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FDC MONTHLY ECONOMIC UPDATE

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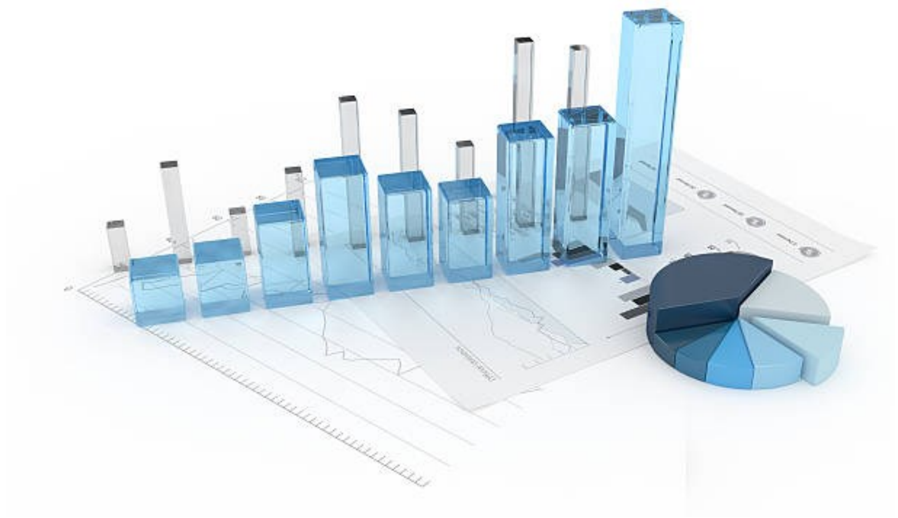
In This Issue ...

Nigeria moves up 10 places to 115th in Global Competitiveness Index



In the recently released Global Competitiveness Index (GCI) report of the World Economic Forum, Nigeria moved up 10 places to 115th out of 140 countries evaluated in 2018. In spite of this, Nigeria's score declined by 0.5 points to 47.5 (out of 100) from 48 in 2017. In SSA, Nigeria was ranked the 12th highest. The leading countries globally were US, Singapore and Germany, while regionally, Mauritius, South Africa and Seychelles ranked the top three.

WORLD'S TOP 5

Rank	Country	Score (out of 100)
1	US	85.6
2	Singapore	83.5
3	Germany	82.8
4	Switzerland	82.6
5	Japan	82.5

WORLD'S LEAST 5

Rank	Country	Score (out of 100)
136	Burundi	37.5
137	Angola	37.1
138	Haiti	36.5
139	Yemen	36.4
140	Chad	35.5

SSA's TOP 5

Rank	Country	Score (out of 100)
49	Mauritius	63.7
67	South Africa	60.8
74	Seychelles	58.5
90	Botswana	54.5
93	Kenya	53.7

The boost in Nigeria's rank was as a result of improvements in infrastructure, ICT adoption, health, institutions and business dynamism. However, the performance of the country declined in the skills, macro-economic stability, product and labor market indices.

The GCI is a measure of the level of a country's productivity. In the last three years, Nigeria's labour productivity grew at an average of -1.3%, due to constraints and inefficiencies. One of the limiting factors is the low minimum wage (disposable income), which has been flat at N18, 000 since 2011. Another is the low investment in a major transport infrastructure- road, which is the most widely used means of movement.

Nonetheless in 2018/19, we are anticipating an improvement directionally in Nigeria's labor productivity growth, although it will still be in negative territory at -0.5%. We are of the opinion that the minimum wage would be re-viewed soon. Also, the recent investments in transport infrastructure (rail) would have multiplier effects on the economy and productivity.

A call for Investment in Road Infrastructure in Nigeria

Nigeria is out of recession, but growth continues to crawl. Latest forecasts by the International Monetary Fund and the Economists Intelligence Unit put 2018 GDP growth estimates at 2.1%-2.3%%, and realistically that growth has little to do with any change in government policy.[1] Rather it is the return of higher oil prices. To promote stronger growth in Nigeria that shifts away from dependence on the oil sector Nigeria needs to look to other drivers. One proven method is increased government spending and investment; for every naira invested, the government should expect a boost in the gross domestic product (GDP) by more than one naira.

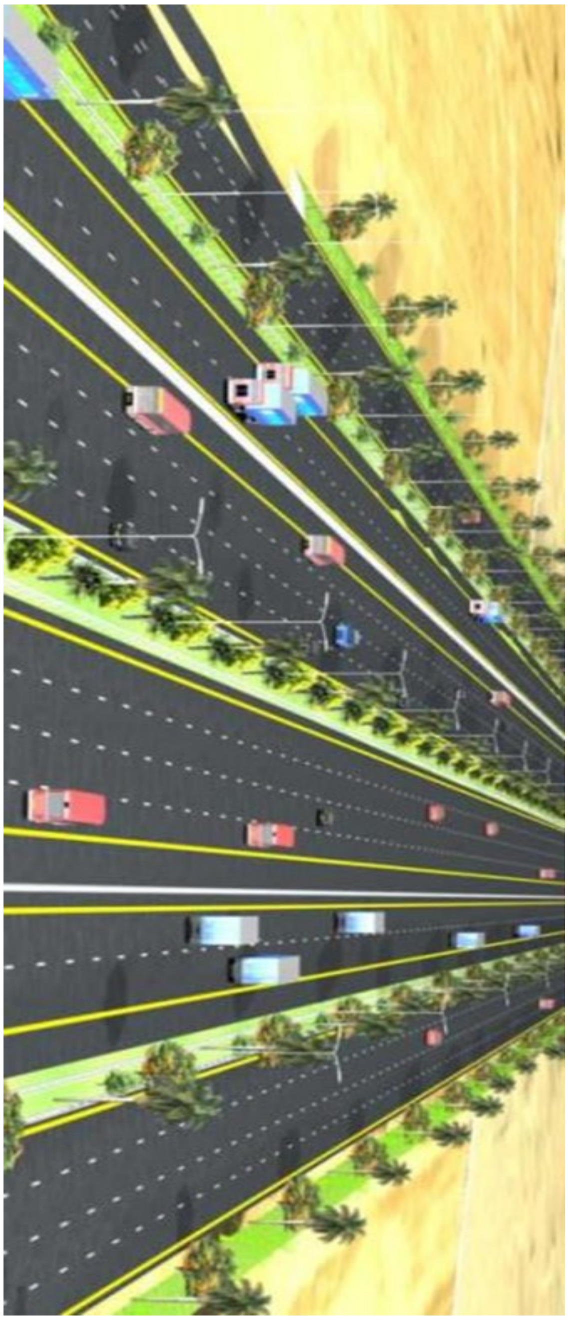
In Nigeria, one of the areas with the greatest return is spending on transport infrastructure. To this extent, Nigeria has shown significant enthusiasm over the past 3 years. However, the investment has been more focused on rail infrastructure. The government approved $6.7 billion (bn) for the Ibadan-Kaduna standard gauge rail project in February, and a partnership is underway with China to build the $1.5bn Lagos-Ibadan line. While these are good for the economy, the government is yet to show the same level of commitment to road infrastructure, and roads are the most used means of transportation in the country. An improvement in their condition could ease the distribution of goods and services, which could ultimately stimulate economic activities.

[1]The International Monetary Fund, 2018. "World Economic Outlook, April 2018 Cyclical Upswing, Structural Change". Available at https://www.imf.org/en/Publications/WEO/Issues/2018/03/20/world-economic-outlook-april-2018

The impact of poor roads on Nigeria's distribution networks

Nigeria's road network is estimated at 195,000km. About 60,000km of this is paved, which represents 31% of the total network.[2] A significant proportion of this paved road network is in poor condition, which means the effective tarred road network in the country is below 31%.[3] The bad state of road infrastructure in Nigeria has been a major constraint to economic activities. The poor condition of roads causes congestion in the few routes available, delaying the timely distribution of goods and services.

Agriculture is particularly impacted by this, given the short shelf-life of most produce. A significant proportion of Nigeria's agricultural output is lost in transit (on the road), largely due to delays from poor conditions and bottle necks. Delays in distribution and loss of product are not the only cost to businesses. Poor road networks also increase costs of vehicle maintenance due to the significant strain of potholes and other encumbrances. If the condition of Nigerian roads were improved significantly, it could ease distribution activities in the economy. Easier distribution would ease access of commodities to markets, which could be an incentive for higher production.



The correlation between tarred road networks and ease of doing business

There is a strong correlation between the quality of roads in a country and how fast the economies grow. Good road networks improve the delivery of goods and services, motivating producers to boost production, and making it easier overall to do business.

