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MPC TREADS CAUTIOUSLY AS ECONOMIC AND POLITICAL ENVIRONMENT REMAINS CUMBERSOME

The MPC maintained status quo on all monetary policy parameters for the 13th consecutive time since July 2016. The committee of 10 members voted 7:3 in favor of keeping rates unchanged at 14% p.a. – indicative of a growing hawkish sentiment. Three members also voted in favor of a hike in the benchmark interest rate by 150 basis points.

Considerations

- Weak GDP growth numbers
- Reversal in the inflation trend
- Relative stability in exchange rate
- Depletion in external reserves
- Foreign portfolio outflows

The monetary policy committee was confronted by a policy dilemma: raising rates to stem rising foreign portfolio outflows, whilst moderating the threat of inflation or maintaining status quo in the face of weaker GDP growth numbers. The threat of external imbalances took precedence over domestic stimulation of the economy and left the committee with the realistic policy options of either tightening or maintaining status quo. In the end, the decision to hold all policy parameters was premised on the need to get more clarity on the timing and quantum of anticipated liquidity injections into the economy from pre-election spending and increased FAAC disbursements from higher oil receipts.

Implications

Maintaining status quo means that the depletion of external reserves is likely to continue but at a slower pace. However, inflationary pressures are likely to continue to mount. High lending rates (average of 26%) will continue to deter credit demand and banks are likely to remain risk averse in the short-term due to prevailing macro headwinds. Interest rate-sensitive sectors would also continue to remain challenged.

The CBN had previously stated its intentions to give preference to employment-elastic sectors by extending credit at single-digit interest rates. The key concern to this move is that the CBN's intervention programmes are highly subjective. They do not tackle the underlining problem of inclusive growth effectively, unlike the far reaching impact of adopting an accommodative stance.

Outlook

The United States Federal Reserve is expected to raise interest rates by 25bps tomorrow. This will increase the interest rate differential in the US and trigger increased capital flow reversal from emerging market economies including Nigeria. We expect the impact to weigh immensely on the committee's decision at the next meeting.

The IMF in its article IV consultation earlier in the year recommended a further tightening of monetary policy with the objective of achieving a single digit inflation target. Recent developments like the continuous depletion of the external reserves and the reversal in the inflationary trend, if sustained, make this a real possibility at the next meeting.

It is general consensus that increased money supply will exert some inflationary pressures in the short term, especially if output remains constant. This is on the back of election spending, which is poised to increase money in circulation and the impact of a likely increase in the minimum wage. However, the CBN might intervene using monetary instruments to mop up excess liquidity and maintain price stability. We believe the MPC will weigh the growth potential of the Nigerian economy against the weak GDP growth numbers. This is also likely to strengthen the resolve of policy makers to stimulate growth and recovery.

DISTRESS OF SKYE BANK - THE UNINTENDED CONSEQUENCES

Background

The CBN revoked the operating license of Skye Bank two years after its regulatory intervention and subsequent injection of funds. Consequently, a bridge bank, Polaris, in collaboration with Asset Management Corporation of Nigerian (AMCON), will turnaround the operations of the distressed bank. The optimization of internal business process will position the bank for a competitive takeover by interested buyers.

Underlying problems remain apparent

The struggling systemically important bank (SIB) had been in dire need of a recapitalization since its failure to pass a liquidity stress test in 2016. Since then, the bank had relied on the CBN for liquidity support and intervention. The new arrangement with Polaris will help recapitalize the bank; injecting N786bn into the defunct bank to clean up its negative equity position. The regulatory authorities have chosen to maintain the current management team and promised a seamless transition to depositors.

Equity investors remain the biggest losers

In a stock market driven largely by technical analysis and speculations, and less of fundamental assessment, Skye bank's stock gains soared to a high of 210% in 2018 (year-to-date). The decision to wind down the bank resulted in a write-down of Skye Bank's market capitalization from N10.7bn to **zero** value. This will further dampen the confidence factor, which is yet to recover from the MTN saga and political fracas in the run-up to elections.

However, the decision of investors to invest in a bank that failed to publicly publish its financial performance since 2016 further accentuates the risk of fallout.

Implications on financial system stability

The decision by the CBN to extend support to Skye Bank stemmed from the need to prevent a financial system failure. History has shown that what precedes a financial crisis is either a liquidity crunch or a capital deficiency. Skye Bank struggled with both criteria. This proves that there is no bank that is too big to fail.

The collapse of Skye Bank is expected to be a wakeup call for the regulators on the need to enforce a robust risk regulatory framework. This framework should extend beyond periodic regulatory examinations. These red flags will help curb the reputational and financial hemorrhage of a corporate meltdown.

Way Forward

The corporate failure of Skye Bank further emphasizes the need for robust corporate governance codes. The efforts by capital market players to amplify board corporate governance codes need to be taken up by the regulators as well. This will complement efforts by banks to improve their company rating, as well as their attractiveness to investors.

THE NEED FOR NIGERIAN INVESTMENT IN RENEWABLE ENERGY

Nigeria's installed electricity capacity is 12,522MW, well below the current demand of 98,000MW.[1,2] The actual output is about 3,800MW, resulting in a demand shortfall of 94,500MW throughout the country.[3] As a result of this wide gap between demand and output, only 45% of Nigeria's population has access to electricity.[4] This power deficit has also weighed negatively on business operations in the country. Users must seek alternative energy means, primarily through buying gas and diesel-powered generators. These alternatives are relatively expensive, and most businesses that use them incur high production costs. Besides curtailing domestic business activities, the poor capacity of electricity in Nigeria deters foreign direct investment inflows into the country, as investors are typically weary of high electricity costs and shortages.

Nigeria's total electricity mix is largely dominated by non-renewable energy despite a vast potential in renewable sources.[5,6] The exploration and adoption of these through private investments, offer a probable solution to the power challenges in the country. Attracting private sector investment into this area demands business-friendly measures such as lower interest and tax rates.

[1]United States Agency for International Development, April 04, 2018. "NIGERIA POWER AFRICA FACT SHEET". USAID, https://www.usaid.gov/powerafrica/nigeria

[2]Admin, October 11 2016. "World Bank: Nigeria's Power Deficit Hits 94,500 MW". Independent Energy Watch Initiative. Available at http://iwin.org.ng/index.php/news/item/4255-https-newtelegraphonline-com-world-bank-nigerias-power-deficit-hits-94500-mw

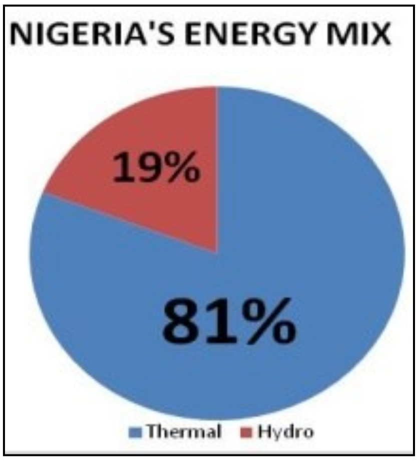
[3]Federal Government of Nigeria, FDC Think Tank

[4]United States Agency for International Development, April 04, 2018. Ibid. USAID, https://www.usaid.gov/powerafrica/nigeria

[5]Renewable energy is a form of energy that is collected from sources which are naturally replenished, such as sunlight, wind, rain, tides, waves, and geothermal heat. Non-renewable energy, in contrast, does not renew itself. Coal, crude oil, and natural gas are considered sources of non-renewable energy.

[6]Prof. Abubakar S. Sambo, October 10, 2009. "The place of renewable energy in the Nigerian energy sector". Energy commission of Nigeria, http://area-net.org/wp-content/uploads/2016/01/Nigeria_RENEWABLE_ENERGY_MASTERPLAN.pdf

Electricity generation in Nigeria



Electricity generation for Nigeria's grid is largely dominated by two sources - non-renewable thermal (natural gas and coal) and renewable water or hydro. Coal and natural gas make up the largest portion of energy production in Nigeria, while energy generated from hydro is well below potential.[7]

Nigeria depends on non-renewable energy despite its vast potential in renewable sources such as solar, wind, biomass and hydro. The total potential of these renewables is estimated at over 68,000MW, which is more than five times the current power output.[8] The exploration of these potentials and the production of renewable energy on a large scale would significantly increase Nigeria's electricity grid and ease power shortages in the country. Electricity created from renewable sources is cleaner, more efficient and more easily replenished.

Spurring investment in renewables

Nigerian governments have made efforts towards renewable forms of electricity in the country. For instance, in 2006, the Ministry of Environment implemented the Renewable Energy Master Plan (REMP), which was a strategy that aimed to increase the contribution of renewable energy to Nigeria's total energy production by 2025.[9] The plan was produced with the support of the United Nations Development Programme (UNDP). In 2015, the current administration drafted the Nigerian Renewable Energy and Energy Efficiency Policy (NREEEP), which focused on harnessing alternative energies such as hydro, solar, wind and biomass.[10] This policy indicated that hydropower is the most important renewable energy source to be developed to harness the country's full potential. Despite these plans, there has been no significant addition of renewables to the national grid. Total power output remains between 3,500MW-3,800MW, with non-renewable sources accounting for 80%-85%.

