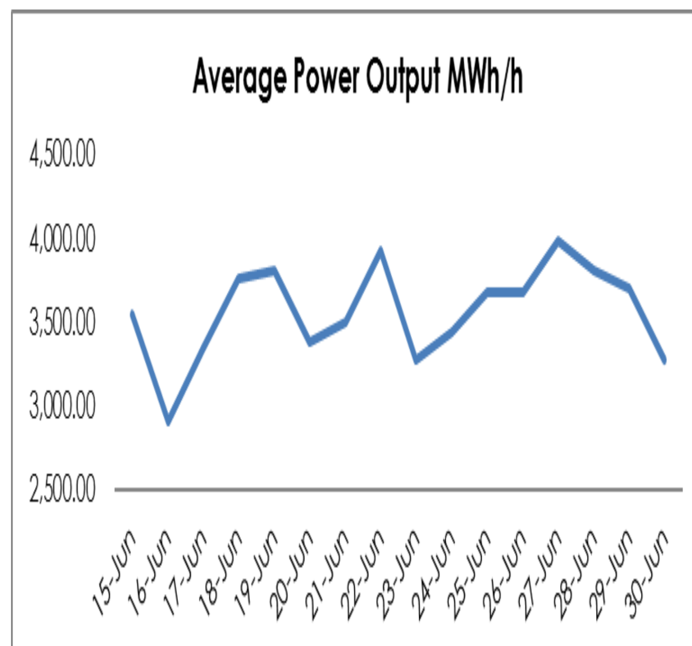
POWER SECTOR

Average power output from the national grid was 3,566.63MWh/h in the period June 15th–30th. This is 7.62% lower than the average of 3,860.94MWh/h in the corresponding period in May. During the review period, average on grid power supply dipped to its lowest level of 2,907MWh/h on June 16, this was on the back of a gas pipeline rupture, which affected Ihovbor, Azura, Omotosho, Geregu, Olorunsogo and Sapele power stations. In addition, technical issues experienced by Shell at its gas well affected supply to its Afam VI power Plant, a 650MW-capacity facility.



[19]

Outlook

We expect the average power supply to remain around the current level of 3,500MW – 3,700MW in the coming weeks, if the affected pipelines are not repaired.

Afam VI power plant, which supplies about 14% of Nigerian's grid-connected electricity, is expected to deliver 624MW electricity into the Nigerian national grid barring any disruptions. Average power supply is expected to increase in the coming month as a result.

MONEY MARKET

At the interbank market, the average opening position was N277.83bn long between June 16th - 30th, compared to N150.10bn long in the corresponding period in May. During the period, there was a net OMO inflow of N216.45bn. A total of N560.89bn matured against N344.44bn bills issued, compared to a total issue of N968.74trn and maturity of N719.57bn in the first half of June.

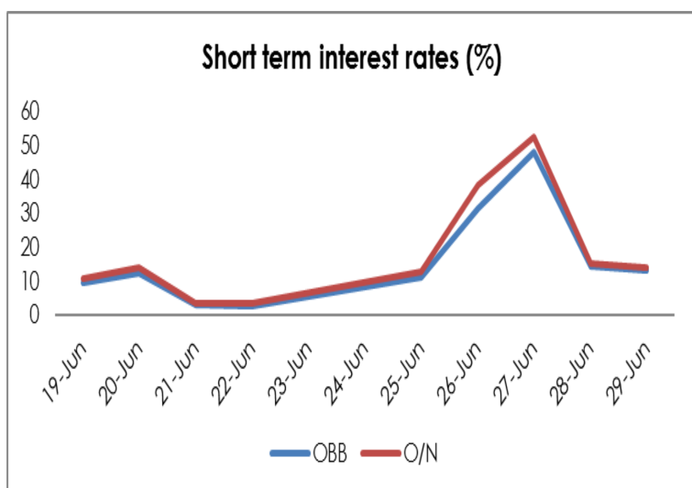
At the primary market auction, the 91-day and 182-day T/Bills rates decreased by 20bps. Rates declined from 10.20% and 10.50% on June 13th to 10.00% and 10.30% respectively on June 20th, while the 364-day rate flattened out at 11.50% in the review period.

[19]FGN

Tenor	Primary market (June 13th, 2018) (%)	Primary market (June 29th, 2018) (%)	Secondary market (June 19th, 2018) (%)	Secondary market (June 29th, 2018) (%)
91-day	10.20	10.00	11.39	12.04
182-day	10.50	10.30	12.00	12.27
364-day	11.50	11.50	12.25	12.57

At the secondary market, the yields for the 91, 182 and 364-day T/bills all increased from 11.39%, 12.00% and 12.25% on June 19th to 12.40%, 12.27% and 12.57% respectively on June 29th.

Average NIBOR (OBB, O/N) was 17.37% pa within the review period, compared to 12.48% pa between 15-31st May.