Ireland's road network, for example, is 100% tarred.[4] It is ranked, by the World Bank, as the 17th best country to do business (out of 190), and the economy has grown by an average of 12.81% in the last three years.[5] In the same vein, Israel has all of its roads tarred. The country ranks the 54th easiest to do business in the world and the economy has grown by an average of 3.28% over the same time frame.[6] Both rank significantly above Nigeria (145th), and the two economies have grown noticeably more than Nigeria, which has only expanded by an average of 0.62% in the last three years.[7]

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[2] The Infrastructure Concession Regulatory Commission. 2017. "135,000km road network in Nigeria un-tarred". Federal Government of Nigeria. http://www.icrc.gov.ng/135000km-road-network-nigeria-un-tarred-icrc/

[3] Ibid

[4] UN Data. 2015. "Roads Paved (% of Total Roads) by Country". UN System. http://data.un.org/Data.aspx?d=WDI&f=Indicator_Code%3aIS.ROD.PAVE.ZS

[5] World Bank. 2018. "Doing Business 2018". World Bank Group. https://openknowledge.worldbank.org/bitstream/handle/10986/28608/9781464811463.pdf?sequence=6&isAllowed=y

[6] Ibid

[7] Ibid

While a 100% tarred road network in Nigeria may not be immediately feasible given financial constraints, in the near future, a significant increase in the level of tarred roads could still translate to making business operations easier and enhance growth. New Zealand provides a compelling case that a correlation still exists with an improved, if not completely tarred road network. New Zealand only has 63% of its roads tarred but it is ranked the best business friendly environment in the world.[8] The country's economic growth rate has been at approximately 4% in the last three years.[9]

On the contrary, countries with poor road networks have also seen the negative impact on their economies. Brazil for example has a tarred road network of 6% and it is ranked 125th out of 190 countries on the ease of doing business chart.[10] While this ranking is still a little bit above Nigeria's, Brazil's economy has contracted by an average of 2% between 2015-2017.[11] In Africa, Chad has only 1% of its road network tarred. The country's business environment is ranked one of the worst in the world (180th) and the economy has contracted at an annual average of 3.6% over the last three years.[12]

While a good road network alone is not the only reason behind the growth rates and business friendliness of the earlier mentioned economies, the correlation is clear, as are the implications. Strong distribution networks play a significant role in the ease of doing business. The average percentage of tarred roads in the countries that occupy the first 25 positions on the World Bank ease of doing business ranking is approximately 70%. On the other hand, the average percentage of tarred roads in the countries that occupy the least 25 positions on the World Bank chart is 27%.

Nigeria therefore needs to raise its spending and more importantly its investment in paving more roads, ease distribution activities of businesses and boost production. The government has showed some commitment towards this already, evident by the recent approval of N72.9bn for the construction of the Apapa road. The poor condition of the Apapa road has caused notorious gridlock for years along the Apapa axis and this has been a constraint to the delivery of goods, especially in Lagos State. Nigeria needs more of this investment across the country. As long as the conditions of the roads remain largely poor, it is bound to constrain the distribution of goods and services, deter production activities and more importantly limit productivity. Nigeria needs to pay attention to this and invest in better roads.

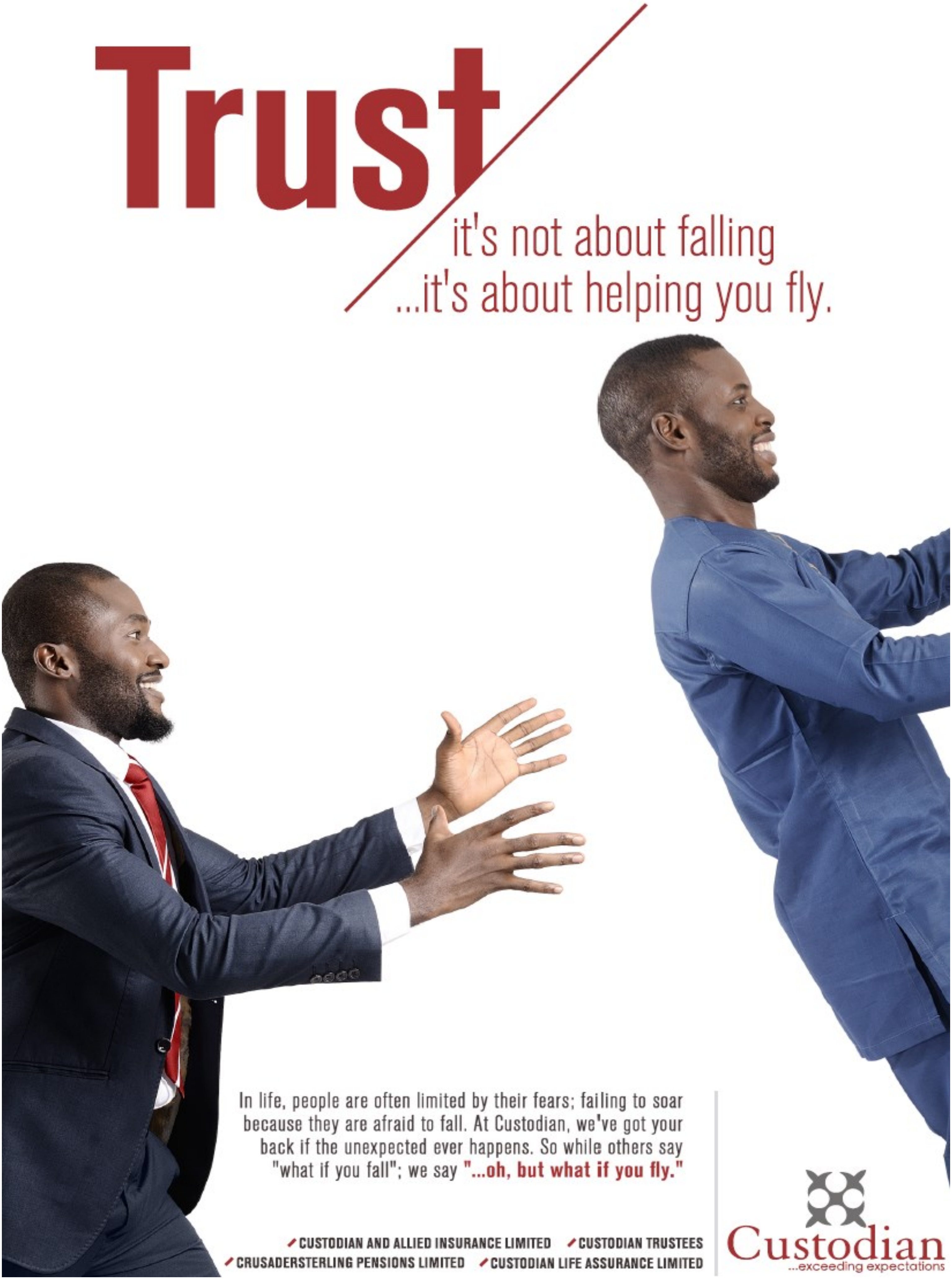
[8]World Bank, 2018. "Doing Business 2018". World Bank Group, https://openknowledge.worldbank.org/bitstream/handle/10986/28608/9781464811463.pdf?sequence=6&isAllowed=y

[9]Stats NZ, FDC Think Tank

[10]World Bank, 2018. "Doing Business 2018". World Bank Group, https://openknowledge.worldbank.org/bitstream/handle/10986/28608/9781464811463.pdf?sequence=6&isAllowed=y

[11]NBS, FDC Think Tank

[12]World Bank, 2018. "Doing Business 2018". World Bank Group, https://openknowledge.worldbank.org/bitstream/handle/10986/28608/9781464811463.pdf?sequence=6&isAllowed=y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Oil & Gas Upstream Update

Brent crude averaged $79.11pb in September, 7.14% higher than August's average of $73.84pb. Oil prices reached a four-year high of $82.72pb in the aftermath of the decision by the OPEC/non-OPEC coalition ruling out any immediate increase in production – although hinting at the possibility of an output increase in December. The oil markets are also braced for the resumption of US sanctions on Iran by November and this is also putting upward pressure on prices. Saudi Arabia plans to boost oil supply by 200,000-300,000 bpd.

Lingering uncertainty on both the supply and demand side are fuelling jitters in the oil market. Prices are likely to be more susceptible than usual to hints, news and comments until the U.S. sanctions on Iran are imposed in a month. There is the uncertainty about how much Iranian oil the US sanctions will manage to stifle. Then there's uncertainty about how much spare capacity other OPEC members and Russia could draw upon on short notice to replace Iranian losses.

On the demand side, there's uncertainty whether oil prices at a four-year high are already impacting oil demand growth negatively, particularly in emerging markets (EMs), which are key oil demand drivers. Many EMs have suffered major depreciations of their currencies against the U.S dollar over the past two months, as a consequence of the sell-off triggered by monetary policy normalization in the US and other advanced economies – making the oil they buy even pricier.

Outlook

We expect oil prices to shift to corrective mode in the near term. The expected increase in output from Saudi Arabia and other oil producers will offset lower Iran output estimated at 1mbpd. We expect prices to stay above $70pb in October.

Domestic Production

In September, domestic crude oil production rose by 1.74% to 1.75mbpd from a revised figure of 1.72mbpd in August according to the Organization of Petroleum Exporting Countries' (OPEC) monthly oil report. Nigeria's increased oil production contributed to the 0.61% growth in OPEC's oil production to 32.76mbpd in September.

According to Baker Hughes, the global rig count for September 2018 was 2,258, down 0.8% from the 2,278 in August 2018, and up 177 (8.5%) from a year ago. The average U.S. rig count for September 2018 was 1,053, up 3 from the 1,050 counted in August 2018, and up 113 from the 940 counted in September 2017. In Nigeria, the number of operational oil rigs flat at 14 between August and September 2018.

Outlook

Oil exports are set to rise in October as a result of the supply of several larger grades coming back online after a series of pipeline outages in the last couple of months. The export plan comprised of 57 cargoes, compared with 48 in September's loading schedule. Nigerian oil export plans are prone to revisions and delays, with cargoes frequently pushed from one month to the next

Oil exports are also projected to reach their highest in six months in November due to an increase in supply of the country's four largest crude grades. Total loadings of Nigerian crude should rise to 1.876 mbpd in November – largest loading programme since May 2018 and is 17% higher than the 1.598mbpd in the November 2017 export schedule. The export plan comprises 59 cargoes, unchanged from October and includes one cargo of Akpo condensate. Exports of Forcados, Bonga, Bonny Light and Qua Iboe will rise to 822,967 bpd in November, from a planned 728,258 bpd in October. This will be the largest export programme for the four grades since June's 873,000 bpd. The Agbami stream will add another cargo in November, while supply of the smaller grades will remain broadly unchanged.

Implications

Higher oil prices and production will continue to boost the Federal government's revenue and foreign exchange earnings. It will also provide the Central Bank of Nigeria (CBN) with enough ammunition to continue its aggressive defense of the currency in the face of increasing pressure from capital flow reversals. This is crucial as another rate hike by the United States Federal Reserve Bank is likely before the end of the year and three more in 2019. Capital flow reversal is expected to intensify as a result and the stronger US dollar will also have a depressing impact on oil prices and, in turn, government revenue.