[7]United States Agency for International Development, April 04, 2018. Ibid. USAID, https://www.usaid.gov/powerafrica/nigeria
[8]Prof. Abubakar S. Sambo, October 10, 2009. Ibid. Energy commission of Nigeria, http://area-net.org/wp-content/uploads/2016/01/Nigeria_RENEWABLE_ENERGY_MASTERPLAN.pdf
[9]International Energy Agency, 2013. "Nigeria Renewable Energy Master Plan". Available at http://www.iea.org/policiesandmeasures/pams/nigeria/name-24808-en.php?s=dHlwZT1yZSZzdGF0dXM9T2s,&return=PG5hdiBpZD0iYnJlYWRjcnVtYiI-PGEgaHJlZj0iLyI-SG9tZTwvYT4gJnJhcXVvOyA8YSBocmVmPSIvcG9saWNpZXNhbmRtZWFzdXJl-cy8iPlBvbGljaWVzIGFuZCBNZWFzdXJlczwvYT4gJnJhcXVvOyA8YSBocmVmPSIvcG9saWNpZXNhbmRtZWFzdXJlcy9yZW5ld2FibGVlbmVyZ3kvIj5SZW5ld2FibGUgRW5lcmd5PC9hPjwvbmF2Pg,,
[10]International Energy Agency, 2015. "National Renewable Energy and Energy Efficiency Policy for Nigeria". Available at http://www.iea.org/policiesandmeasures/pams/nigeria/name-140453-en.php?s=dHlwZT1yZSZzdGF0dXM9T2s,&return=PG5hdiBpZD0iYnJlYWRjcnVtYiI-PGEgaHJlZj0iLyI-SG9tZTwvYT4gJnJhcXVvOyA8YSBocmVmPSIvcG9saWNpZXNhbmRtZWFzdXJl-cy8iPlBvbGljaWVzIGFuZCBNZWFzdXJlczwvYT4gJnJhcXVvOyA8YSBocmVmPSIvcG9saWNpZXNhbmRtZWFzdXJlcy9yZW5ld2FibGVlbmVyZ3kvIj5SZW5ld2FibGUgRW5lcmd5PC9hPjwvbmF2Pg,,

The government's inability to achieve its objective is largely due to a weak commitment to the proposed plans. In line with the power sector privatization objectives, the government could consider luring private investors into the renewable energy space.[11] Private investors, as complementary agents in a mixed economy, could overcome the government's flaws and achieve more significant results if the federal government shows more of a commitment. A Chinese firm, Shenzhen Kang Ming Sheng Technology Industry Incorporation, has already pledged to invest in Nigeria's renewable energy and with business-friendly reforms, Nigeria is likely to see more of this.

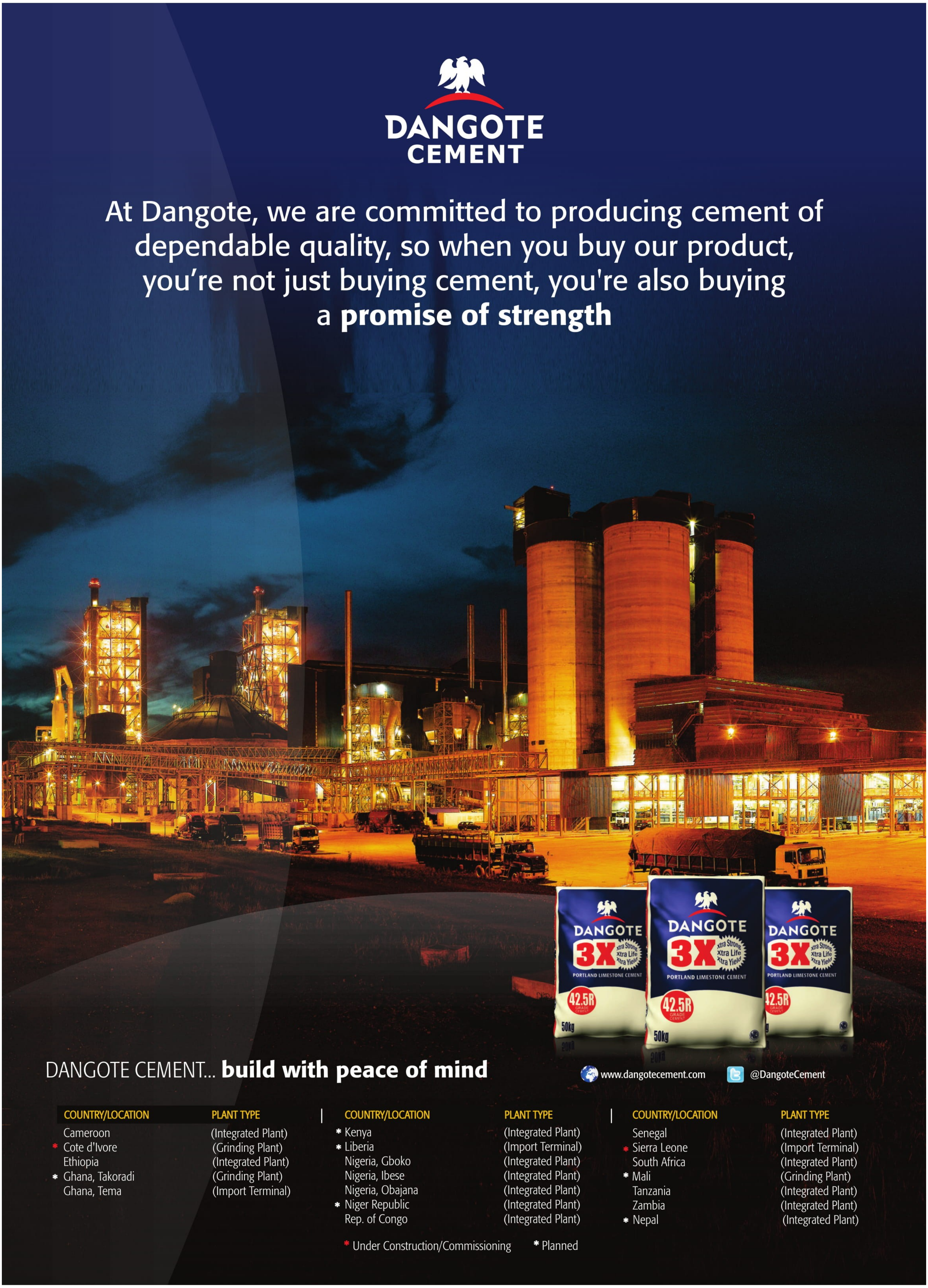
Two key reforms that would be foundational to incentivizing the private sector in investing in renewable energy are cheaper financing and lower taxes. Lending rates in Nigeria (currently at an average of 17.5%) are too high for investors who require capital to start up businesses such as in renewable energy.[12] Countries such as China, the US and India, which are leading the renewable energy revolution, offer substantially lower rates.[13] The average commercial bank lending rate in India, for example, is about 9.45% pa. In the US and China the rates are at an average of 4.3% pa.[14] The Nigerian government has made concessions for other sectors, enabling cheaper financing to agriculture and manufacturing in order to encourage their growth.[15] While the monetary policy rate is unlikely to reduce lending rates in the near term, the government might consider offering similar lower rates to power sector investors, particularly for those who are investing in renewable energy.

[11] Nigerian Electricity Regulatory Commission, 2013. "NERC Cautions Against Reversal of Power Sector Privatisation". Available at http://www.nercng.org/index.php/media-library/press-releases/449-nerc-cautions-against-reversal-of-power-sector-privatisation
[12] Central Intelligence Agency, 2017. "Country Comparison to the World". The World Factbook, Federal government of the United States. Available at https://www.cia.gov/library/publications/the-world-factbook/fields/2208.html
[13] International Energy Agency, 2018. "Renewables 2017". Available at https://www.iea.org/publications/renewables2017/
[14] Central Intelligence Agency, 2017. Ibid. The World Factbook, Federal government of the United States. Available at https://www.cia.gov/library/publications/the-world-factbook/fields/2208.html
[15] Nairametrics, August 17, 2018. "Banks to provide loans to farmers, manufacturers at single digit interest rate". Nairametrics Financial Advocates, https://nairametrics.com/commercial-banks-wants-to-provide-credit-facilities-to-agricultural-and-manufacturing-sectors-at-single-digit-interest-rate/

In the US, lower rates for financing are complemented by tax concessions. Nigeria's corporate tax rate of 30% is one of the highest in the world.[16] Bearing in mind that a new firm investing in the renewable energy sector might find it difficult to recover its initial capital outlay at the beginning of operations. A staggered tax rate could provide incentive for such investment.

The Nigerian government needs to make investment into renewable energy more attractive to private investors in line with its privatization objective. Increased power supply from renewable sources will ease the country's power challenges. An increased power output would also be favorable for the growth of other businesses and the viability of the country's environment to other foreign direct investors. However, the negligence of the country's renewable energy potential suggests that power output will remain below optimal, and this sub optimality will remain a significant constraint to economic activities in the country unless clear action is taken.