[20]

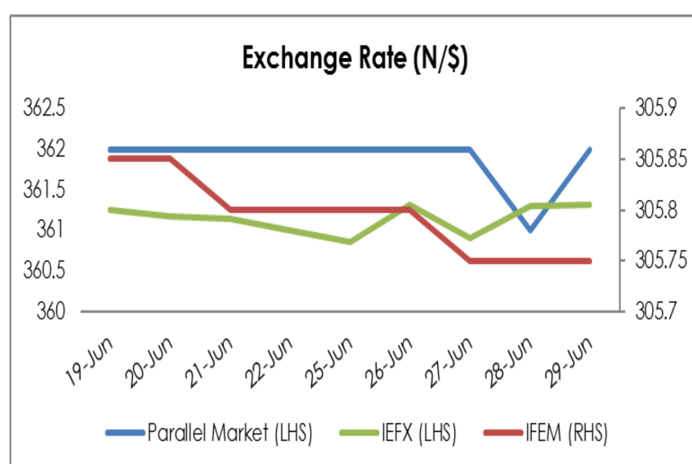
Outlook

Interest rate movements are a function of market liquidity. Pending the anticipated disbursement of the delayed Federal Account Allocation Committee (FAAC) funds, we expect rates to remain around their current levels.

FOREX MARKET

Exchange Rate

At the parallel market, the naira traded flat at N362/$ on 19 – 27 June, appreciated to 361/$ on June 28th, before depreciating to close the month at N362/$. At the IEFX window the naira traded closely between N360/$ and N360.54/$ in the review period. Total forex traded at the IEFX window was $2.09bn, compared to $2.29bn in the first half of the month.



[21]

The CBN sold a total of $808.7mn in the period, compared to a total of $1.39bn in the first half of June.

[20]NBS; FMDQ

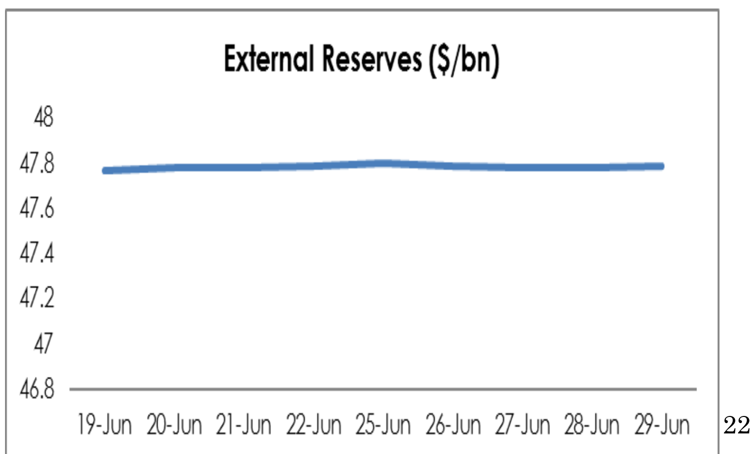
[21]FMDQ, CBN, FDC Think Tank

Outlook

The consistency of the CBN interventions has kept the exchange rates relatively low and stable. We expect the naira to depreciate slightly on the commencement of budgetary spending and capital expenditure.

EXTERNAL RESERVES

There was a marginal accretion in Nigeria's gross external reserves level to $47.79bn on June 29th, from $47.77bn recorded on June 19th. The positive trend continues to be primarily supported by strong oil proceeds. The import cover increased from 13.27 months to 13.28 months during the period.



[22]

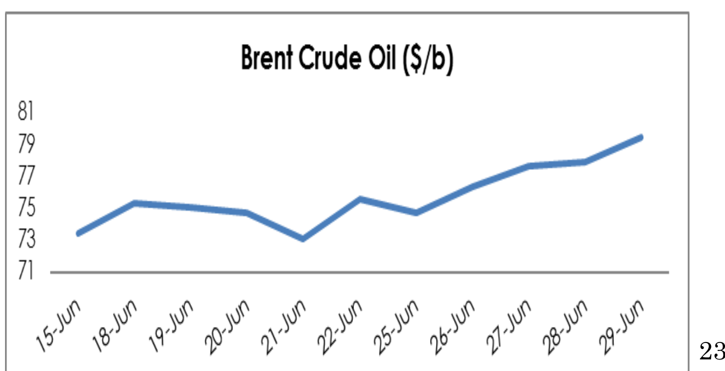
Outlook

Accretion in external reserves was minimal in the period, due to increased CBN intervention. The CBN sold a total of $2.20bn in the month of June compared to $1.22bn in May. The slowdown in the pace of accretion is expected to continue as oil proceeds are likely to decline. This is because of the fall in Nigeria's oil output.

COMMODITIES MARKET - EXPORTS

Oil Prices

Oil prices were volatile in the review period. This was partly due to the decision to raise oil output by one million barrels per day in the just concluded OPEC meeting on June 23rd. Following the announcement, oil prices dipped by 1.69% to $74.27 per barrel (pb), before recovering to $77.87pb. Also, the United States is planning to impose sanctions on countries that import Iran's oil; this will take effect from November 4, 2018. In the aftermath, oil prices climbed more than 3.5% to $76.50 pb, as the market anticipates a mop up of up to 1.5mbpd of Iranian exports. The average price of oil in the second half of June was $75.74pb, 3.01% lower than the average in the first half of May ($78.09pb) and 0.22% higher than ($75.91pb) in the first half of June



[23]