Penalty for Gas Flaring Increased to $2/1000scf by FG

The Federal Government has increased the penalty for gas flaring to $2 per 1,000 standard cubic feet of gas (SCF), from N10 per 1,000 SCF of the commodity flared. This translates to N612.7 per 1,000 SCF at the current exchange rate of N306.35/$. This was contained in the just gazetted 'Flare Gas (Prevention of Waste and Pollution) Regulations 2018. The Federal Government also stipulated a fine of N50, 000 or a six months jail term or both, for anyone who provides inaccurate flare data. The new regulation further requires gas producers to maintain daily log of flaring and venting of natural gas produced in association with crude oil and submit same to the Department of Petroleum Resources, DPR, within 21 days following the end of each month

This is in line with the re-invigoration of the flare penalty through the 2016 Nigeria Gas Flare Commercialization Programme and demonstrates the NNPC's commitment to achieve zero flare by 2020. The NNPC has also embarked on an aggressive expansion of the gas infrastructure network aimed at creating access to the market.

Retail Sector Update

The retail sector in Nigeria is evolving rapidly, as technology and the expansion of the middle class opens up opportunities for retail companies and consumers. The Nigerian retail industry is diverse and characterized more by the informal and formal retail. However, in line with many other African economies, formal retailing remains nascent and accounts for just 5% of all shopping. With about 186mn consumers in the country, there is ample room for growth, but a weak consumer demand resulting from reduced disposable income has impeded the sector's performance.

Developments in the sector

Rocket Internet set to list Jumia shares on New York Stock Exchange (NYSE)

German start up investor, Rocket Internet is set to list its African online shopping platform Jumia, on the New York Stock Exchange (NYSE). According to Reuters, the listing, which could value Jumia at $1 billion, is set for the first quarter of 2019, with as much as $250 million worth of shares to be possibly sold. The investor has also appointed some financial institutions such as Citi Bank, Morgan Stanley and Berenberg to handle the listing process.

A possible IPO may offer Rocket Internet a full exit from Jumia, divesting its remaining 28% stake. Having been backed with over $700mn from investors including Swedish telecoms conglomerate Millicom, Africa's largest mobile operator (MTN) and French insurance company AXA, Jumia has expanded operations to 14 African countries since its launch in 2012. It reached a billion-dollar valuation in 2016 following an $83mn investment from insurance company AXA for an 8% stake. It also features services such as an online hotel booking and a food delivery platform.

Implications

A possible IPO is a positive development, which will help raise capital for Jumia. We expect this development to feed positively into the expansion of their value chain and the formal retail sector.

Konga to invest N2.9bn in K-Xpress to support e-commerce logistics

The Nigerian e-commerce company, Konga, has revealed its plans to invest N2.9bn in its logistics, K-Xpress. The company is set to build a world-class delivery solution that is aimed at solving challenges in logistics that is crippling e-commerce in Nigeria. According to the Chairman of Konga, delivery remains one of the biggest problems facing e-commerce in Nigeria, and the plan is to add 200 new vans, 1000 motorcycles and invest in setting up warehouse nationwide in the first quarter of 2019.

Implications

We expect this investment to help boost employment, enhance growth in the e-commerce retail sector and the real estate sector as more warehouses are opened.

Amazon seeking property to launch Amazon Go in the UK

Amazon.com Inc., an American e-commerce company, has been scouring the United Kingdom in search of small retail sites for its new retail store Amazon Go. Amazon Go is a cashier-less grocery store that uses cameras and sensors to charge customers automatically when they place an item in their basket. The store was launched in 2016, and has since opened four stores across the US. According to Bloomberg, the retailer is planning to ramp up its grocery store roll out over the next few years, aiming for around 3000 stores by 2021.

Implications

Global retail sales volumes are about $20.2trn (25.8% of global GDP) and are projected to grow at 2.6% annually (2018-2022). The integration of about 3000 new stores will boost activities in the global retail sector and have a positive effect on GDP. We also expect this development to create more job opportunities and spur growth in the UK real estate sector, as there will be an increase in demand for stores.

Outlook

Nigeria's retail sector would continue to be supported by the expected increase in private consumption. We expect stores to stock up (increase inventory levels) in anticipation for a boost in demand as we approach the Christmas period. The projected increase in fiscal revenue and the anticipated minimum wage review will also boost disposable income and thus support consumer demand in the sector. In addition, urbanization and the growing sophistication of consumers will likely improve the demand for modern shopping platforms such as e-commerce and mega malls. These will impact positively on the retail sector.

The Construction Sector Update

Highlights

The major developments in the construction space in September include President Buhari's plan to link major seaports in the country to rail lines, the FGN's order that the company handling the construction of the Lagos-Ibadan railway employ Nigerian professionals and the reaffirmation that the rail project would be complete by December 2018. In SSA, Tanzania secured a $1.46bn loan (approximately 30% of its GDP) from Standard Chartered Bank for the construction of the second phase of its planned standard-gauge railway (SGR) project.

FGN orders rail construction in major seaports

President Buhari affirmed his administration's commitment towards building infrastructure that supports multimodal means of transportation from the ports to the hinterland. In this regard, the President plans to link major seaports in the country to rail infrastructure. This means that every port would be complemented by rail infrastructure. The projection is that by December 2021, the country would have standard gauge railway across the main North-South trading route.

Implications

Goods evacuated at Nigerian ports are typically transported to markets by road. The poor condition of Nigerian roads causes congestion, which lengthens delivery periods. The construction of rails would provide a more efficient means for distribution. It is also noteworthy that the final prices of imported goods and services would be less vulnerable to domestic prices of petroleum (diesel and petrol) which are used to power trucks that transport goods from ports. Nigeria's inflation rate rose to 11.23% in August from 11.14% in September. This was partly driven by a 6% increase in average diesel prices and a 1.7% rise in average petrol prices y/y.

FGN orders CCECC to engage Nigerian engineers in the construction of Lagos-Ibadan rail line

The Federal Government of Nigeria has insisted that the contractor handling the construction of new Lagos-Ibadan standard gauge rail line, China Civil Engineering Construction Corporation (CCECC), must employ more Nigerian professionals. The project was inaugurated by Vice-President Yemi Osinbajo in March 2017 in line with the Federal Government's plan to connect all state capitals and major cities by rail. The cost of the project is N458bn ($1.27bn).

Implications

The Lagos-Ibadan standard gauge rail line is scheduled for completion by December 2018. The instruction to include Nigerian engineers in the project was driven by the intention to expedite construction activities. It is also consistent with the FGN's plan to increase local content in project delivery. However, Chinese engineers are more experienced in handling construction projects than Nigeria's. CCECC could therefore raise eyebrows at the decision to force it to employ Nigerian engineers.

SSA

Tanzania's railway plans gain momentum

Tanzania's Ministry of Finance secured a $1.46bn loan from UK-based Standard Chartered for the construction of the second phase of its planned standard-gauge railway (SGR) project. The funding from Standard Chartered is intended for the 336KM rail stretch from Morogoro (in eastern Tanzania) to Dodoma (the capital), for which the government awarded a construction contract in October 2017. With the latest loan agreement, Turkish Yapi Merkez, the company constructing the project, has secured over 75% of the funding requirement for Phase 2 which is estimated at over $1.9bn. The Turkish company, through a joint venture with Mota-Engil (Portugal), is also constructing the railway network's first phase from Dar es Salaam to Morogoro (202KM) and expects it to be completed by November 2019. The Dar es Salaam-Dodoma stretch is part of a five-phase plan to extend the railway line domestically to Isaka (in north-western Tanzania), which will then branch out across the border to Rwanda, Burundi and Uganda.

Implications

Better rail infrastructure has the potential to ease distribution activities and lift Tanzania's economic growth given the positive multiplier effect of such spending. The entire rail project is estimated to cost $14.2bn, which represents approximately 30% of Tanzania's GDP. On a negative note, Tanzania's government borrowing to finance infrastructure is expected to deteriorate the country's debt profile. Tanzania's debt to GDP ratio stood at 37.4% in 2017. The country's dependence on dollar denominated loans also exposes debt servicing costs to exchange rate risks. The Tanzanian shilling has lost over 25% against the dollar in the last 3 years.

Outlook

The fourth quarter of the year would be a period of full blown electioneering in Nigeria. This would be favorable for construction activities. Current office holders who have won party tickets to rerun for their respective posts would seek to win public support. The enthusiasm to deliver would also be supported by a relatively favourable weather as the rainy season ends.

The Next Recession

Global Perspective: Culled from the Economist

Toxic politics and constrained central banks could make the next downturn hard to escape

JUST a year ago the world was enjoying a synchronised economic acceleration. In 2017 growth rose in every big advanced economy except Britain, and in most emerging ones. Global trade was surging and America booming; China's slide into deflation had been quelled; even the euro zone was thriving. In 2018 the story is very different. This week stock markets tumbled across the globe as investors worried, for the second time this year, about slowing growth and the effects of tighter American monetary policy. Those fears are well-founded.

The world economy's problem in 2018 has been uneven momentum. In America President Donald Trump's tax cuts have helped lift annualised quarterly growth above 4%. Unemployment is at its lowest since 1969. Yet the IMF thinks growth will slow this year in every other big advanced economy. And emerging markets are in trouble.

This divergence between America and the rest means divergent monetary policies, too. The Federal Reserve has raised interest rates eight times since December 2015. The European Central Bank (ECB) is still a long way from its first increase. In Japan rates are negative. China, the principal target of Mr Trump's trade war, relaxed monetary policy this week in response to a weakening economy. When interest rates rise in America but nowhere else, the dollar strengthens. That makes it harder for emerging markets to repay their dollar debts. A rising greenback has already helped propel Argentina and Turkey into trouble; this week Pakistan asked the IMF for a bail-out.