[16] KPMG, 2018. "Corporate tax rates table". Available at https://home.kpmg.com/xx/en/home/services/tax/tax-tools-and-resources/tax-rates-online/corporate-tax-rates-table.html



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* Cote d'Ivore (Grinding Plant)
Ethiopia (Integrated Plant)
* Ghana, Takoradi (Grinding Plant)
Ghana, Tema (Import Terminal)
COUNTRY/LOCATION PLANT TYPE
* Kenya (Integrated Plant)
* Liberia (Import Terminal)
Nigeria, Gboko (Integrated Plant)
Nigeria, Ibese (Integrated Plant)
Nigeria, Obajana (Integrated Plant)
* Niger Republic (Integrated Plant)
Rep. of Congo (Integrated Plant)
COUNTRY/LOCATION PLANT TYPE
Senegal (Integrated Plant)
* Sierra Leone (Import Terminal)
South Africa (Integrated Plant)
* Mali (Grinding Plant)
Tanzania (Integrated Plant)
Zambia (Integrated Plant)
* Nepal (Integrated Plant)
* Under Construction/Commissioning
* Planned

THE CHALLENGE WITH PENSIONS IN NIGERIA

It is becoming more and more apparent that Nigerian workers are not preparing for retirement. Of the 69 million people in the Nigerian labor force, only seven million have pension accounts. This represents approximately 10% of the labor force, leaving 90% potentially reliant on future generations – or the government – to take care of them when they are older. Moreover, most pension account holders in the country are aged between 30 and 49. In a country where over half the population is below 30, you would expect that age group to account for a considerable proportion of pension accounts. In contrast, the US pensioned population accounts for more than 50% of its working age population and the number is over 70% in the United Kingdom.[17,18] While saving for one's future may seem like a necessary activity, a lack of confidence in the Nigerian system - due to issues of governance and corruption, employers' inability to contribute to pensions, and poor performance on pension returns – significantly constrains pension penetration in Nigeria.

[17]Rhee, Nari and Boivie, Ilana. 2015. "The Continuing Retirement Savings Crisis". National Institute on Retirement Security. https://www.nirsonline.org/wp-content/uploads/2017/07/final_rsc_2015.pdf
[18]Office of the National Statistics. 2018. "Annual Survey of Hours and Earnings pension tables, UK: 2017 provisional and 2016 revised results". https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/workplacepensions/bulletins/annualsurveyofhoursandearningspensiontables/2017provisionaland2016revisedresults

Sharp Practices by Employers

The inadequate and untimely release of funds by employers has dampened confidence in the system and resulted in the delay or outright denial of pension rights in Nigeria. The accumulating arrears and unsustainable payments have subjected retirees to undue hardships, while many have died without being able to get their entitlements. The Pension Commission is in the process of introducing biometric authentication, while the Central Bank of Nigeria is rolling out digital identification. This should go a long way to boost confidence in the system.

Another major reason for low pension penetration is the poor provision by businesses. Private sector businesses often believe they do not have to provide their employees with pension plans, preferring not to accumulate the extra cost of putting a plan in place. However, the law deems it mandatory if you have over 15 employees.[19] For employers that do have pension plans, there are several anecdotes of private employers failing to remit their contributions to employee pension accounts. Most are confident that they will not be penalized, even though the law stipulates a 2% penalty on unremitted funds. This might reflect the historically high level of impunity in the country and lax enforcement by regulators. Recently, however, the National Pension Commission has attempted to penalize companies. In April 2018, it reported that employers were forced to pay over N6 billion in penalties for deducting funds from employees' salaries and not remitting them to their retirement accounts. This is a step in the right direction, but there are still a lot of organizations that are yet to remit their employees' funds.

Return on Pension Investments

While corruption and impropriety on the part of employers is certainly a problem, the elephant in the room when it comes to Nigeria's pension industry is returns on investment. Returns have barely covered the high inflation rate over the years, meaning that people's savings are effectively losing value. The challenge is that pension fund administrators (PFAs) have traditionally invested in safe but low-yielding government securities. As at April 2018, 70% of PFA funds were put in government securities.

[19]Federal Government of Nigeria. 2014. *Pension Reform Act, 2014.* https://www.pencom.gov.ng/wp-content/uploads/2018/01/PRA_2014.pdf

The hope is that new pension legislation would encourage PFAs to diversify their investments in order to get higher returns.[20] The 2014 Pension Reform Act gave PFAs the permission to invest in alternative assets. A multi-fund system was also recently introduced, allowing PFAs to manage their assets according to the savers' ages. Fund managers investing for younger members are allowed to take on more risk and invest in equities, real assets and private equity. Furthermore, funds aimed at younger savers can place up to 75% of assets in instruments other than government securities.

Another way of getting higher returns would be by funding Nigeria's infrastructure. The idea of pension fund investment has gained grounds in recent years as pension fund managers seek to expand their investment frontier beyond the traditional asset classes in a bid to diversify risk and returns. Given the high risk associated with long gestation period infrastructure projects, returns on this type of investment are typically high. The country's infrastructure deficit has been discussed at length, and it would be reasonable to dedicate a portion of pension funds to plug this infrastructure deficit, particularly as pensions are long term investments allowing the funds to be retained for years. This will provide a huge pool of long-term funds available for investments, which will lead to national economic development.

In order to boost pension penetration, awareness about the benefits of having a pension fund needs to be raised. This presents a challenge because low enrolments levels are largely due to the large informal structure of the Nigerian economy. However, the outlook is bright. Since July 2016, the Federal Government has implemented a slew of reforms aimed at making it more attractive for small scale entrepreneurs to register their businesses. Policies that make it easier for small firms to enter the market, improve access to finance, pay taxes and improve electricity connections, could go a long way in formalizing the informal sector and ultimately boosting pension penetration. In terms of attracting higher returns of investment, the new multi-fund system is expected to prompt a gradual shift away from investing in low-yielding assets.

[20]Federal Government of Nigeria. 2014. *Pension Reform Act, 2014.* https://www.pencom.gov.ng/wp-content/uploads/2018/01/PRA_2014.pdf

WHO REGULATES THE REGULATORS?

Culled from Business Day

If you google “regulating the regulators,” it comes up with 38.4 million results. This is symptomatic of the fact that this is a popular phrase all over the world. Surely companies around the world are suffering from dog bites and scratches from regulators who are like wild Alsatians left to wander outside their kernel. So, a key question is who has a leash on them?

The fact that the dogs are out in Nigeria is glaring. We have seen the Nigerian Electricity Regulatory Commission reduce the price of electricity just before elections. We have seen one gentleman turn the Financial Reporting Council of Nigeria into a gestapo type institution – chasing churches, mosques and sundry for game. We have heard of the erstwhile Director General of the Securities and Exchange Commission allegedly approve monies for himself and by himself. We have more recently seen the Central Bank of Nigeria (CBN) deploy a serving Deputy Governor of the CBN to act as the board Chairman of Etisalat (a private telecoms company not under CBN’s purview) because of bad debts owed to commercial banks, and further participating in rebranding the company to 9mobile and selling down to investors. We have recently seen MTN buckle under the Nigerian Communications Commission $5.2 billion fine. Again recently, CBN has made a pronouncement that MTN should “refund” $8.1 billion. One wonders about the legal and practical plausibility of such an order. Does CBN have the power to fine a privately held non-bank institution like MTN? Can private money not drawn from the CBN be refunded? How can MTN refund monies that may have been distributed to shareholders and lenders? Is CBN not conflicted given that the CBN midwifed the rebranding and sale of MTN’s competitor Telco (Etisalat, now 9mobile)? Does the Central Bank regulate Telecoms companies?

Regulators are really having a field day with executive recklessness and commandeering activities in Nigeria today. Who checks them when they draft regulations that give them powers outside the ambit of the enabling legislations? Who checks them when they make pronouncements that are clearly outside their powers and purview? Who checks them when the helmsmen or some of the officers have a conflict of interest?

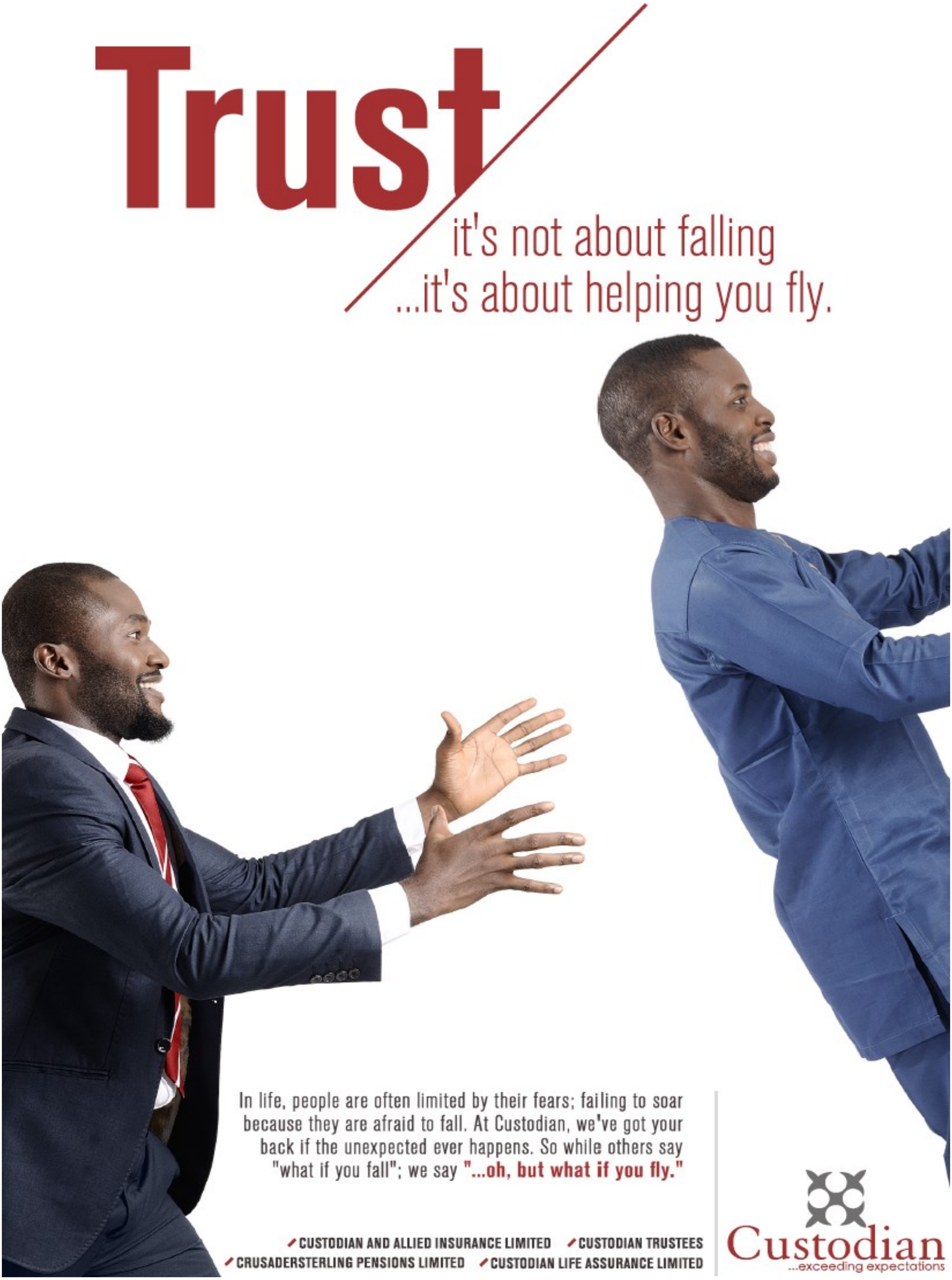
Shall we continue to recoil under a crop of brigadiers whose questionable exercise of discretion and value judgements put the corporate citizens in a quandary and the nation into disrepute?