[22] CBN

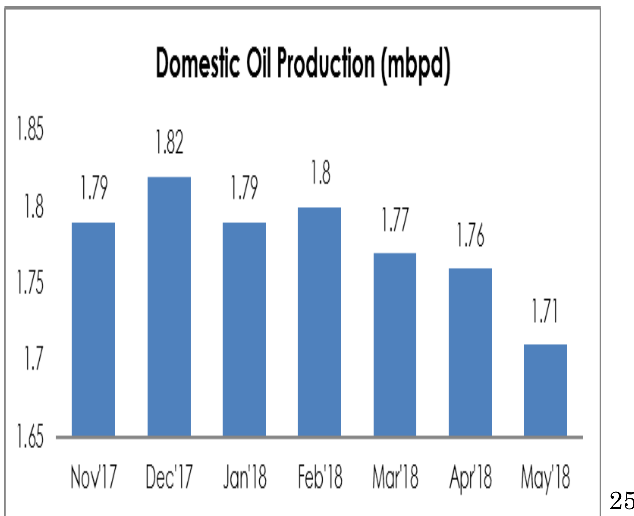
[23] Bloomberg

Outlook

We expect oil prices to remain above $70pb in the coming weeks. However, the looming U.S. sanctions on Iranian crude exports, force majeure in Libya, geopolitical tensions in Venezuela and the pipeline outages in Nigeria will limit the impact of the proposed 1mbpd increase in oil supply by OPEC and its allies. We expect oil prices to hover around an average of $75pb in the coming month.

Oil Production

Nigeria suffered a decline in crude oil production in June, as a result of the force majeure on exports of two oil terminals, coupled with a rising competition in the global market. Domestic oil production decreased by 2.84% to 1.71mbpd in May, from 1.76mbpd in April.[24]



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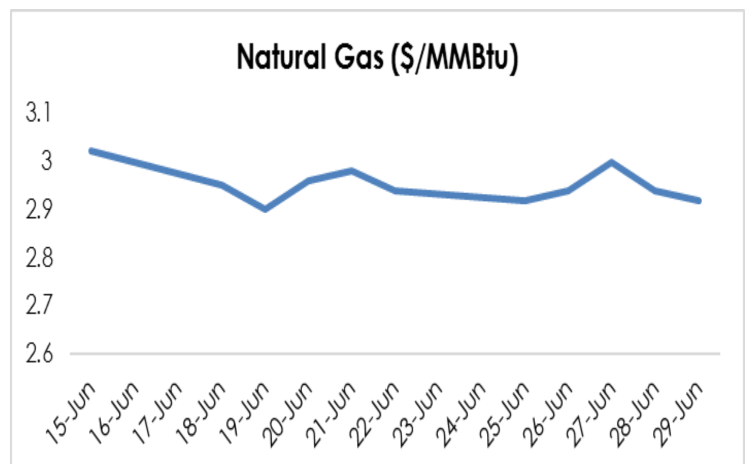
Outlook

The Forcados terminal and the Bonny Light exports terminal that was shut down in May has been opened after the repair of the sabotage leak. Barring any further rupture we expect a pickup in Nigeria's oil production. However, June's output will be constrained by the shut-ins that occurred earlier in the month.

Natural Gas

Natural gas lost 3.31%, to close at $2.92/ mmbtu on June 29th, from $3.02/mmbtu on June 15th. The bearish trend in the gas market was partly due to the forecast of a surge in Egypt's output.



26

Outlook

Natural Gas prices are expected to flatten out between $2.80/mmbtu – $3.20/mmbtu in the coming weeks pending any significant increase in demand.

[24]http://www.opec.org/opec_web/en/publications/338.htm

[25]OPEC

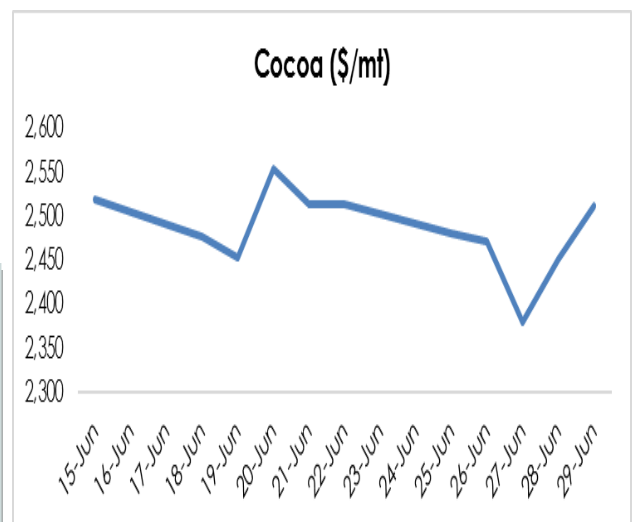
[26]Bloomberg

Cocoa

Cocoa prices declined marginally by 0.28% to close at \$2,512/mt on June 29th, from \$2,519/mt on June 15th. The decline in price was largely due to the supply glut in Ivory Coast.

Outlook

Cocoa prices are expected to remain around current level of \$2,400/mt - \$2,550mt, pending any significant increase in the demand for the commodity.

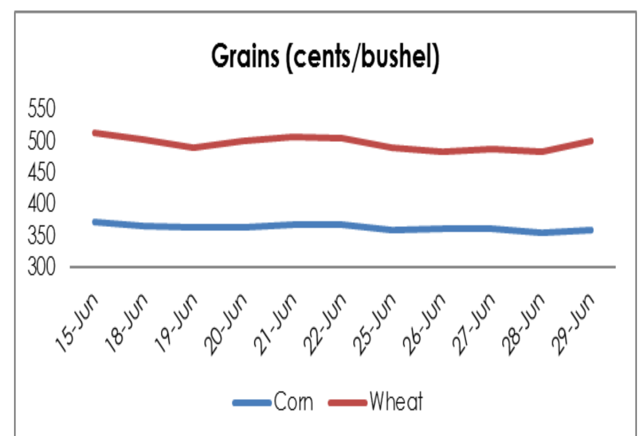


[27]

IMPORTS

Wheat

Wheat prices decreased by 2.53% to \$5.01/bushel on June 29th, from \$5.14/bushel on June 15th. Wheat prices fell as ample global supplies and pressure from harvest of the U.S. winter crop weighed on the market.