Emerging markets account for 59% of the world's output (measured by purchasing power), up from 43% just two decades ago, when the Asian financial crisis hit. Their problems could soon wash back onto America's shores, just as Uncle Sam's domestic boom starts to peter out. The rest of the world could be in a worse state by then, too, if Italy's budget difficulties do not abate or China suffers a sharp slowdown.

Cutting-room floors

The good news is that banking systems are more resilient than a decade ago, when the crisis struck. The chance of a downturn as severe as the one that struck then is low. Emerging markets are inflicting losses on investors, but in the main their real economies seem to be holding up. The trade war has yet to cause serious harm, even in China. If America's boom gives way to a shallow recession as fiscal stimulus diminishes and rates rise, that would not be unusual after a decade of growth.

Yet this is where the bad news comes in. As our special report this week sets out, the rich world in particular is ill-prepared to deal with even a mild recession. That is partly because the policy arsenal is still depleted from fighting the last downturn. In the past half-century, the Fed has typically cut interest rates by five or so percentage points in a downturn. Today it has less than half that room before it reaches zero; the euro zone and Japan have no room at all.

Policymakers have other options, of course. Central banks could use the now-familiar policy of quantitative easing (QE), the purchase of securities with newly created central-bank reserves. The efficacy of QE is debated, but if that does not work, they could try more radical, untested approaches, such as giving money directly to individuals. Governments can boost spending, too. Even countries with large debt burdens can benefit from fiscal stimulus during recessions.

The question is whether using these weapons is politically acceptable. Central banks will enter the next recession with balance-sheets that are already swollen by historical standards—the Fed's is worth 20% of GDP. Opponents of QE say that it distorts markets and inflates asset bubbles, among other things. No matter that these views are largely misguided; fresh bouts of QE would attract even closer scrutiny than last time. The constraints are particularly tight in the euro zone, where the ECB is limited to buying 33% of any country's public debt.

Spending ceilings

Fiscal stimulus would also attract political opposition, regardless of the economic arguments. The euro zone is again the most worrying case, if only because Germans and other northern Europeans fear that they will be left with unpaid debts if a country defaults. Its restrictions on borrowing are designed to restrain profligacy, but they also curb the potential for stimulus. America is more willing to spend, but it has recently increased its deficit to over 4% of GDP with the economy already running hot. If it needs to widen the deficit still further to counter a recession, expect a political fight.

Politics is an even greater obstacle to international action. Unprecedented cross-border co-operation was needed to fend off the crisis in 2008. But the rise of populists will complicate the task of working together. The Fed's swap lines with other central banks, which let them borrow dollars from America, might be a flashpoint. And falling currencies may feed trade tensions. Steve Mnuchin, the treasury secretary, warned China against "competitive devaluations". Mr Trump's belief in the harm caused by trade deficits is mistaken when growth is strong. But when demand is short, protectionism is a more tempting way to stimulate the economy.

Timely action could avert some of these dangers. Central banks could have new targets that make it harder to oppose action during and after a crisis. If they established a commitment ahead of time to make up lost ground when inflation undershoots or growth disappoints, expectations of a catch-up boom could provide an automatic stimulus in any downturn. Alternatively, raising the inflation target today could over time push up interest rates, giving more room for rate cuts. Future fiscal stimulus could be baked in now by increasing the potency of "automatic stabilisers"—spending on unemployment insurance, say, which goes up as economies sag. The euro zone could relax its fiscal rules to allow for more stimulus.

Pre-emptive action calls for initiative from politicians, which is conspicuously absent. This week's market volatility suggests time could be short. The world should start preparing now for the next recession, while it still


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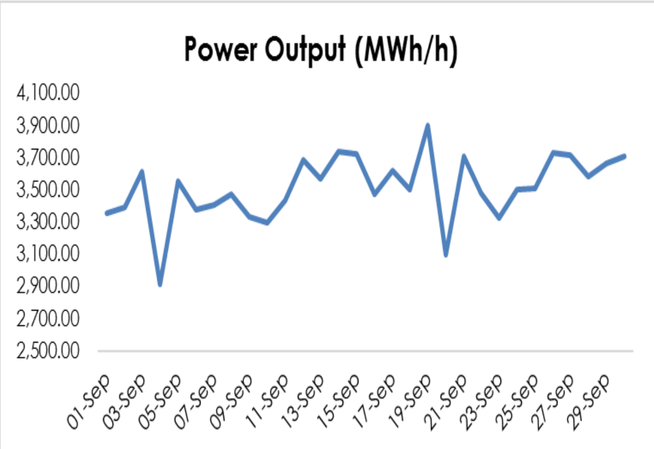
Macroeconomic Indicators

Power Sector

In September, the average on-grid power output was 3,514.47MWh/h,3.97% lower than the average of 3,659.87MWh/h in August. The major constraint in the period was high frequency resulting from inadequate distribution infrastructure. This led to an underperformance of 3,578MWh/h in the month. Average power was at its lowest level month to date (MTD) at 2,913.00MWh/h on Sept 4th, as a result of the high gas constraints at Afam VI. In the review period, the sector lost approximately N1.92bn, annualized at N696.96bn.



[13]

Outlook

Despite the expected rainfall in October, average power supply is projected to stay between 3,500.00MWh/h – 3,600MWh/h. This will be because power supply depends solely on gas.

Money Market

The average opening position of the interbank money market increased sharply by 24.86% toN423.23bn long in September from N338.96bn long in the preceding month. The increase in the opening position indicates arise in market liquidity. In September, the CBN issued less OMO bills of N957.82bn against a maturity of N1.04trn. The net inflow of N82.18bn was less than the N1.03trn recorded in August as the CBN sold N991.46bn OMO sales against a maturity of N2.02trn.

The short-term interbank rates (OBB, ON) declined by an average of 145bps to 7.69% in September from August's average of 9.14%. However, on September 25th, open buy back (OBB) and overnight (ON) reached a high of 18% and 19.42% respectively, before declining to close the month at 6% and 7.17%, upon receipt of FAAC funds.

At the primary market auction, the closing rate for the 180-day and 364-day tenors decreased by an average of 6bps, while the 91-day tenor remained flat at 11%. At the secondary market, the closing rate for the 91-day and 364-day tenors increased by an average of 149bps, while the 182-day tenor declined by 6bps.

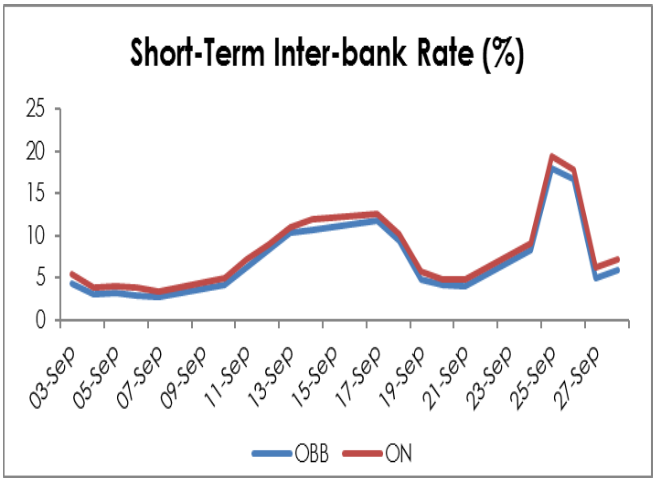
[13]FGN, FDC Think Tank

Primary Market

T/bills Tenor	Rate on September 12th (% pa)	Rate on September 19th (%)pa	Direction
91	11.00	11.00	↔
182	12.30	12.20	↓
364	13.50	13.48	↓

Secondary Market

T/bills Tenor	Rate on September 3rd (% pa)	Rate on September 28th(%)pa	Direction
91	10.16	12.35	↑
182	12.45	12.39	↓
364	12.67	13.46	↑



[14]

Outlook

In October, we expect interbank interest rates to remain relatively low as the September monthly allocation is disbursed. This would be further strengthened by the expected upward review of the minimum wage and more election spending

Forex Market

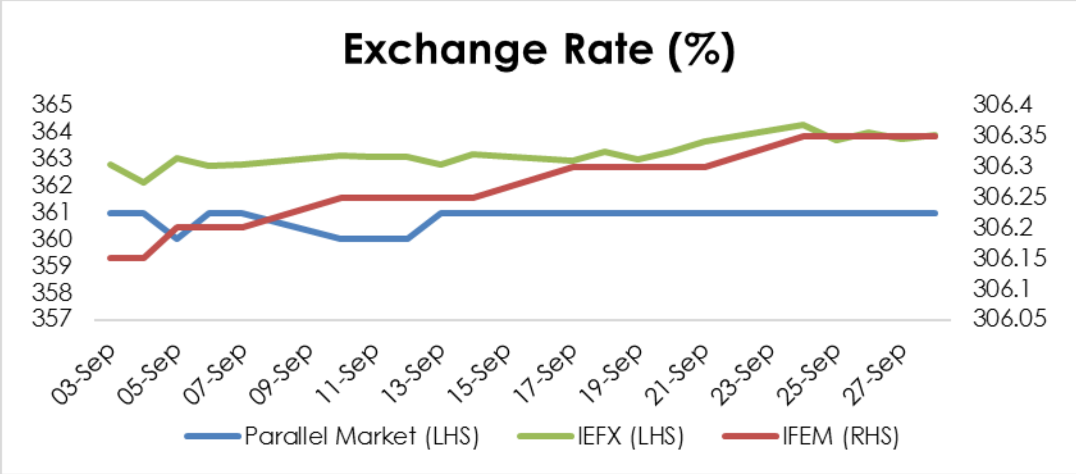
Exchange Rate

The exchange rate was relatively stable at the parallel and interbank markets while recording a choppy movement at the IEFX window. At the parallel market, the naira traded within the tight band of N360/$-N361/$. The naira depreciated marginally by 0.07% to close the month at N306.35/$ at the interbank market. At the IEFX window, the naira has depreciated below the parallel market rate, partly due to increased capital outflows. It traded between N362.78/$-N363.92/$. The CBN's forex intervention declined to $1.04bn in September from $1.50bn in August, being the third consecutive monthly decline. The total turnover at the IEFX window was higher at $6.54bn compared to $5.31bn in August.