An indiscriminate exercise of discretion is akin to a patient under the scalpel of a quack surgeon. I recall that several years ago, a certain important law had just been passed in a key sector in Nigeria. Months after, I had a meeting with the Director General of this very important new regulatory agency and I asked him when he planned to draft regulations typically made pursuant to the enabling law to guide stakeholders and streamline processes. (Please hold your breath!!) This gentleman with a smile on his face said to me "I am not in a hurry to draft regulations because that will whittle down my discretion. For as long as we don't have regulations whatever I say is the regulation." How do we deal with these kinds of despots that have found themselves in positions of public trust yet cannot be trusted for a fraction of a mile?

These issues raise fundamental questions: Are regulators are conflicted by being empowered to draft their rules of engagement with the citizens who they regulate? Should the legislators change the current method of drafting laws that empowers the regulator to draft their own regulations to a system where the law is passed together with the regulations? Should our laws become more prescriptive and insist that regulators should achieve certain tasks within given periods? Should laws set specific defaults and set a process where a regulator must serve default notices and set a time for defaults to be remedied? Can we reduce politicization of decisions by enacting a law that bans full time politicians from being at the helm of affairs or on the boards of any regulatory institution? Should our laws impose a statutory duty of care on boards of regulators, such that if they take deleterious decisions they may be held personally liable? Why should we not repeal laws that protect public officers from personal liability for actions taken in their official capacity?

Are such laws not a license to throw caution to the wind? Should we institute a code of conduct for boards of regulators that holds them to standards that are enforceable? Should regulators not be exposed to greater public scrutiny and be legally obliged to publish the basis and rationale for major decisions? Should we establish an Ombudsman (an official appointed to investigate complaints against maladministration of public authorities) that is equipped to deal with the shenanigans of regulators and penalize erring officials who take "amazing" decisions? Should we set up specialized fast track tribunals that deal solely with reviewing administrative action and the exercise of discretion by regulators? Do we realize that most regulators are judges in their own cause because they decide if there is an infringement and then they decide the penalty for such infringement? Perhaps we should have a system where a regulator investigates a matter and passes its findings to an Ombudsman to review and decide if there is an infringement and if so suggest the appropriate penalties. Many regulations are so obsolete and archaic that perhaps major regulations should have sunset clauses that make the regulations expire after, say, ten years so it can go back for fresh stakeholder engagement and legislative review.

Indeed, I have asked just so many questions! Permit me to ask just one more: When so many questions may be asked, is it a symptom that somethings are wrong?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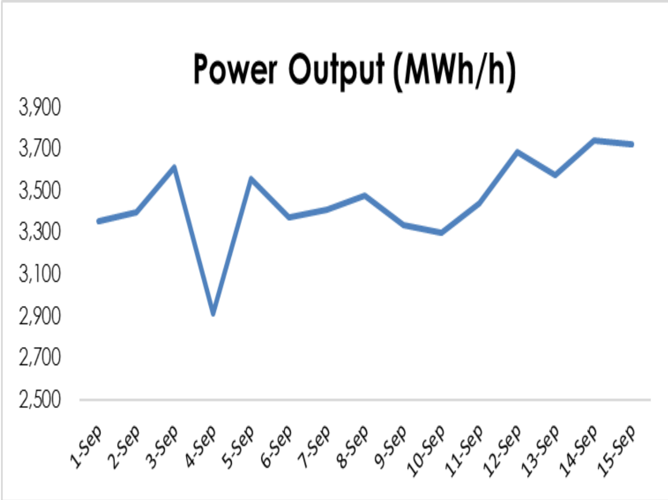
MACROECONOMIC INDICATORS

Power Sector

The average power output from the national grid was 3,459.20MWh/h within the period of 1st – 15th September. This is 5.33% lower than the average of 3653.80MWh/h in the corresponding period in August. The decline resulted from the high gas constraints at Afam VI on September 4th. The sector lost a total of N26.97bn (annualized at N580.07bn) during the period.



[21]

Outlook

Average power supply is expected stay between 3,500.00MWh/h – 3,700MWh/h in the coming weeks provided that there are no disruptions at gas stations.

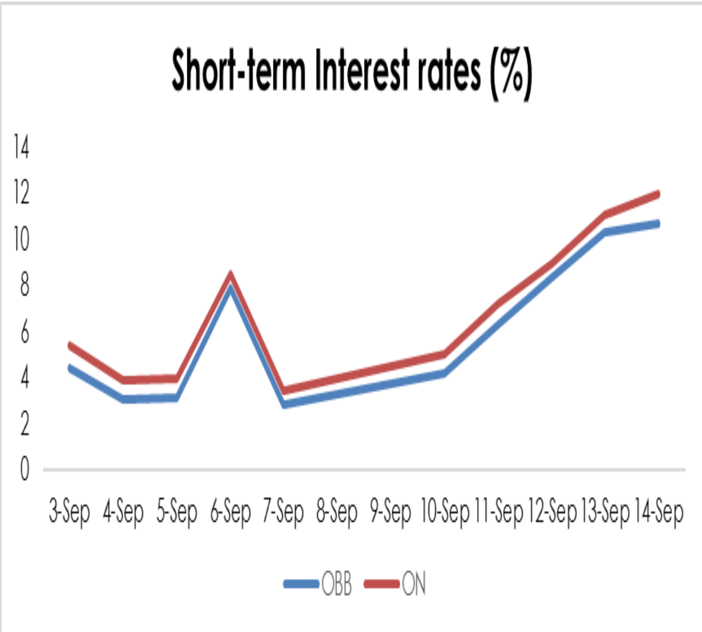
Money Market

Average NIBOR (OBB, O/N) was 6.06% pa within the review period, compared to 7.84% pa in the corresponding period in August. Average opening position for banks was N484.97bn between September 3rd – 14th, compared to N328.22bn in the corresponding period in August. Total OMO sales during the period was N620.22bn compared to maturities of N562.85bn, this resulted to a net outflow of N57.37bn.

At the primary market auction on September 12th, the 91-day and 182-day T/Bills remained flat at 11.00% p.a and 12.30% p.a respectively while the 364-day tenor increased by 45bps from 13.05% p.a to 13.50% p.a. At the secondary market, the 182-day and 364-day T/Bills tenor increased by an average of 55bps while the 91-day tenor declined by 20bps. At the secondary market, all the T/Bills tenor increased by an average of 505bps

[21]Source: FGN

Tenor	Primary market (August 29th, 2018) (%)	Primary market (September 12th, 2018) (%)	Secondary market (September 3rd, 2018) (%)	Secondary market (September, 14th 2018) (%)
91-day	11.00	11.00	10.16	13.61
182-day	12.30	12.30	12.45	13.25
364-day	13.05	13.50	12.67	13.47



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Outlook

Higher T/bill rates will mean a higher debt service cost to the government and is likely to cause a general rise in banks' deposit rates as customers shift to T/bills. On the flipside, higher T/bill rates will likely boost foreign portfolio investment flows as investors substitute cash for risk free assets and reduce the pressure on the currency.