[28]

Corn

Corn prices dipped by 2.96% to \$3.60/bushel from \$3.71/bushel in the review period. The bearish driver of corn prices was due to the good corn conditions in the USA amid favorable weather conditions. Moreover, corn futures were pressured by the strengthening of the US dollar, which may reduce high corn exports from the US. The tension in trade relations between the USA, North American Free Trade Agreement (NAFTA) and the European Union (EU) appeared to be an additional bearish factor.

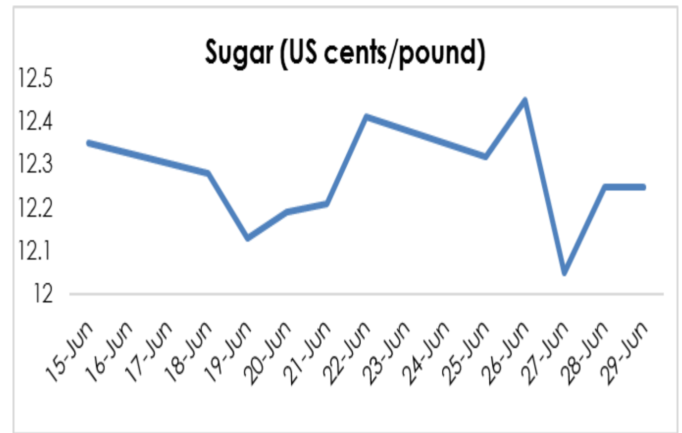
Grains- Outlook

According to the USDA, 76% of the grains are in good-to-excellent condition. However, we expect prices to remain around current levels as weak demand for U.S. shipments is expected to keep a lid on the market in the near term.

[27]Bloomberg
[28]Bloomberg

Sugar

Sugar prices decreased by 0.81% to $0.1225/pound on June 29th from $0.1235/pound on June 15th, this was on the back of a robust global sugar supply. Prices declined sharply to $0.1205/pound on June 26th, this was despite the increased demand amid fear of lower sell quota for the month of July.



[29]

Outlook

India, the world 2nd producer of the commodity, reduced the quantity that will be sold in the open market in July. India lowered sugar sales quota to 1.6 million tonnes in July, 23.81% lower than 2.1 million tonnes in June. This was done to increase the price of the commodity in the near term. Hence, we expect an uptick in sugar prices in the coming weeks.

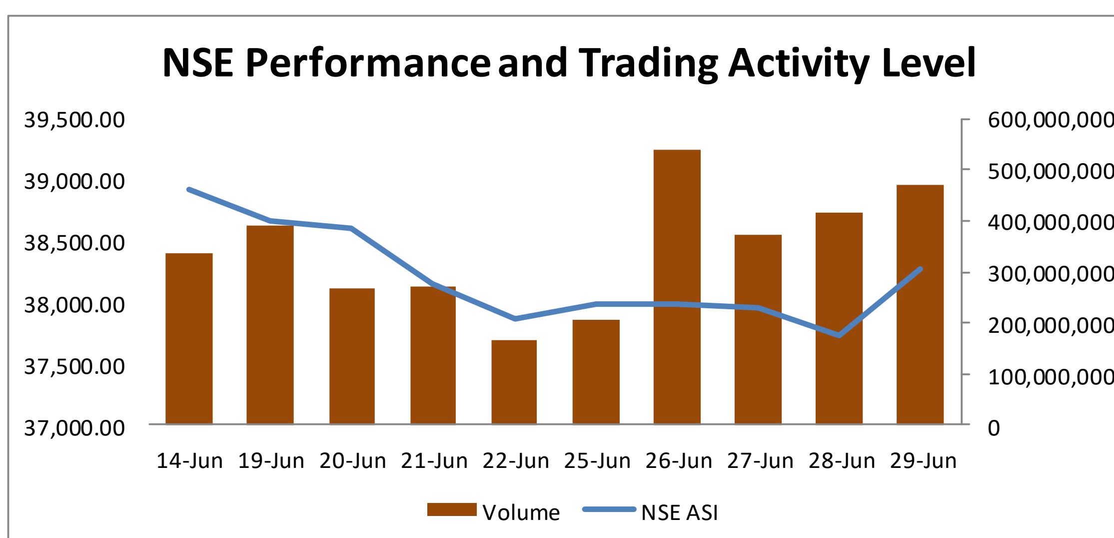
[29]Bloomberg

Stock market update

The NSE-All Share Index (NSE ASI) lost 1.66% to close the month at 38,278.55 points from June 14's close, as investors exited their long positions amid rising political uncertainty. The YTD return on the index stood at 0.09%.

The market gained 1.63% (N230bn) as the market capitalization closed the period at N13.87trn. The stock market is currently trading at a price to earnings (P/E) ratio of 10.79 (June 29th), a 1.91% decline compared to its close of 11.00x as at June 14. During the review period, the NSE recorded 7 days of losses and 2 days of gains.

The market breadth was negative at 0.60x, as the number of losers (50) outpaced the number of gainers (30), while 89 stocks remained unchanged.