Outlook

The naira is expected to come under pressure owing to increased liquidity - higher money supply, FAAC allocations, election spending and political uncertainties. In addition, the US Fed's decision to raise interest rates by 25bps could heighten capital outflows as investors shift to risk-free assets in advanced economies. However, we expect the CBN to continue with its intervention scheme in the month.

[14] FDC Think Tank



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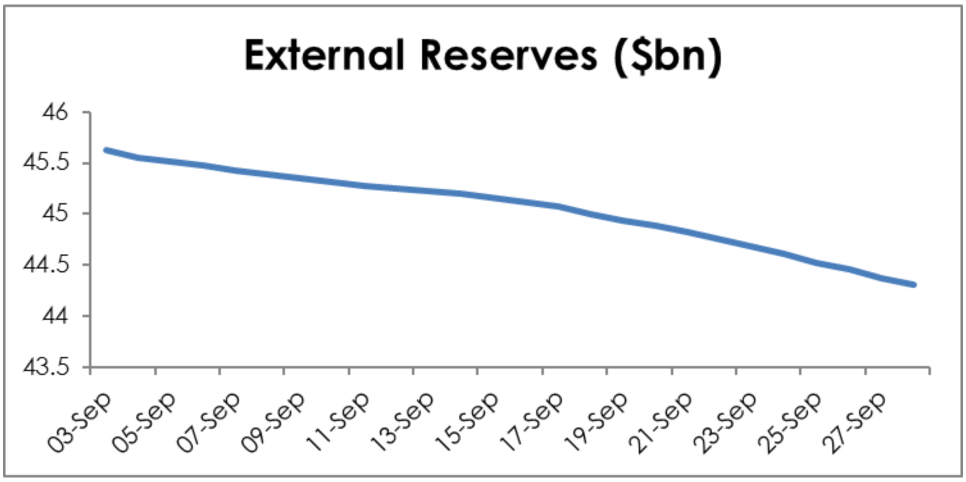
External Reserves

Nigeria's gross external reserves level dipped below the $44.5bn threshold to $44.31bn on September 28th, from $45.63bn on September 3rd. The continuous depletion in external reserves is partly due to outflows by foreign investors, because of higher interest rates in the US and intensifying political uncertainty. The import cover decreased to 10.85 months from 11.17 months on September 3rd.

Outlook

The risk of the depreciation of the currency is rising due to anticipated increase in liquidity in subsequent months. In addition, the US Fed met on September 25/26 raising interest rates by 25bps. The committee also promised one more rate hike in 2018. This will further heighten the reversal of capital flows from emerging economies such as Nigeria as investors shift to risk-free assets with higher returns. Nonetheless, we expect the CBN to intervene to mop up excess liquidity. The consistency of the CBN's interventions will be at the expense of depleting the reserves.



16

15 FDC Think Tank

16 CBN, FDC Think Tank

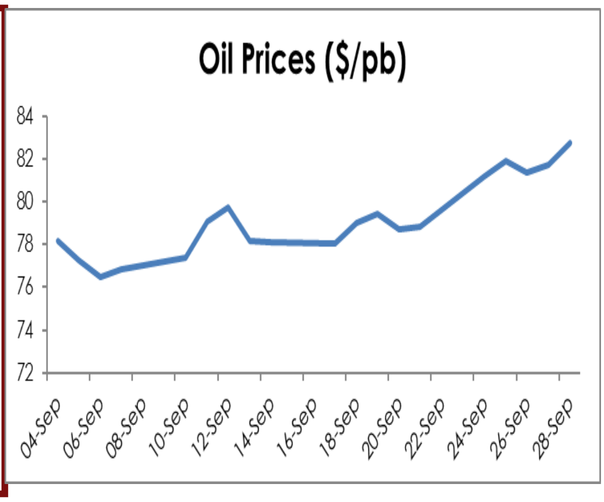
Commodities market - Exports

Oil prices

In September, the average price of Brent was $79.11pb, 7.14% higher than August's average of $73.84pb. On September 28th, Brent crude prices reached a 4-year high of $82.72pb, the highest since November 2014. The key drivers for the market are anticipation of the US sanctions on Iran as well as OPEC's decision not to increase production at its last meeting. In addition, the drawdown in US crude inventory due to a strong demand for US gasoline supported the price increase. According to the Energy Information Administration (EIA), US crude inventories fell by 2.1mn barrels to 394.1mn barrels for the week ending September 14th. This is the lowest level since February 2015.

Outlook

Oil prices are expected to shift to a corrective mode in the near term. Saudi Arabia and other oil producers have discussed the possibility of an output increase in December. The expected increase in output from Saudi Arabia (200,000-300,000 bpd) and other oil producers will offset lower Iran output estimated at 1mbpd. However, we expect prices to remain above $75pb.



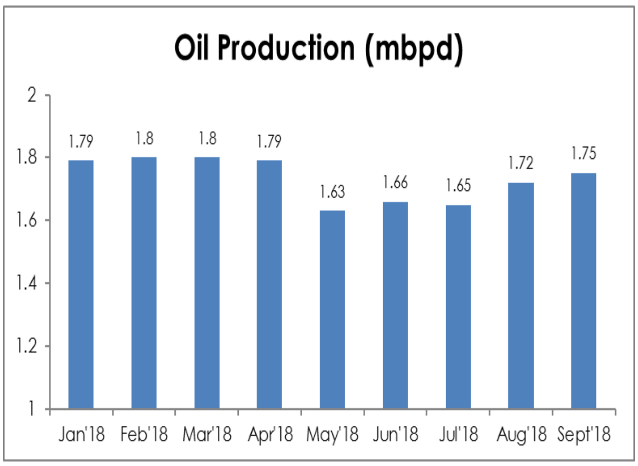
[17]

Oil Production

According to the monthly oil report of the Organization of Petroleum Exporting Countries (OPEC), Nigeria's oil production increased by 1.74% to 1.75mbpd in September, from a revised figure of 1.72mbpd in August. This increase in production is not surprising as the lifting of force majeure owing to the re-opening of several oil terminals such as the Trans-Forcados and Nembe Creek Trunk Line was expected to boost output. However, Nigeria's oil rig count remained flat at 14 in the month.[18]

Outlook

There have not been records of pipeline disruptions so far in the month of October. Hence, oil production is projected to increase towards 1.78mbpd in October. An improved oil production is positive for government revenue and FAAC allocations.

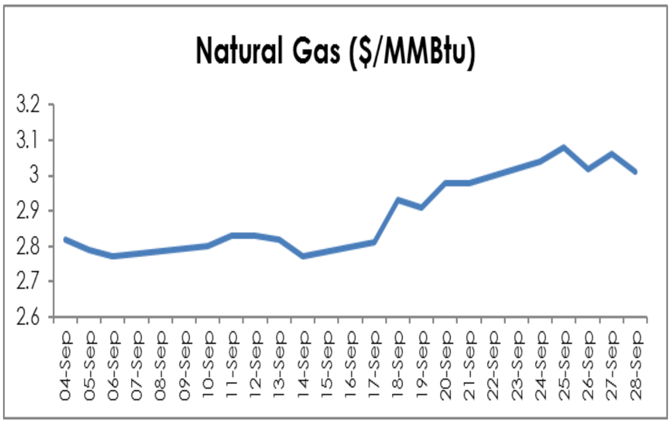


[19]

[17]Bloomberg, FDC Think Tank
[18]Bakers Hughes
[19]OPEC, FDC Think Tank

Natural Gas

Natural gas prices rose by 6.74% to \$3.01/mmbtu on September 28th from \$2.82/mmbtu on September 2nd. The increase in price was partly due to the Energy Information Administration's projection of an 8.50% rise in U.S gas consumption to an all-time high of 80.58bcfd in 2018 from 74.27bcfd in 2017. Natural Gas traded at an average of \$2.90/mmbtu in September. This represents a marginal decline in prices compared to\$2.91/ mmbtu in August.



[20]

Outlook

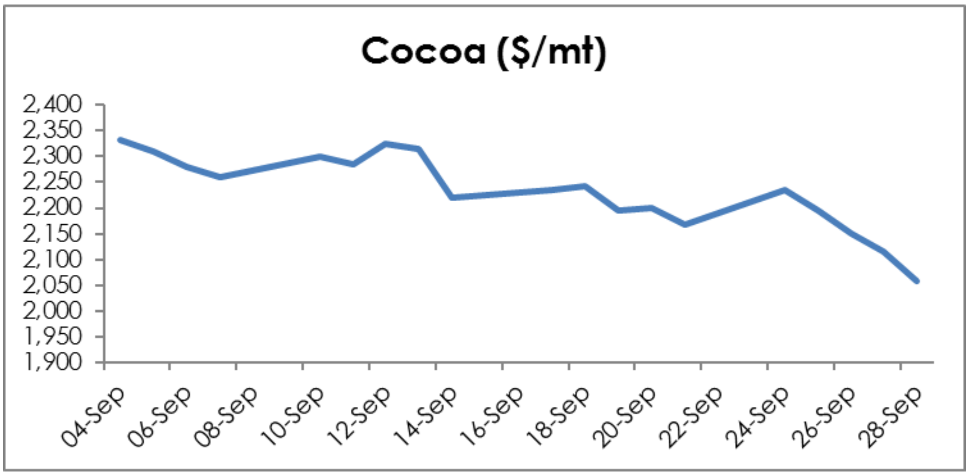
We expect the increase in Natural Gas prices to be sustained in the near term. Cold weather in October will lead to higher demand for gas for heating purposes.