Forex Market

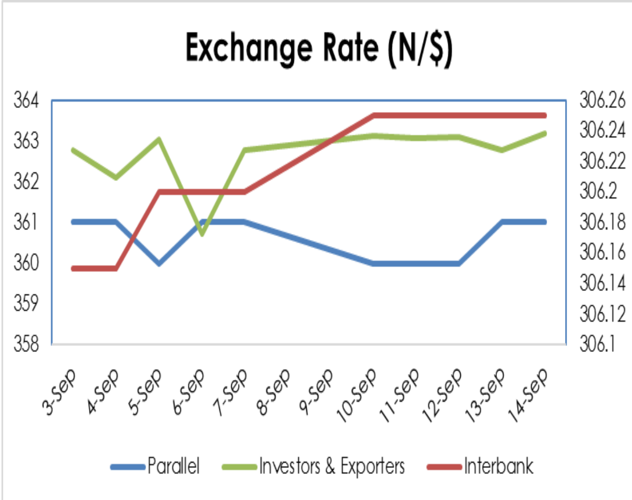
Exchange Rate

At the parallel market, the naira started the period at N361/$ and closed September 14th at the same rate. However, the naira appreciated to N360/$ for four days during the period. The wholesale rate is now N357/$. At the interbank foreign exchange market, the naira started the period at N306.15/$ and depreciated marginally by 0.03% to close at N306.25/$ on September 14th. The naira depreciated by 0.11% to close at N363.18/$ on September 14th. During the review period, the naira touched a new low of N364/$ at the IEFX window before retreating to N362/N363; an indication of a convergence. The naira at the IEFX window has depreciated below the parallel market, this is partly due to the increase in capital flight. The depreciation however erodes the opportunity for arbitrage in the market. Total forex traded at the IEFX window was $3.60bn, compared to $2.34bn in the corresponding period in August.

[22]Source: FMDQ

Outlook

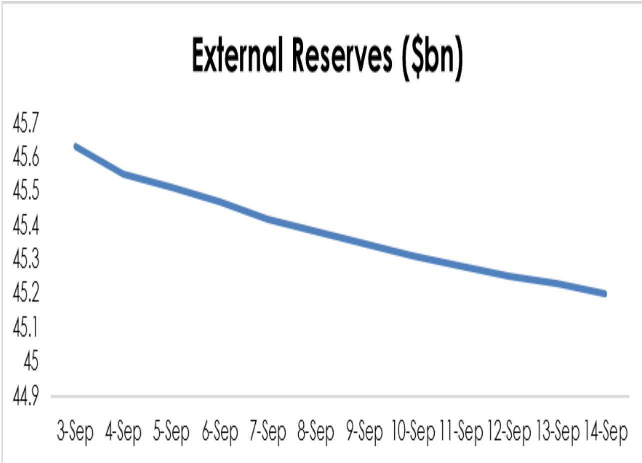
The exchange rate has been relatively stable due to consistent interventions by the CBN. However, the naira may depreciate in coming weeks due to heightened forex demand pressure as foreign portfolio investors continue to exit their holdings amid rising political and policy uncertainty, and higher interest rates in developed economies.



[23]

External Reserves

Nigeria's gross external reserves declined to close the period at $45.20bn on September 14th from $45.63bn on September 3rd. The continuous depletion in external reserves was partly due to capital flight by foreign investors buoyed by political uncertainties. The external reserves depletion resulted in an import cover of 11.08 months.



[24]

Outlook

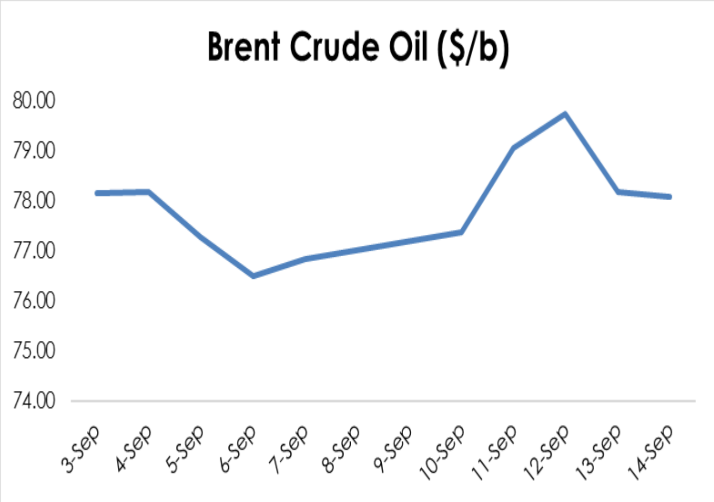
We expect the depletion of the external reserves to persist as a result of increased capital flight amid political tensions.

COMMODITIES MARKET - EXPORTS

Oil Prices

Oil prices recorded a choppy movement during the review period. The price of the commodity declined from $78.15pb on September 3rd to $78.09pb on September 14th, though it reached a period high of $79.74pb on September 12th. Average oil price for the period was $77.94pb, 7.10% higher than the average for the corresponding period in August ($72.77pb). The rise was as a result of the trade sanctions imposed by the U.S on Iran, which is tightening global supply.

[23]Source: FMDQ, CBN, FDC Think Tank
[24]Source: CBN



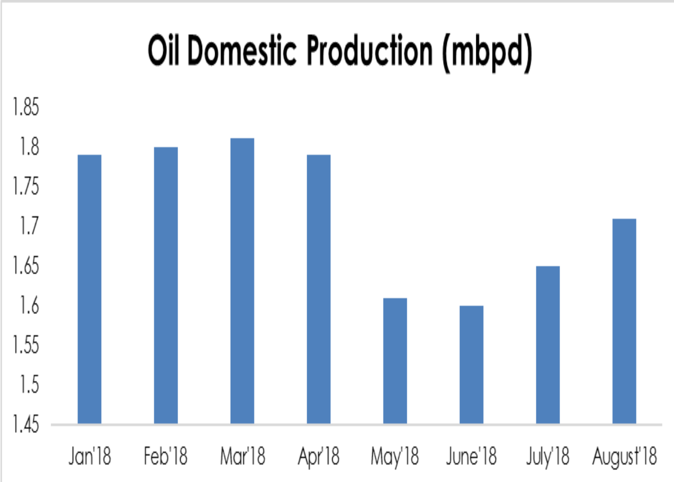
[25]

Outlook

We expect oil prices to remain between $75pb and $80pb in the coming weeks as a result of the expected U.S trade sanctions on Iranian oil and the reduced output from Venezuela.

Oil Production

Nigeria's domestic oil production increased by 11.76% from 1.53mbpd in July to 1.71mbpd in August according to OPEC's monthly oil report. This is partly due to the increased oil rig count of 16 in July from 13 in June. However, Nigeria's oil rig count fell to 14 in August from 16 in July.[26]



[27]

Outlook

We expect the increase in Nigeria's oil production to be sustained. This would be positive for fiscal revenue, will limit the rate of decline of the external reserves and boost economic growth. We project an improvement in the Q3'18 GDP figure to 1.7%.

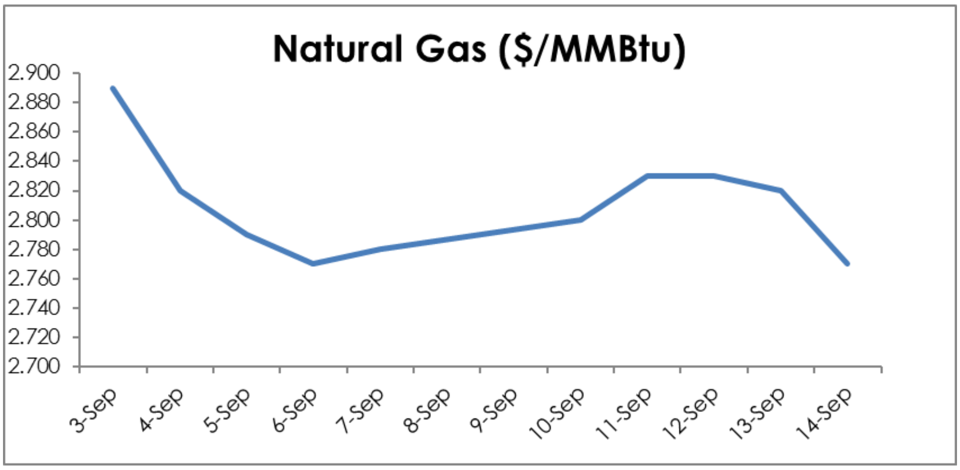
Natural Gas

Natural gas prices fell steadily by 4.15% from $2.89/mmbtu on September 3rd to $2.77/mmbtu on September 14th. The decline was due to the increased storage of natural gas in the U.S during the period.

Outlook

The expected surge in U.S demand for natural gas in the coming months will likely have an effect on the price of the commodity in the near term.

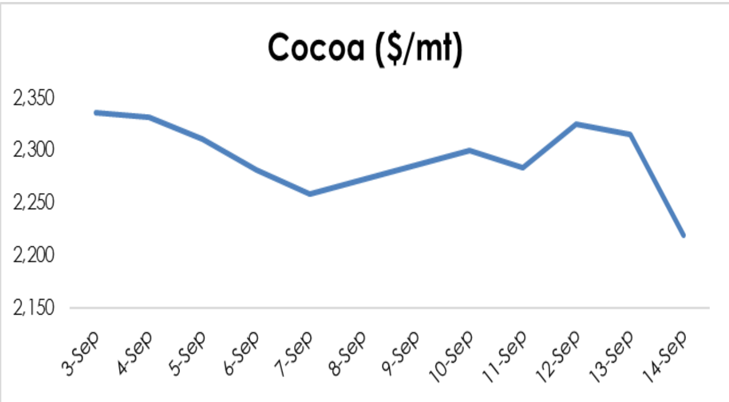
[25]Source: Bloomberg
[26]Source: Bakers Hughes
[27]Source: OPEC



28

Cocoa

Cocoa prices decreased by 5.01% to $2,219/MT on September 14th, from $2,336/MT on September 3rd. The price decrease was largely driven by the Cameroonian government's strategy to boost cocoa production.