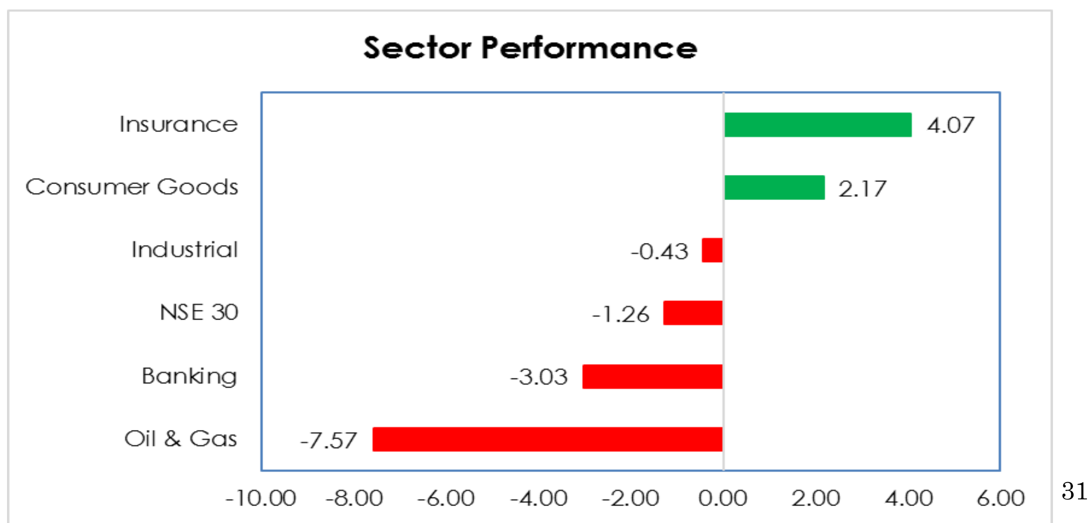
[30]

The bourse witnessed less trading activities in the second half of June. Average volume declined by 14% to 344mn units compared to 400mn units recorded in the first half of June. Average value of transactions moved in tandem as it fell 25.53% to N4.23bn in the review period.

Sector Performance

In the review period, two sub-indices closed positive, while three closed negative. The insurance sector performed best with 4.07% gain. The strong performance was supported by the gains recorded by insurance companies such as N.E.M Insurance Co. Plc (20.30%) and Mutual Benefits Assurance Plc (19.35%).

[27]NSE, FDC Think Tank



[31]

The best performing stocks were N.E.M INSURANCE CO (NIG) PLC (20.30%), C & I LEASING PLC (19.65%), MUTUAL BENEFITS ASSURANCE PLC. (19.35%), LAW UNION AND ROCK INSURANCE PLC (14.63%) and UNITY BANK PLC (10.23%).

TOP 5 GAINERS (N)				
Company	**Jun 29'18**	**Jun 14'18**	**% Change**	**Absolute Change**
N.E.M INSURANCE CO (NIG) PLC	3.20	2.66	20.30	0.54
C & I LEASING PLC.	2.07	1.73	19.65	0.34
MUTUAL BENEFITS ASSURANCE PLC.	0.37	0.31	19.35	0.06
LAW UNION AND ROCK INS. PLC.	0.94	0.82	14.63	0.12
UNITY BANK PLC	0.97	0.88	10.23	0.09

The least performing stocks were PRESTIGE ASSURANCE PLC (-14.06%), SEPLAT PETROLEUM DEVELOPMENT PLC (-13.90%), CEMENT COMPANY OF NORTHERN NIG. PLC (-12.73%), LIVESTOCK FEEDS PLC (-12.64%) and EQUITY ASSURANCE PLC (-12.50%).

TOP 5 LOSERS (N)				
Company	**Jun 29'18**	**Jun 14'18**	**% Change**	**Absolute Change**
PRESTIGE ASSURANCE CO. PLC.	0.55	0.64	-14.06	-0.09
SEPLAT PLC	650.00	754.90	-13.90	-104.90
CEMENT CO. OF NORTH.NIG. PLC	24.00	27.50	-12.73	-3.50
LIVESTOCK FEEDS PLC.	0.76	0.87	-12.64	-0.11
EQUITY ASSURANCE PLC.	0.21	0.24	-12.50	-0.03

OUTLOOK

We expect the market's performance to be volatile in the month of July as investors become more risk averse due to political and election related uncertainty. Nevertheless, we expect active bargain hunting by long term oriented investors i.e. institutional investors.

[31]NSE, FDC Think Tank

UBA
United Bank for Africa

Africa... United by One Bank

We know our way around finance in Africa

United Bank for Africa Plc is one of Africa's leading financial Institutions, offering banking services to more than 11 million customers through diverse global channels.
With presence in 19 African countries and 3 global financial centres; London, New York and Paris, UBA is connecting people and businesses through retail and corporate banking, innovative cross-border payments and trade finance.

- Africa
- New York
- London
- Paris

Web: www.ubagroup.com
Email: cfc@ubagroup.com
Africa's global bank

Analyst Recommendation: *Hold*

Market Capitalization: N80.17bn

Recommendation Period: *365 Days*

Current Price: *N6.45*

Industry: *Oil & Gas*

Target Price: *N7.69*

ANALYST'S NOTE

Progress not synonymous with success

Despite internal wobbles among shareholders and management, Oando Plc's (Oando) full-year (FY) 2017 financials were better, as revenue improved marginally by 9.1% to N497.42bn. This stemmed from the 34% boost in income from the exploration and production (E&P) segment to N103.55bn. This is coupled with the improvement in the group's internal efficiency as the E&P segment reported an operating profit of N52.34bn compared to an operating loss of N19.65bn in 2016. Hence, the profit for the year came in at N13.47bn.