Cocoa

Cocoa prices traded volatile in the month. Prices dipped by 11.79% to close the month at \$2,057/mt from \$2,332/mt on September 4th. The average price of cocoa was \$2,233/mt in September, 0.86% lower than \$2,214/mt in August. This decline was prompted by the improved supply from Ghana and Cote d'Ivoire, the world's largest producer of cocoa.

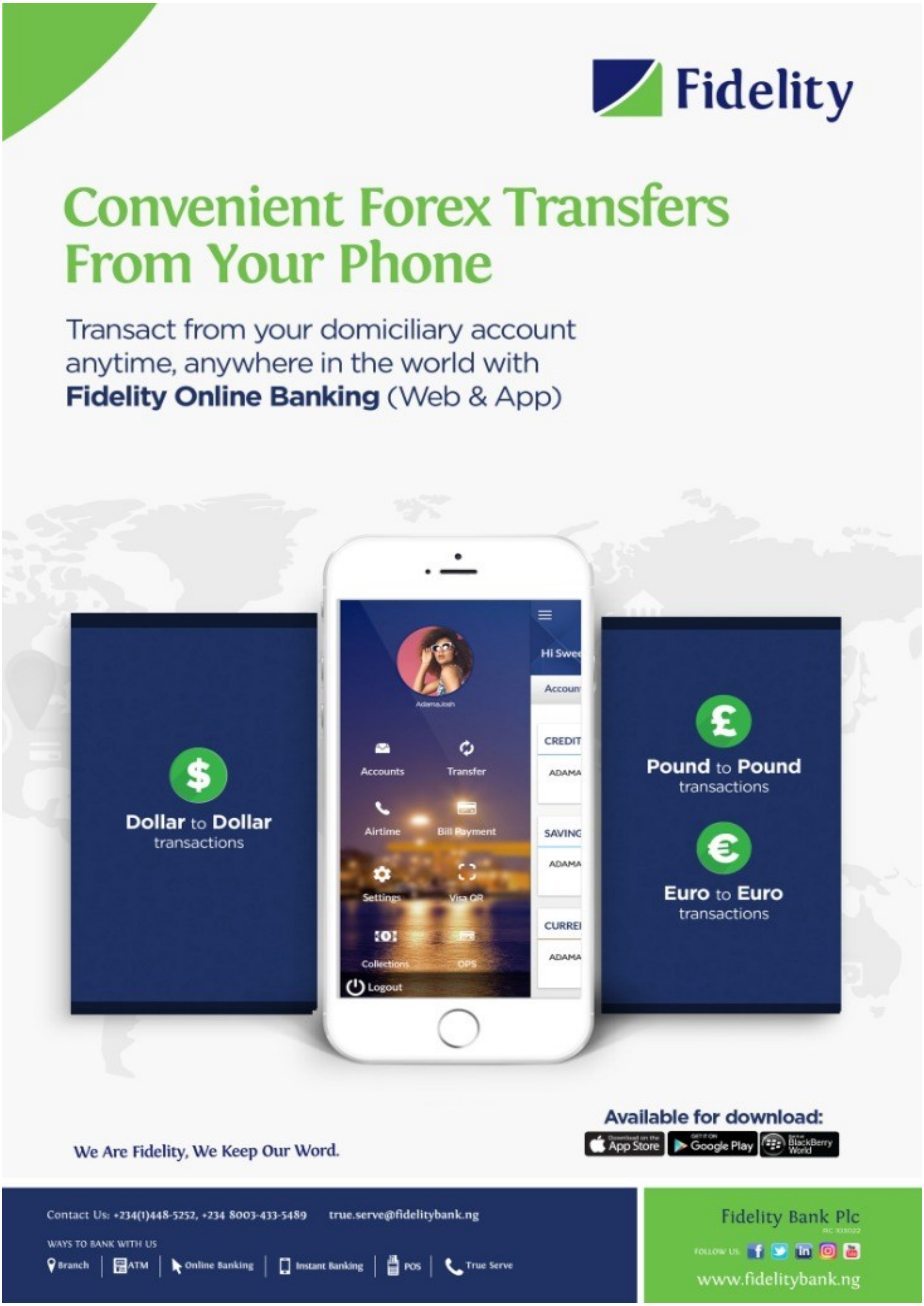
Outlook

We expect cocoa prices to increase as the new cocoa season has started. This will be because the projected supply from Ivory Coast and Ghana remained unchanged at 2m metric tonnes and 877,000 MT respectively, while demand grows stronger from China.



[21]

[20]Bloomberg, FDC Think Tank
[21]Bloomberg, FDC Think Tank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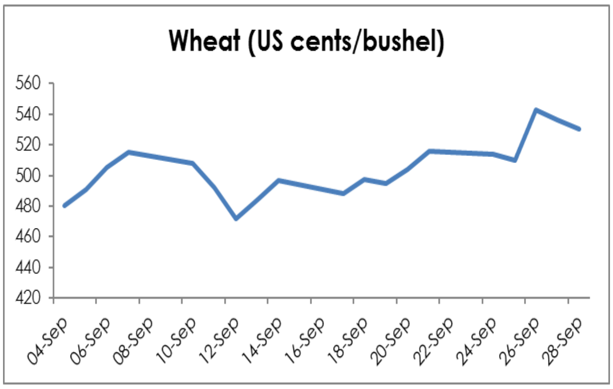
Commodities market - Imports

Wheat

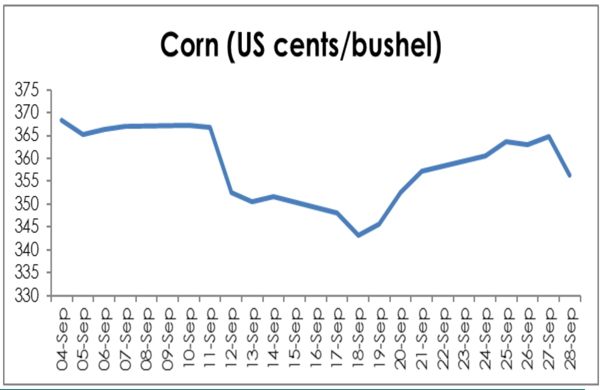
Wheat prices declined by 4.32% to $5.09/bushel on September 28th from $5.32/bushel on September 4th, as wet weather boosted yield prospects for North American crops and on weak Russian wheat exports. The average price of wheat in September also dropped by 7.86%, to $5.16/bushel compared to $5.60/bushel in the previous month.



[22]

Corn

Corn prices fell by3.26% to close the month at $3.56/bushel from $3.68/bushel on September 4th.Prices were affected by the release of a higher than expected 2018/2019 world corn production forecast and the favourable weather condition in Europe and US. The average price of corn was $3.58/bushel in September, 4.02% decline compared to the average of $3.73/bushel in August.



[23]

Outlook - Grains

In October, U.S corn production is projected at 14.83bn bushels, up 241mn bushels from the preceding month. This is an indication that the price of corn is likely to remain at depressed levels.

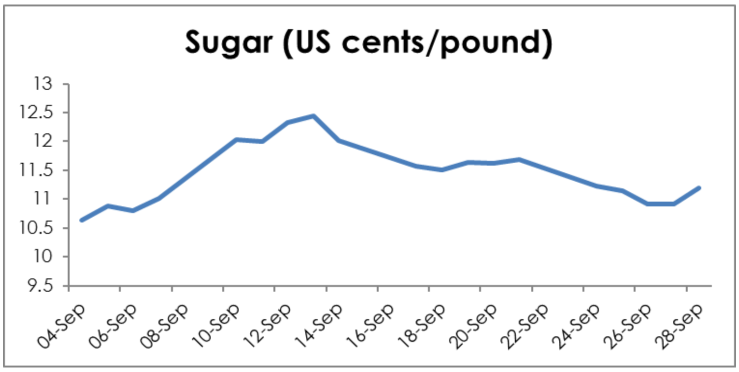
In addition, the trade war facing the United States and its trading partners around the world will also support the volatile prices in the near term.

Sugar

The average price of sugar gained 9.46% to $0.1145/pound in September from the average of $0.1046/pound in the preceding month. Sugar prices rose by5.26% to $0.1120/pound on September 28thfrom $0.1064/pound on September 4th. The surge was driven by supply shocks from India.

Outlook

We expect sugar prices to fall in October. India, the 2nd leading producer recorded a bumper harvest and is expected to boost exports. This will offset cutbacks in output from Brazil and hence lead to a global surplus.