29

Outlook

Abundant rainfall in the 1st leading producing country, Ivory Coast, is expected to increase supply and put pressure on the price of the commodity.

IMPORTS

Wheat

Wheat prices declined by 6.23% to $5.11/ bushel on September 14th, from $5.46/bushel on September 3rd. The price increase was largely driven by the Russian government's decision to mull restrictions on wheat exports which increased global supply.

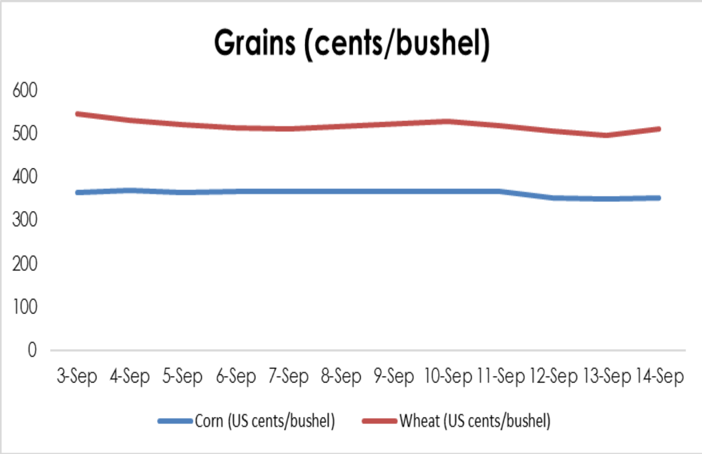
Corn

Corn prices decreased by 3.63% to $3.52/ bushel from $3.65/bushel. The price was suppressed by bumper harvests in the U.S resulting from favourable weather conditions.

[28]Bloomberg.
[29]Bloomberg.

Grains- Outlook

We expect the price of wheat to be bearish in the coming weeks as a result of an increase in exports from Russia. A crop friendly weather condition in the U.S will also support a decline in the price of corn in the near term.



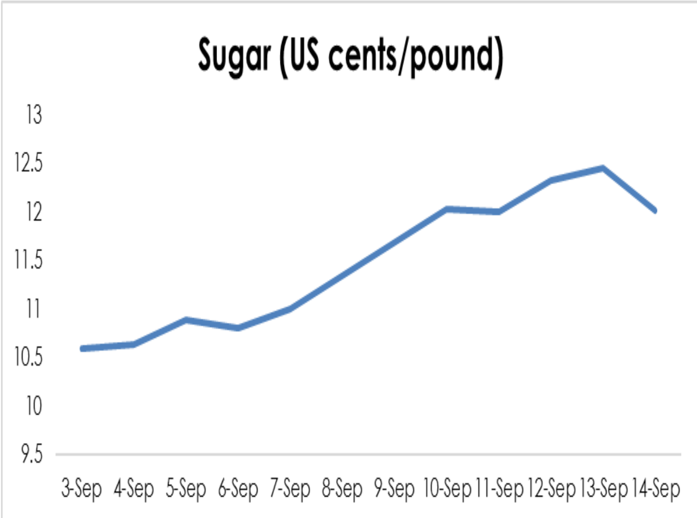
[30]

Sugar

Sugar prices rose by 13.40% to $0.1202/ pound on September 14th, from $0.1060/ pound, supported by fall in global supply.

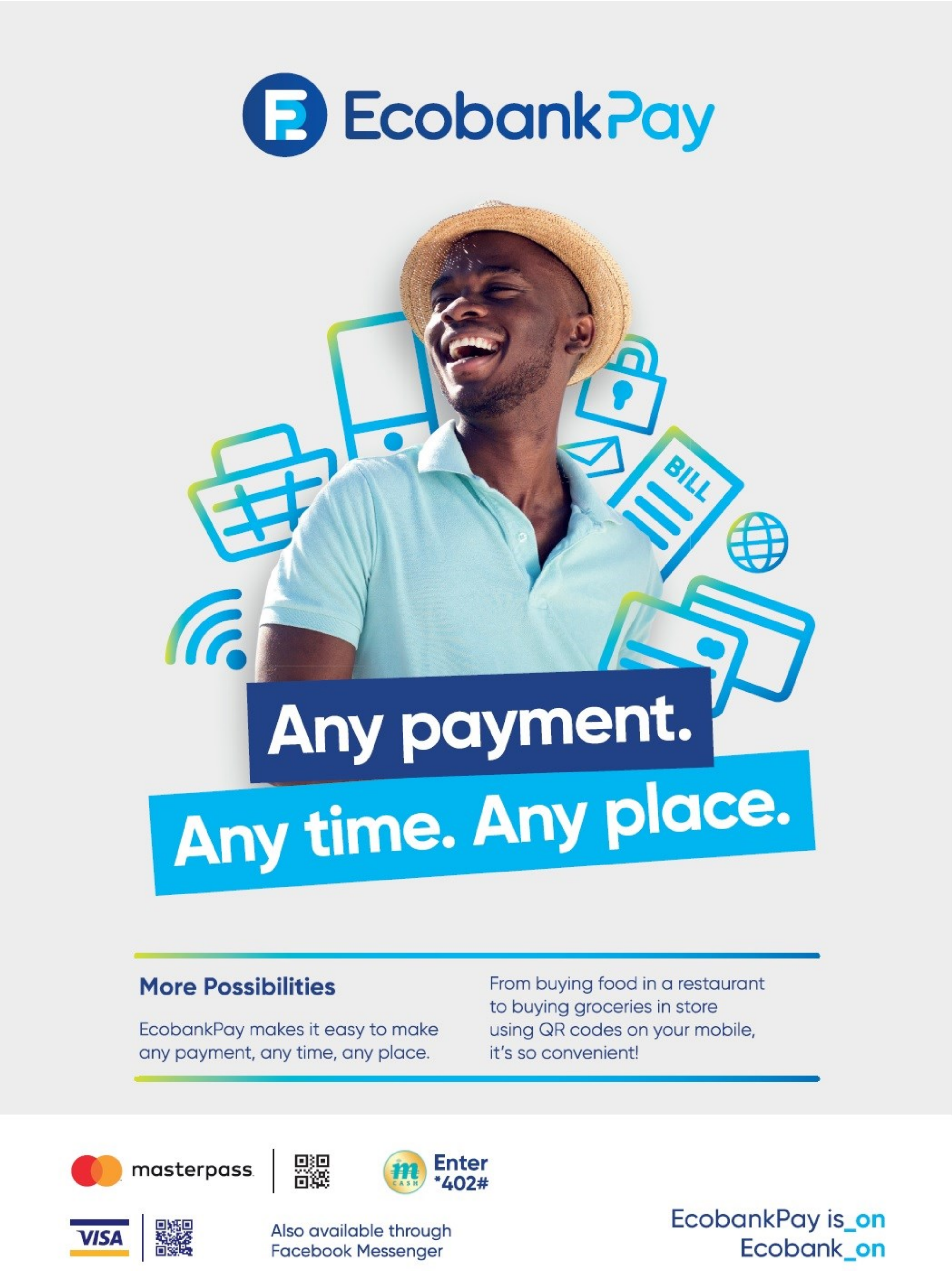
Outlook

The price of sugar is expected to trend downwards following reports of sugar exports being incentivized in India.



[31]

[30]Bloomberg.
[31]Bloomberg.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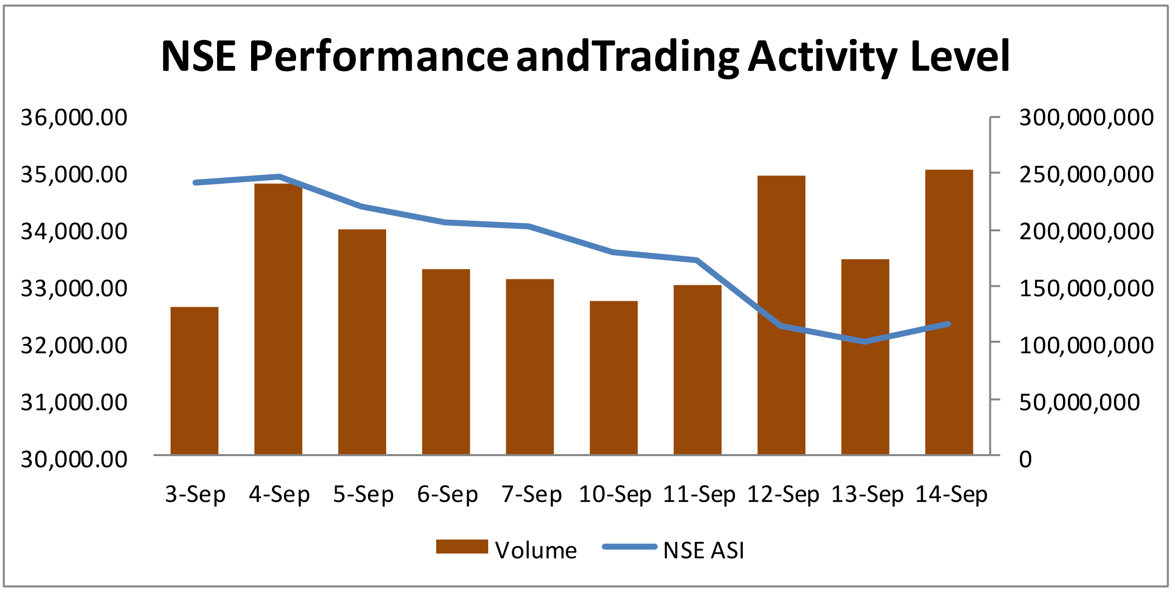
STOCK MARKET UPDATE

The NSE-All Share Index (NSE ASI) lost 7.23% to close at 32,327.59 points on September 14 from the August 31st close of 34,848.45. The CBN's sanctions on Nigerian banks and the perceived harsh treatment of MTN weighed on market sentiment in the first half of September. The resignation of the Finance Minister also raised the level of policy uncertainty. The NSE is now firmly in a correction territory. The market had lost 15.47% YTD as at September 14. The market lost 7.23% (N920bn) as the market capitalization closed the period at N11.80trn. The stock market is currently trading at a price to earnings (P/E) ratio of 9.28x (September 14th), 7.11% decline compared to its close of 9.99x on 31st of August, 2018. During the review period, the NSE recorded 8 days of losses and 2 days of positive trading.