The group's improvement in internal efficiency is evident from the 1,140bps decline in its cost-to-income ratio to 82.3% in 2017, compared to 93.7% in 2016. This is partly driven by the divestment of some lagging business units.

In terms of reporting segmentation, supply and trading activities remained the mainstay of the group, accounting for 78.7% of its revenue. E&P (20.95%), corporate (0.32%) and gas and power (0.03%) accounted for the rest of the group's revenue by segments.

An assessment of the geographical revenue spread showed that the bulk of the group's revenue emanated from other countries outside West Africa, accounting for 79% of revenue. Operations within Nigeria accounted for the rest (21%). Sales of goods dominated the groups revenue, as revenue from services accounted for an infinitesimal portion.

Although the company recorded a 28.55% decline in finance cost in 2017 to N43.77bn, its finance cost remained a substantial portion of the group's expenses. This reduced the group's margins despite its improvement in internal efficiencies. The group needs to restructure its existing loans with more favorable terms, especially as more companies move to raise capital through corporate bond instruments.

Shifting focus towards upstream oil sector

The company currently operates across three operating segments: E&P, supply trading and corporate services. This is as a result of its successful divestment from its marketing, refining & terminal, gas and power and energy services segments. The discontinuation of these business segments improved the group's operational efficiency. The group subsequently concentrated on the effective management and turnaround of the remaining core segments. However, the losses incurred prior to the recent divestment remained a burden as retained earnings remained negative at -N139bn in its FY 2017.

Accordingly, we place a HOLD rating on the group's stock, bearing in mind the ability of the company to realign management's and shareholders' objectives and improve corporate governance and transparency.

INDUSTRY AND COMPANY OVERVIEW

The Nigerian oil and gas industry is one of the largest in Africa with oil reserves of 37.2bn barrels and gas reserves of 197 trillion cubic feet. Oil and gas remains a mainstay in Nigeria, as it contributes about 10% to Nigeria's Gross Domestic Product (GDP), and accounts for about 93% of export earnings.

The federal government, through the Nigerian National Petroleum Corporation (NNPC) participates in the petroleum industry as both player and regulator. This has led to numerous stakeholders" clamor for fast-tracking of the approval of the Petroleum Industry Bill (PIB) by policy makers.

In order to minimize the complexity of the PIB, the policy makers split the bill into four distinct parts: Petroleum Industry Governance Bill (PIGB); Petroleum Industry Administration Bill; Petroleum Industry Fiscal Bill; and the Petroleum Host Community Bill.

The PIGB, which aims at ensuring oil industry transparency, was successfully passed by the legislative arm of government. However, the President is yet to give assent to the passage of the bill. The delay has negatively impacted investment in the oil and gas sector, as some international oil companies (IOCs) exited the sector due to the uncertainty, as well as the unfavorable policy environment. These divestments, although costly, have provided indigenous oil companies, including Oando, with the opportunity to acquire ownership in the oil and gas upstream.

Other dominant indigenous players in the industry include - Conoil, Forte Oil, and Seplat, while multinational oil companies include Chevron and ExxonMobil. These heavyweights dominate most activities in the oil and gas value chain.

Oando (formerly Unipetrol Nigeria) was first listed on the Nigerian Stock Exchange (NSE) in February 1992. The company evolved through a combination of organic growth, acquisitions and strategic alliances to become a dominant player in the Nigerian oil and gas space.

In its bid to deepen its funding avenue and market appeal, Oando joined ~ the Johannesburg Stock Exchange (JSE) in 2005, to become the first African company to achieve this feat. This positively impacted the group's visibility, as the JSE is among the most sophisticated exchanges in the world.

In 2006, the group redefined its business model to take advantage of the spectrum of opportunities in the oil and gas value chain. As a result, the group broadened its scope to cover oil and gas trading, as well as energy services. This was a pivotal step to position the company for the upstream oil and gas play.

The group boasts of several assets in the oil and gas value chain. It acquired ConocoPhillips in 2014 to further strengthen its quest to become a dominant player in the oil and gas upstream industry.

More recently, the company also embarked on a tripartite agreement with Vitol, the world's largest independent trader of energy commodities and Helios Investment Partner, a premier Africa-focused private investment firm to form OVH (formerly Oando Downstream).

Over the years, the group completed several divestments and sales of assets of diverse interests in the energy value chain.

Income statement for Oando Plc					
N'000	**2013**	**2014**	**2015**	**2016**	**2017**
Revenue	449,873,466	92,912,344	203,431,526	455,746,734	497,422,483
Cost of sales	(390,584,435)	(49,610,781)	(156,772,429)	(426,933,813)	(409,341,126)
Gross Profit	**59,289,031**	**43,301,563**	**46,659,097**	**28,812,921**	**88,081,357**
Other operating income	5,135,379	66,061,294	33,514,609	73,200,990	46,490,127
Administrative expenses	(47,874,870)	(161,282,298)	(69,770,253)	(109,252,946)	(77,893,766)
Gain/(losses) on forex (net)					
Fair value loss					
Operating Profit	**16,549,540**	**(51,919,441)**	**10,403,453**	**(7,239,035)**	**56,677,718**
Finance cost	(21,637,777)	(36,859,796)	(55,083,165)	(58,313,162)	(43,743,860)
Finance income	5,804,480	271,384	6,444,804	7,256,765	9,959,732
Share of loss of associate	(3,036)	(217,673)	(878,600)	(4,661,510)	(2,129,005)
Profit Before Tax	**713,207**	**(88,725,526)**	**(39,113,508)**	**(62,956,942)**	**20,764,585**
Tax credit/(Tax expense)	(5,389,472)	(4,910,976)	4,192,937	37,569,028	(7,295,366)
Profit After Tax	**(4,676,265)**	**(93,636,502)**	**(34,920,571)**	**(25,387,914)**	**13,469,219**