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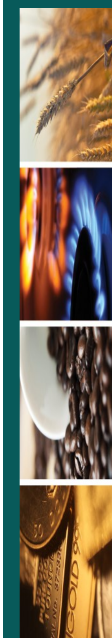


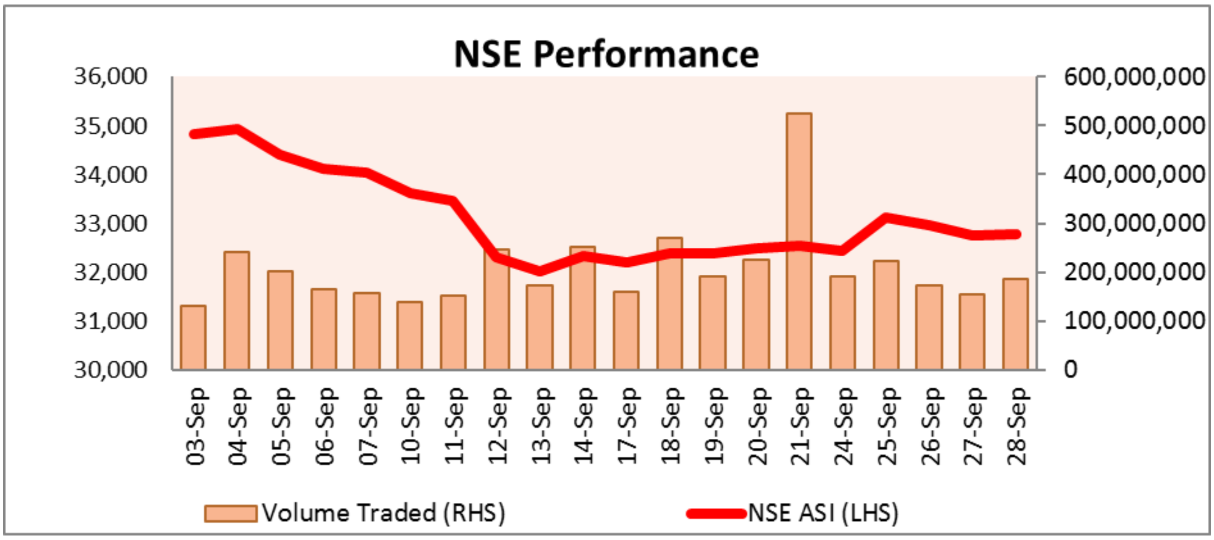
[22]Bloomberg, FDC Think Tank
[23]Bloomberg, FDC Think Tank
[24]Bloomberg, FDC Think Tank

Stock Market Update

Despite the continuous rally in oil prices, activities on the Nigerian bourse remained muted in the month of September. Brent price was up 6.85% to $82.72pb in September, but the NSE ASI lost 5.97%. Consequently, YTD loss of 14.32% affirms that the stock market is now in correction territory.

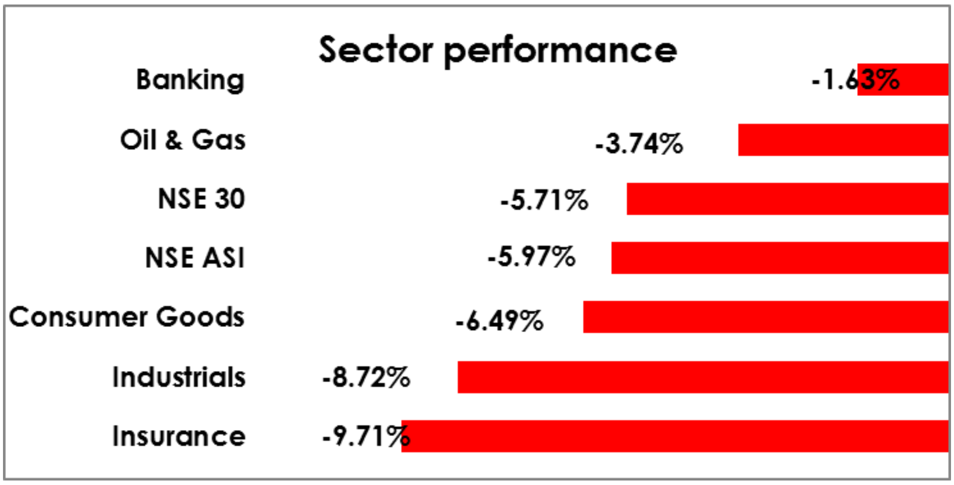
The Nigerian stock market sustained its losses into September as election fever dampened investors' confidence. NSE ASI dipped 5.97% to close at 32,766.37 points. Like the ASI, market capitalization declined by 5.97% to N11.96trn. The 25bps increase in the US Fed rate also weighed on the woes of the Nigerian bourse.

The NSE is currently trading at a price to earnings (P/E) ratio of 9.34x. This is a 6.51% decline over the close of the previous period's P/E of 9.99x. However, market breadth came in higher, but remained negative at 0.44x, as 29 stocks increased, 74 stocks remained flat, while 66 declined; compared to August, which came in at 0.21x.



[25]

Trading activities on the floor of the NSE reflected the weak investor sentiments. Average volume traded declined by 19.46% to 207mn units, whilst average value of trades moved in the opposite direction, up 25.88% to N3.94bn.



[26]

All indices closed the month of September in negative territory. The insurance sub-sector index was the biggest loser. The index lost 9.71% in September owing to the recapitalization deadline dilemma.

[25] NSE, FDC Think Tank
[26] NSE, FDC Think Tank

The labor union (Association of Senior Staff of Banks, Insurance and Financial Institutions) sought for an extension due to integration and transition concerns of embarking on a recapitalization exercise. This has left most investors exposed to some level of policy inefficiency, as stakeholders await the outcome of the duel between the regulatory agencies and the labor union.

The banking sub-sector index recorded the least decline among the NSE sub-sector indices. The index maintained its downward trend, albeit at a slower pace. Continuous profit taking on most of the banking stocks weighed on the index despite the buy interest in the large-cap stocks with robust interim dividend.

Penny stocks dominated the gainers' chart, largely attributed to bargain hunting on undervalued stocks. Skye Bank[27] (51%) led the advancers, followed by Union Diagnostic (30.8%), UACN Property Devt. Co. (24.2%), C&I leasing (20.8%) and First Aluminium (20.6%).

Top Gainers

Symbol	Aug'18 Price	Sept'18 Price	Change	% Change	PE Ratio
SKYE BANK PLC (POLARIS BANK)*	0.77	0.51	0.26	51.0%	-
UNION DIAGNOSTIC & CLINICAL SERVICES PLC	0.34	0.26	0.08	30.8%	3.62
UACN PROPERTY DEVELOPMENT CO. LIMITED	1.95	1.57	0.38	24.2%	-
C & I LEASING PLC.	3.02	2.50	0.52	20.8%	4.73
FIRST ALUMINIUM NIGERIA PLC	0.41	0.34	0.07	20.6%	4.02

Insurance stocks led the laggards with Standard Alliance Ins. (-47.4%), Universal Insurance (-42.5%) and Cornerstone Insurance (-16.7). Cement Company North. Nig. (-18.1%) and Flour Mills Nig. (-17.7%) also featured among the decliners.

Top Losers

Symbol	Aug'18 Price	Sept'18 Price	Change	% Chang	PE Ratio
STANDARD ALLIANCE INSURANCE PLC.	0.20	0.38	- 0.18	-47.4%	-
UNIVERSAL INSURANCE COMPANY PLC	0	0.40	- 0.17	-42.5%	-
CEMENT CO. OF NORTH.NIG. PLC	25.30	30.90	- 5.60	-18.1%	6.63
FLOUR MILLS NIG. PLC.	20.00	24.30	- 4.30	-17.7%	6.44
CORNERSTONE INSURANCE COMPANY PLC.	0.20	0.24	- 0.04	-16.7%	-

Outlook

The Q3'18 earnings season will have a lull impact on the performance of the Nigerian capital market, as the market will be largely driven by developments remote from the Nigerian financial market. Technical analysis will determine most investment decisions, as fundamentals take the back burner.

[27] Trading on Skye bank shares have been suspended since September 21, 2018 due to CBN's revocation of the bank's operating license

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EQUITY REPORT: NESTLÉ NIGERIA PLC

Analyst Recommendation: HOLD

Market Capitalization: N1.11trn

Recommendation Period: 365 days

Current Price: N1, 400.00

Industry: Food, Beverage and Tobacco

Target Price: N1, 457.43

ANALYST NOTE

Top-line growth driven by volume growth

Nestlé Nigeria recorded strong revenue sales of N135.3bn in the first half of 2018 (H1'18), a 10.97% increase. This was largely driven by growth in its sales volume of both its food and beverage segments. The food segment recorded an 8.91% increase in revenue to N85.13bn, while its beverage segment recorded a 14.65% increase to N50.17bn in H1'18. Domestic sales accounted for about 98.81% of Nestlé's total revenue, up 10% to N133.69bn. Export sales also rose by 81.62% to N1.61bn in H1'18.

It is important to note that the company's rise in its topline growth was despite the fragile economic growth and amid tepid consumer demand confidence. With the imminent review of the minimum wage, as well as the festive season, we expect the company to record further growth in sales volume and revenue earnings.

Profitability boosted by reduced financing costs

In the peak of Nigeria's economic recession, the naira depreciated by approximately 215% to N490/$ (end of 2016), compared to N155.71/$ at the start of 2014. This pushed up the cost of raw materials for importing companies. In April 2017, the CBN introduced the Investors' and Exporters' Foreign Exchange Window (IEFX). The introduction of the IEFX window, coupled with the steady recovery in global oil prices in 2017, led to a boost in liquidity in the foreign exchange market. The impact of the improved forex liquidity was evident in Nestlé's finances; the company recorded a 99.03% reduction in its net forex loss, falling to N50.19mn in H1'18, from N5.17bn in H1'17. Nestlé's finance costs plunged 84.85% to N1.12bn in H1'18, from N7.39bn in H1'17. This in turn boosted Nestlé's margin by 23.8% in H1'18. Access to cheaper forex facilitated the importation of new technology, machinery replacements, and the purchase of raw materials.

Our valuation, derived using the discounted cash flow, shows that the company has a head room of 4%. Thus, we place a **HOLD** rating on Nestlé's stock.

Industry Overview

The food and beverage industry in Nigeria is dominated by multinational players which include Nestlé, Unilever and Cadbury. Other players include domestic food processing companies such as UACN Foods, which manufacture snacks and a range of sweets.

Agricultural investment gaps and a lack of access to credit remain key challenges for Nigerian food producers

Nigeria's food and processing industry is currently valued at $10bn and it provides an estimated 10mn jobs. However, the industry has remained suboptimal despite Nigeria's comparative advantage in agriculture. The level of food processing and value addition is quite low due to chronic infrastructure and technological challenges. The industry lacks the required investment in suitable storage infrastructure to reduce post-harvest losses (estimated at 40%).[28] However, given the high interest rate environment in Nigeria, access to credit to address these investment gaps have been a major challenge in the industry.