The market breadth was also negative at 0.31x, as the number of losers (61) outpaced the number of gainers (19), while 89 stocks remained unchanged.



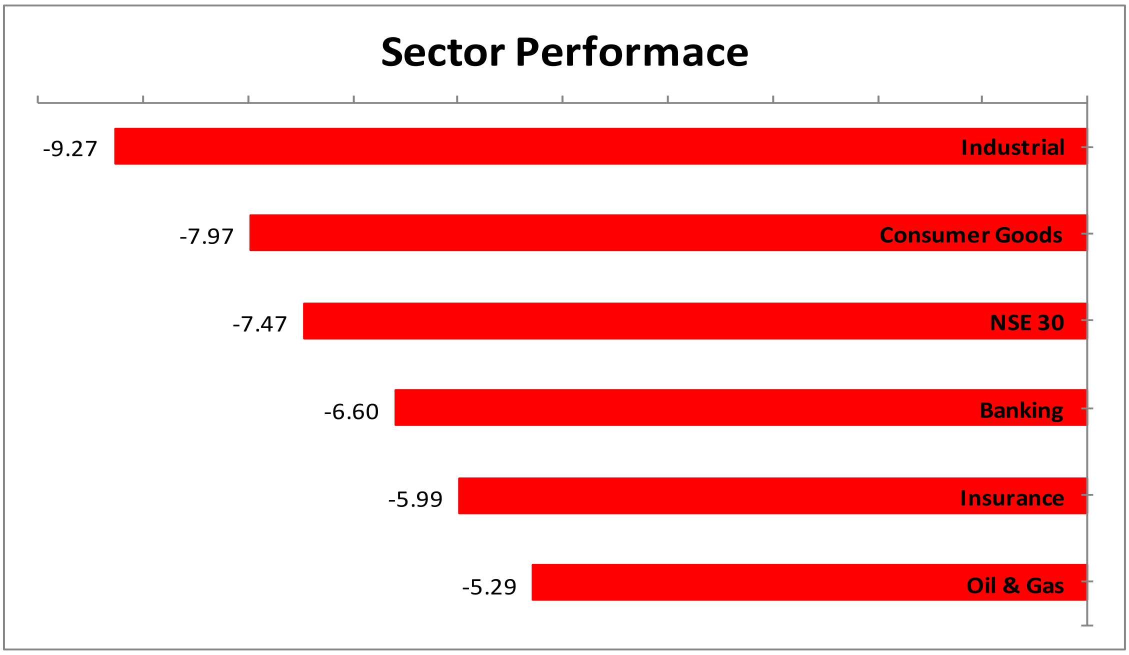
[32]

The bourse witnessed less trading activities in the first half of September. Average volume traded fell by 40.51% to 185mn units compared to 311mn units recorded in the second half of August. Average value of transactions showed the same trend as it was down 19.69% to N3.14bn in the review period.

[32]Source: NSE, FDC Think Tank

SECTOR PERFORMANCE

In the period under review, all the NSE sub-indices closed red with the industrial sector performing worst (-9.27%). The negative performance of largely capitalized stocks in the industrial sector such as CEMENT COMPANY OF NORTHERN NIGERIA PLC (-27%) and LAFARGE AFRICA PLC (-12%) weighed on the sub index to a large extent.



[33]

The best performing stocks were SKYE BANK PLC (31%), UNITY BANK PLC (26%), C & I LEASING PLC (16%), UNION DIAGNOSTIC & CLINICAL SERVICES PLC (15%) and GLAXO SMITHKLINE CONSUMER NIGERIA PLC(9%).

TOP 5 GAINERS (N)				
Company	**Aug '31**	**Sep'14**	**% Change**	**Absolute Change**
SKYE BANK PLC	0.51	0.67	31	0.16
UNITY BANK PLC	0.74	0.93	26	0.19
C & I LEASING PLC.	2.50	2.90	16	0.4
UNION DIAGNOSTIC & CLINICAL SERVICES PLC	0.26	0.30	15	0.04
GLAXO SMITHKLINE CONSUMER NIG. PLC.	13.10	14.30	9	1.2

[33]Source: NSE, FDC Think Tank

The least performing stocks were UNIVERSAL INSURANCE COMPANY PLC (-38%), STANDARD ALLIANCE INSURANCE PLC (-34%), CEMENT COMPANY OF NORTHERN NIGERIA PLC (-27%), NIGER INSURANCE COMPANY PLC. (-25%) and FLOUR MILLS NIGERIA PLC (-22%).

TOP 5 LOSERS (N)				
Company	Aug '31	Sep'14	% Change	Absolute Change
UNIVERSAL INSURANCE COMPANY PLC	0.40	0.25	-38	-0.15
STANDARD ALLIANCE INSURANCE PLC.	0.38	0.25	-34	-0.13
CEMENT CO. OF NORTH.NIG. PLC	30.90	22.60	-27	-8.3
NIGER INSURANCE CO. PLC.	0.44	0.33	-25	-0.11
FLOUR MILLS NIG. PLC.	24.30	19.00	-22	-5.3

Outlook

We do not expect a rebound on the NSE in the second half of September. Bearish market factors such as elevated political risks, policy uncertainty and higher yields on fixed income securities would likely trigger a sell-off on the exchange. While we expect the decline in share prices to present long term investors with attractive entry opportunities, this would likely be insufficient to drive a cumulative positive performance on the bourse.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CORPORATE FOCUS : NOTORE CHEMICAL INDUSTRIES PLC

ANALYST'S NOTE

No sector benefited more from the efforts made by the Federal Government (FG) to diversify the Nigerian economy than the agricultural sector. Despite various complications, like attacks from herdsmen on farmers and their farms, the sector contributed 22.86% to real GDP in Q2'18. The Presidential Fertilizer Initiative (PFI), approved by President Muhammadu Buhari in February, 2017, was a major contributor to the sector's growth. It encouraged the local production of blended nitrogen, phosphorous and potassium (NPK) fertilizer, aiding local farmers in increasing their output while managing their cost of production.

It was with the support of the PFI, FG efforts and price stability of key resources in the local market that Notore Chemical Industries Plc (Notore) was able to record a 14.20% increase in its gross profit in 9M'18 despite a 20.32% decline in revenue.

Analyst Recommendation: Hold

Recommendation period: 365 days

Industry: Fertilizer and agro-allied

Market Capitalization: N100.75bn

Current Price: N62.50k

Target Price: N62.23k

Notore is set to maintain its leadership in the fertilizer and agro-allied industry, and its management team is determined to improve the short-term and long-term financial stability of the company. Its current share price is overvalued but is hovering around its intrinsic valuation. Thus, we place a HOLD rating on Notore Chemical Industries Plc.

Waning top-line due to reduced level of production

Notore managed to sell all units of production in 9M'18, recording a revenue of N20.58bn in the process. The figure, however, represents a drop of 20.32% (N5.25bn) compared to the revenue of 9M'17. The decline is attributed to the unforeseen down time of a gas turbine generator which prevented Notore from achieving the same level of production that was achieved in 9M'17.

Grants and agreements cause gross profit to grow

Gross profit rose by 14.20% to N8.16bn in 9M'18 from N7.14bn recorded in 9M'17. It resulted from a 33.50% decrease in cost of sales that was made possible by the Export Expansion Grant. Notore was eligible for the grant from the FG based on its cumulative export sales between the years of 2011 and 2016. The sales have been verified and are awaiting settlement via promissory notes. Additionally, Notore benefits from a 20-year gas supply and purchase agreement with the Nigerian Gas Company (NGC). The agreement ensures that Notore has a constant supply of natural gas, which is estimated at 80% of cost of sales. It also ensures the prevention of a repeat of the significant loss of production volumes that occurred between 2013 and 2014 as a result of a disruption of gas supply.

Bottom-line deteriorates despite surge in gross profit

Notore recorded a total comprehensive loss of N3.93bn for 9M'18, representing a 14.22% increase from 9M'17. Administrative expenses increased by 28.31% to N4.13bn, while selling and distribution expenses grew by 117.53% to arrive at N478.40mn. Furthermore, other sources of income for Notore declined to a total of N193.19mn from N360.03mn in 9M'18, representing a fall of 46.34%.

Agriculture contributed 22.86% to real GDP in Q2'18. As part of the efforts to diversify the Nigerian economy, the FG singled out agriculture as a practical alternative for oil and gas and undertook to boost agricultural productivity. Initiatives implemented include an increased budget allocation of N118.98bn for 2018, and intervention funding[34] under the Anchor Borrowers Programme, CACS[35] and NIRSAL[36]. However, the lack of storage facilities, agro-processing facilities and proper infrastructure in general have posed a serious challenge to farmers and adversely affected their output.