Balance sheet for Oando Plc					
N'000	**2013**	**2014**	**2015**	**2016**	**2017**
Property, plant and equipment	172,209,842	314,042,207	223,130,072	293,541,702	343,466,113
Intangible assets	82,232,746	245,705,184	254,715,745	361,530,468	426,866,570
Investment Property	-			-	1,033,000
Investment in associates	2,880,478	3,409,413	2,530,813	10,653,425	7,540,014
Deferred tax assets	4,995,280	12,328,465	35,042,529	44,758,179	46,108,713
Derivaticve finacial assets	1,220,796	57,551,454	14,591,951	844,438	-
Finance lease receivables	6,927,207	42,796,330	43,589,953	60,926,511	72,539,702
Deposit for acquisition of a business	69,840,000	-	-	-	-
Non-current receivables	12,026,874	5,287,521	7,096,971	22,034,389	23,202,580
Available for sale financial assets	14,500	10,834	5,067	2,867	-
Prepayments	3,385,810	3,288,806	13,811	6,292	-
Restricted cash	3,798,258	14,194,363	9,006,083	6,538,952	12,479,146
Non-Current Assets	**359,531,791**	**698,614,577**	**589,722,995**	**800,837,223**	**933,235,838**
Inventories	19,446,202	26,970,824	2,265,218	12,804,332	2,583,094
Finance lease receivables	782,480	658,133	232,328	-	-
Derivaticve finacial assets	389,900	-	10,262,018	6,088,089	18,572
Trade and other receivables	139,383,885	133,940,029	76,422,315	107,002,077	93,798,956
Prepayment	4,354,919	4,537,855	940,170	4,263,242	2,582,527
Available for sale financial assets	169,430	187,997	132,135	112,775	61,856
Cash and bank balances	23,887,497	27,444,256	14,985,373	10,390,585	7,895,061
Other assets					
Current Assets	**188,414,313**	**193,739,094**	**105,239,557**	**140,661,100**	**106,940,066**
Assets of disposal group classified as held for s	**37,483,113**	**-**	**251,358,757**	**50,046,652**	**-**
Total Assets	**585,429,217**	**892,353,671**	**946,321,309**	**991,544,975**	**1,040,175,904**
Ordinary share capital	3,411,177	4,542,343	6,017,309	6,017,309	6,215,709
Share premium	98,425,361	131,554,223	174,806,923	174,806,923	176,588,527
Retained earnings	33,937,579	(150,300,361)	(199,723,265)	(151,868,568)	(138,677,099)
Other reserves	23,217,694	45,342,918	55,750,740	93,407,737	131,475,022
Equity Attributable to Owners of the Company	**158,991,811**	**31,139,123**	**36,851,707**	**122,363,401**	**175,602,159**
Non-Controlling Interest	3,376,266	12,471,648	14,042,219	69,981,178	87,833,624
Total Equity	**162,368,077**	**43,610,771**	**50,893,926**	**192,344,579**	**263,435,783**
Borrowings	71,872,418	162,328,636	55,998,437	101,639,606	99,587,920
Deferred tax liabilities	13,905,217	148,727,530	155,907,424	198,908,983	222,207,944
Provision and other liabilities	5,091,069	11,923,304	41,499,048	40,549,807	54,880,692
Government grant	2,468,035	119,346			
Retirement benefit obligations	206,643	2,903,334	1,487,923	1,161,705	-
Non-Current Liabilites	**93,543,382**	**326,002,150**	**254,892,832**	**342,260,101**	**376,676,556**
Trade and other payables	124,059,301	161,504,599	135,465,211	198,459,488	187,935,945
Derivative financial liabilities	1,527,400	3,608,768	5,160,802	199,137	-
Borrowings	183,412,635	311,013,564	171,329,570	144,478,109	137,854,339
Current tax liabilities	5,643,719	44,963,118	49,643,097	59,108,565	72,405,657
Provision and othe liabilities			2,434,105	525,629	217,350
Dividend payable	644,691	1,650,691	1,650,277	1,650,277	1,650,277
Current Liabilites	**315,287,746**	**522,740,740**	**365,683,062**	**404,421,205**	**400,063,568**
Liabilities of disposal group classified as held f	**14,230,012**		**274,851,489**	**52,519,090**	**-**
Total Liabilites	**423,061,140**	**848,742,890**	**895,427,383**	**799,200,396**	**776,740,124**
Total Equity and Liabilites	**585,429,217**	**892,353,661**	**946,321,309**	**991,544,975**	**1,040,175,907**

MANAGEMENT

The management of Oando has struggled to keep up with the expectations of many shareholders despite its objective to return the group back to winning ways. The management has successfully narrowed the group's negative retained earnings through a combination of efforts. The group divested from three business segments to focus on upstream and midstream oil industry –

- Marketing, refining & terminal;
- Gas & power; and
- Energy services segments.

There were speculations of misappropriation on the part of the management. This ultimately led to a five-month technical suspension of Oando stocks, both on the Nigeria Stock Exchange (NSE) and JSE. The subsequent lift of the suspension was on the premise that a comprehensive investigation and a forensic audit would be embarked upon to evaluate accusations leveled against the management. The forensic audit, which is still pending, is expected to be a major determinant of the regulator's next course of action.

The management of the group has continued with its long-term plan to turn the fortunes of the company around, as the group recently secured the mandate to develop multiple gas pipeline projects for the NNPC.

The management of Oando is under the stewardship of Mr. Jubril Adewale Tinubu. He has proven to be pivotal in the turnaround of numerous subsidiaries and business segments of the group. This is evident from the successful divestment of the group's downstream businesses. His objective is to improve on the group's internal efficiency by focusing on core areas of the oil and gas value chain. In addition, divestment funds will be used to pay down high interest loans, as well as improve working capital.

Mr. Jubril Adewale Tinubu

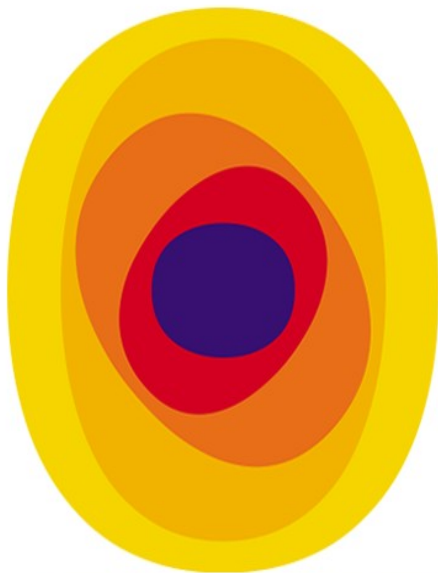
Chief Executive Officer (CEO)
Oando group

His Royal Majesty (HRM) Oba Adedotun Gbadebo, The Alake of Egbaland, is the Chairman of the Oando Group. Having served on the board of numerous oil and gas servicing companies, the Chairman has leveraged his network to embark on strategic partnerships with both indigenous and foreign oil sector experts.

The rest of Oando Group's board is comprised of industry veterans with a good knowledge of the industry, markets and financial mechanism and information of Sub-Saharan Africa. The synergy between the members has improved the group's progress in the oil and gas industry.

Oba Adedotun Gbadebo

Chairman of Oando Group



Oando

THE BULLS SAY

* Leading indigenous player in oil exploration and production
* Competent management team
* Large oil and gas asset portfolio
* Secured strategic government contracts in 2018
* Successful listing on the JSE, despite stricter rules and compliance requirements

THE BEARS SAY

* Pending investigation by regulatory authorities
* Low goal congruence among share-holders
* Threat of insecurity in the Niger-Delta (in the run-up to elections)
* Volatility in international crude oil prices
* Delay in the passage of the Petroleum Industry Bill (PIB)
* Persistent foreign exchange challenges

Risks and Outlook

The most potent risks that could impede Oando from achieving its objective of delivering share-holders' value and maintaining a dominant position in the oil and gas industry include market risk (foreign exchange risk, interest rate risk and currency risk), liquidity, credit, as well as corporate governance risk.

Management has shown dedication in delivering superior value to key stakeholders with a strategic plan aimed at tackling working capital challenges, as well as improving internal operating efficiencies across its strategic business units.

The management has set out to divest from some portfolio investment which are outside the purview of the group's long-term objective. The funds from these divestments will be used to pay down some of its current debts, as well as improve its current working capital management approach.

The group has also leveraged strategic alliances to deliver superior service and ensure customer satisfaction. This has been a key success factor for the group's continuous ability to secure new mandates in the oil and gas value chain.

However, the group needs to address the compliance issues leveled against it, in terms of recognition of income, as well as remuneration of its directors.

APPENDIX - Valuation

Using the Discounted Cash Flow (DCF) methodology, we estimated a stock price of N7.69, which is a 19% upside on the current price of N6.45 as at July 6th, 2018. The discount rate (Weighted Average Cost of Capital (WACC)) of 19% was derived using a 13.5% risk free rate (FGN 5-year Bond as at June 2018), a Beta of 1.864, an after tax cost of debt of 11.9%, and a market risk premium of 6.34%. The long-term cash flow growth rate to perpetuity calculated is 5%.

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

DCF Valuation for Oando Plc			
N'000	**2018E**	**2019E**	**2020E**
EBIT	81,723,869	73,593,093	82,286,924
Less: Taxes	(28,747,128)	(25,887,052)	(28,945,187)
EBIAT	52,976,741	47,706,041	53,341,736
Plus: Depreciation expense	21,235,950	19,625,067	19,793,451
Less: CAPEX	(12,074,809)	(8,948,481)	(15,004,094)
Less: Change in working capital	(2,741,362)	10,488,308	(13,304,908)
Free Cash Flow (FCF)	59,396,519	68,870,935	44,826,185
WACC	19.0%	19.0%	19.0%
Present value (PV) of FCF	49,922,609	48,652,879	26,615,867
Terminal value @ perpetual growth rate (2020)	**2018**	**2019**	**2020**
Terminal value as of 2020	-	-	336,744,973
Present value of terminal value	199,944,733		
2017			
DCF Calculation	**Valuation**		
PV of explicit period	125,191,356		
PV of terminal value	199,944,733		
Enterprise Value	325,136,089		
+ Cash	7,895,061		
- Borrowings	(237,442,259)		
Equity value	95,588,891		
Share Price	**7.69**		

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