The agricultural sector is divided into the following: crop production, livestock production, forestry and fishing. Crop production involves the growing of crops for use as food or fiber; intermediate consumption is made up of seeds, pesticides, hire of farm implements (agricultural machinery) and fertilizer.

Notore operates mainly in the fertilizer industry, so while the company benefits from the government's interventions schemes, it is not greatly affected by most of the setbacks facing the agricultural sector. The company's main competitors include Golden Fertilizer Company Ltd and Saroafrica International Ltd that also benefit from the government's support. It is assumed that Africa will have the highest medium term (2-10 years) growth rate in the demand for fertilizer given its large expanse of arable land and agricultural growth potential. It is estimated that fertilizer demand in SSA will increase by approximately 8% annually by 2021, with Nigeria and Ethiopia contributing 28% and 18% respectively.[37]

[34]Funding at a single digit interest rate
[35]Commercial Agricultural Credit Scheme
[36]Nigeria Incentive-Based Risk-Sharing System for Agricultural Lending
[37]World fertilizer trends and outlook to 2020; International Fertilizer Association

COMPANY OVERVIEW

Notore Chemical Industries was founded in 2005 as a result of O'secul Nigeria Limited winning the bid to acquire the assets of National Fertilizer Company of Nigeria (NAFCON), which shut down in 1999. Notore was listed on the Nigerian Stock Exchange (NSE) in August 2018 by way of introduction, adding N100.75bn to the market capitalization. Its major shareholders include Notore Chemical Industries (Mauritius) Ltd. (77.07%), TY Holdings Ltd. (8.04%) and Africa Finance Corp. (4.90%).

Notore Chemical Industries Plc is one of the pioneering fertilizer and agro-allied companies in Nigeria and Africa. Its key business activities involve the production and supply of premium urea, NPK and ammonia fertilizers, and the appropriate education on best practices for farming. Notore's subsidiaries include the following: Notore Power, which is an independent power producer for the company, and Notore Seeds, a developer of high yield seed varieties.

A snapshot of Notore's latest 9M'18 financials can be found below.

	Note	Nine months 30 June 2018	Nine months 30 June 2017
		N'000	N'000
Revenue	7	20,583,647	25,833,761
Cost of sales	8	(12,422,154)	(18,689,491)
Gross profit		8,161,494	7,144,271
Administrative expenses	9a	(4,126,225)	(3,215,898)
Selling and distribution expenses	9b	(478,404)	(219,927)
Other income	10	193,189	360,032
Operating profit		3,750,054	4,068,477
Finance income	11	4,172	178
Finance cost	11	(7,693,579)	(7,783,955)
Finance costs - (net)	11	(7,689,407)	(7,783,777)
Loss before income tax		(3,939,353)	(3,715,300)
Income tax		-	-
Profit/(loss) for the period		**(3,939,353)**	**(3,715,300)**

	Note	Nine months 30 June 2018	30 Sept 2017
		N'000	N'000
Non-current assets			
Property, plant and equipment	14	114,232,076	117,904,939
Investment property	15	21,966,286	21,966,286
Investments in subsidiaries	26	-	-
Total non-current assets		136,198,362	139,871,225
Current assets			
Inventories	17	3,336,719	3,127,094
Trade and other receivables	18	7,812,457	3,177,873
Cash at bank and in hand	19	3,176,697	1,039,087
Total current assets		14,325,873	7,344,054
Total assets		**150,524,235**	**147,215,279**
Equity			
Ordinary shares	20	806,033	806,033
Share premium		27,995,916	27,995,916
Asset revaluation reserves		41,360,539	41,360,539
Foreign currency translation reserve		408,749	407,580
Retained earnings	21	(23,822,532)	(19,883,179)
Total equity		46,748,704	50,686,889
Liabilities			
Non-current liabilities			
Borrowings	23	21,687,281	25,246,204
Employee benefit obligation	22	1,036,396	768,753
Deferred tax liability	12a	11,393,742	11,393,742
Total non-current liabilities		34,117,419	37,408,699
Current liabilities			
Borrowings	23	53,919,323	47,743,688
Trade and other payables	24	15,733,677	11,281,636
Current tax liabilities	12	5,112	94,367
Total current liabilities		69,658,112	59,119,691
Total liabilities		103,775,531	96,528,390
Total equity and liabilities		**150,524,235**	**147,215,279** [38]

[38]Notore Chemical Industries Plc 9M 2018 Results: http://notore.com/images/investor_relations/Notore_September_2017_Audited_Financial_Statements.pdf
"Note" refers to specific notes which found in the above link

MANAGEMENT OVERVIEW

Robust and experienced management determined to diversify revenues

Notore's management has plans to develop new compound fertilizer blends specifically for key growth crops like rice and maize. They also plan to expand the company's seed business (Notore Seeds) and develop a crop protection business.

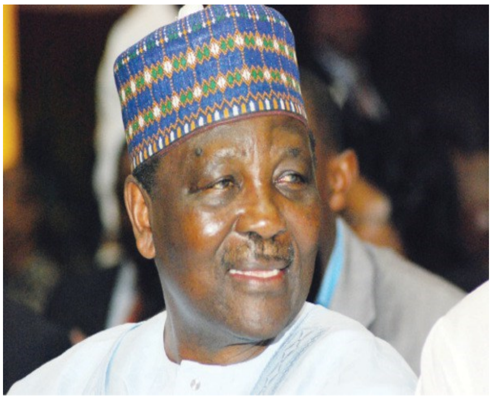
Notore successfully secured approval for $37mn funding, which will be used for the plant's turn-around maintenance (TAM), purchase of critical spares and the acquisition followed by the in-stillation of a backup power unit. With the TAM, Notore hopes to achieve a minimum of 90% plant utilization capacity. This should lead to a marginal production of about 150,000 millitonnes (mt) over its current average annual production, resulting in an additional N50bn in revenue.

Following recent power sector reforms, Notore Power, initially set up to ensure the optimal management of power resources, now can extend and expand its power-generating operations to locations outside of its core region. Management plans to go about this by developing a 50 mega-watt (MW) gas-fired power plant and then selling the excess power generated to the national grid through NBET.[39]

In the medium-term, the management of Notore plan to capitalize on the company's Free Zone Developer status in order to develop the proposed industrial complex into a gas hub and an integrated logistics service provider to the oil and gas sector.

The progress of Notore Chemical Industries Plc can be attributed to its management team with requisite experience, competency and skill as well as the support of its high-performance workforce. The management team is headed by Mr Onajite Paul Okoloko, the Group Managing Director (MD)/ Chief Executive Director (CEO). Mr Okoloko has a BSc in Economics from the University of Benin, and studied Economics at Harvard Business School, Boston, US. Prior to Notore, Mr. Okoloko served as the CEO and MD of Oando Energy Services at Oando Plc. He was the genius behind the overall strategy at Oando and was also responsible for the regional expansion of Oando's main base of operations. He has worked for several companies in the US including Bounty Alarms as a marketing representative and sales training manager. He had served as the MD and CEO of Ocean and Oil Services Ltd and currently serves as Chairman of Midwestern Oil & Gas Company Ltd.

[39]Nigerian Bulk Electricity Trading Plc



Chairman of the Board of Directors

Gen. Dr. Yakubu Gowon

CEO/MD

Mr Onajite Paul Okoloko

THE BULLS SAY

- Preferred fertilizer brand with extensive local and international distribution channels
- Increased fertilizer consumption and favorable government policies
- Strategic location in the prolific Niger Delta region
- Free Zone Developer Status

THE BEARS SAY

- Competition from other fertilizer and agro-allied companies like Brass Fertilizer, National Fertilizer Company of Nigeria and Virgin Beauty Products
- Perceived underutilization of plant capacity

RISK AND OUTLOOK

Great prospects with a number of risks

Notore's plans for expansion and revenue diversification could be impeded by the following risks: market risk (including foreign exchange and interest rate risk), credit risk and liquidity risk. The company's treasury, operating under policies approved by its board of directors, is tasked with risk management.

Although foreign exchange rates have been relatively stable in recent times, any unforeseen fluctuations could pose problems to Notore's cash-flow and future profits as exchange rates relate to its future commercial transactions, net investments in foreign operations, and recognized assets and liabilities. With that said, Notore maintains a majority of its cash and cash equivalents in naira while providing for a 5% weakening of the naira against the dollar in order to hedge against foreign exchange risk.

Prior to Notore's refinancing approval, long-term borrowing made up 28.68% of its total borrowing. Post-refinancing, long-term borrowing makes up about 90% of total borrowing. Although this may greatly improve Notore's immediate financial position, the refinancing makes the company more susceptible to higher interest rate debts in the long-term.

Notores's credit risk is because of counterparties who default on contractual obligations. To minimize this risk, the company uses independent ratings to assess credit quality.

APPENDIX - OUR VALUATION

We derived our valuation for Notore Chemical Industries Plc by using the Discounted Cash Flow (DCF) methodology. Our fair value estimate for Notore Chemical Industries Plc is **N62.23**, which is a 0.43% downside on the price of its share as at August 2nd, 2018. The discount rate [weighted average cost of capital (WACC)] of 33.97% is derived using a 15.14% risk free rate, a beta of 1.65, an after-tax cost of debt of 18%, and a market risk premium of 11.42%. The calculated long term cash flow growth rate to perpetuity is 4.18%.