Government support and large population offer opportunities to local producers

In a bid to support local food producers, the government, placed an import ban on various food products and increased import duties. It also introduced policies aimed at self-sufficiency in the production of major agricultural products to ensure cheaper inputs for food processing companies.

Nigeria's large (and mostly young) population makes the market lucrative for investors as companies can tailor their products to suit the tastes and purchasing power of the people.

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

Company Overview

Nestlé Nigeria (a subsidiary of Nestlé SA) was incorporated in 1961 and was listed on the Nigerian Stock Exchange (NSE) in April 1979. Nestlé SA, Switzerland, currently holds a 66.18% stake in Nestlé Nigeria. Its principal activities include the manufacturing, marketing and distribution of food products domestically and internationally. The company has three factories in Nigeria: Abaji factory in Abuja, Agbara Manufacturing Complex in Ogun State, and Flowergate factory in Ogun State. Nestlé procures its raw materials on a commercial basis from both domestic and international suppliers. The company continues to explore the use of local raw materials and has successfully introduced the use of locally produced agricultural items such as soya bean, maize, cocoa, palm olein, and sorghum.

Nestlé Nigeria produces a wide range of culinary products (Maggi), baby food (Cerelac, Nutrend), cereal (Golden Morn), chocolate drinks and confectionery products (e.g. Milo Powder, Milo Ready-to-drink, and Chocomilo), dairy products (Nido), coffee (Nescafé), and water (Pure Life). Its products are distributed through various distributors (over 100) spread across the country.

Income Statement for Nestlé Nigeria Plc

N'000	2013	2014	2015	2016	2017
Revenue	133,084,076	143,328,982	151,271,526	181,910,977	244,151,411
Cost of Sales	(76,298,147)	(82,099,051)	(83,925,957)	(106,583,385)	(143,280,260)
Gross Profit	**56,785,929**	**61,229,931**	**67,345,569**	**75,327,592**	**100,871,151**
Marketing and Distribution Expenses	(22,932,923)	(24,689,301)	(25,904,586)	(28,775,263)	(35,157,152)
Administrative Expenses	(6,020,026)	(7,340,409)	(7,693,740)	(8,338,992)	(10,015,626)
Operating Profit	**27,832,980**	**29,200,221**	**33,747,243**	**38,213,337**	**55,698,373**
Finance Income	361,307	551,594	443,805	4,199,314	6,239,371
Finance Costs	(2,146,697)	(5,305,837)	(4,868,571)	(20,864,243)	(15,109,062)
Net Finance Cost	(1,785,390)	(4,754,243)	(4,424,766)	(16,664,929)	(8,869,691)
Profit Before Tax	**26,047,590**	**24,445,978**	**29,322,477**	**21,548,408**	**46,828,682**
Income Tax Expense	(3,789,311)	(2,210,338)	(5,585,700)	(13,623,440)	(13,104,952)
Profit After Tax	**22,258,279**	**22,235,640**	**23,736,777**	**7,924,968**	**33,723,730**

Balance Sheet for Nestlé Nigeria Plc					
N'000	**2013**	**2014**	**2015**	**2016**	**2017**
Non-Current Assets					
Property, Plant and Equipment	65,878,425	67,514,854	69,148,171	70,171,526	72,377,943
Intangible Assets	-	-	-	-	-
Long-term Receivables	573,247	1,157,883	1,352,196	1,678,251	1,921,232
Total Non-current Assets	**66,451,672**	**68,672,737**	**70,500,367**	**71,849,777**	**74,299,175**
Current Assets					
Inventories	9,853,893	10,956,010	10,813,960	20,637,750	23,910,303
Trade and Other Receivables	17,884,775	22,330,813	24,445,995	24,035,411	31,430,450
Prepayments	300,637	398,002	525,205	1,711,842	2,025,346
Cash and Cash Equivalents	13,716,503	3,704,505	12,929,526	51,351,152	15,138,854
Total Current Assets	**41,755,808**	**37,389,330**	**48,714,686**	**97,736,155**	**72,504,953**
Total Assets	**108,207,480**	**106,062,067**	**119,215,053**	**169,585,932**	**146,804,128**
Equity					
Share Capital	396,328	396,328	396,328	396,328	396,328
Share Premium	32,262	32,262	32,262	32,262	32,262
Share Based Payment Reserve	26,585	44,637	150,466	126,480	147,236
Retained Earnings	40,139,626	35,466,416	37,428,018	30,323,005	44,302,351
Total Equity	**40,594,801**	**35,939,643**	**38,007,074**	**30,878,075**	**44,878,177**
Non-Current Liabilities					
Loans and Borrowings	26,471,275	18,385,876	12,530,361	10,384,341	9,564,664
Employee Benefits	1,821,829	1,827,773	2,382,213	2,103,744	2,275,921
Deferred Tax Liabilities	6,086,480	5,270,723	6,563,548	5,186,338	10,404,871
Total Non-current Liabilites	**34,379,584**	**25,484,372**	**21,476,122**	**17,674,423**	**22,245,456**
Current Liabilities					
Bank Overdraft	-	1,237,606	305,024	154,582	3,714,087
Current Tax Liabilities	2,803,623	3,478,733	5,040,468	15,489,634	15,098,670
Loans and Borrowings	947,809	12,730,126	17,108,803	40,130,375	10,913,246
Trade and Other Payables	29,066,050	26,656,779	36,661,728	64,662,096	49,055,624
Provisions	415,613	534,808	615,834	596,747	898,868
Total Current Liabilites	**33,233,095**	**44,638,052**	**59,731,857**	**121,033,434**	**79,680,495**
Total Liabilites	**67,612,679**	**70,122,424**	**81,207,979**	**138,707,857**	**101,925,951**
Total Equity and Liabilites	**108,207,480**	**106,062,067**	**119,215,053**	**169,585,932**	**146,804,128** [29]

Management Overview

Strong stewardship in troubled economic times should be a confidence booster

Nestlé's management's ability to sustain returns, drive growth and remain a major player in Nigeria's food industry in a period of tepid economic growth can be attributed to its capacity enhancement and effective cost management strategies.

One example of a capacity enhancement project is Nestle's desired expansion into consumer recycling. The company is currently looking to develop collection, sorting and recycling schemes across Nigeria to help its consumers appropriately dispose of used materials. This should help reduce expenditure on raw materials and boost profitability.

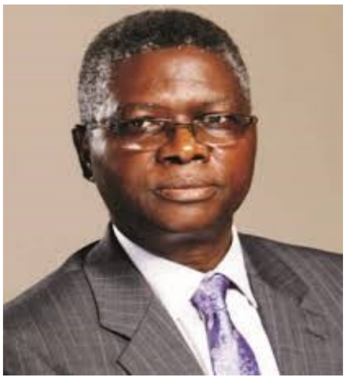
Mr. Mauricio Alarcon is the CEO and Managing Director who has acquired experience across different regions. His success at transforming Nestle ice cream in Egypt by driving a substantial revenue and profitability growth is noteworthy. This experience could easily be drawn on in plans to expand distribution across northern Nigeria, which has a similar religious background and shared values with Egypt.

[29]Nestlé Nigeria Plc. 2012-2017. "Annual Reports".

Mr. David Ifezulike is the Chairman of the Board of Directors since May 2013. He has a BSc. in Mechanical Engineering from the University of Manchester and an MSc. in Petroleum Engineering from Imperial College, London. He joined Nestlé in 1980 and has over 22 years extensive experience in various capacities and locations including Nigeria, Ghana and Switzerland.

CEO/Managing Director

Mr. Mauricio Alarcon



Chairman of the Board of Directors

Mr. David Ifezulike

The Bulls Say and the Bears Say:

- Nigeria's largest food company in terms of revenue and assets
- Internationally renowned brand in the food and beverages segment
- Offers quality brands
- Imminent upward review of minimum wage could bolster consumer spending
- Robust distribution network and a talented sales force

- Upward trend in global cocoa prices can impact Nestlé's profit margins negatively
- Higher interest payments on dollar-denominated borrowings
- High inflation rates could further affect consumer spending
- Increased threat for cheap substitutes

RISK AND OUTLOOK

Growth potential constrained by macroeconomic risks

Nestlé Nigeria is exposed to market risks (currency and interest rate risks), credit risks, liquidity risks, and operational risks amid persistent macroeconomic and security challenges in the country. These risks could prevent Nestlé from growing its sales volume and top-line earnings, managing costs and increasing its market share. Nestlé, through its risk management committee, identifies risks, analyses them, sets appropriate risk limits and monitors the company's risk policies.

Nestlé's primary exposure to credit risk emanates from the individual characteristics of each distribution customer. In order to address this risk, the company established a distributor activation process that analyzes each individual's credit worthiness through external ratings and bank references (if applicable) before a distributor agreement is sealed. The company manages its liquidity risks by ensuring it has sufficient cash to meet its financial liabilities, when due, to prevent the company from incurring unwanted losses.

Nestlé is exposed to currency risks on sales, purchases and borrowings denominated in foreign currency mainly: euros, US dollars (USD), pounds sterling (GBP) and Swiss francs (CHF). Although there have been recent improvements in the availability of forex in the country, there is still a level of uncertainty in the forex market due to possible oil price and production shocks. A significant shortfall in oil revenue could exacerbate pressures on the external reserves and reduce the ability of the CBN to continue to defend the naira. The level of external reserves has consistently fallen in Q3'18, as the CBN continues to intervene through retail and wholesale forex auctions.

Meanwhile, security concerns in the northern region have weighed on Nestlé's sales and distribution. The continuous attacks from Boko Haram and herdsmen have impeded sales in certain parts of the country as the insurgence has limited the company's ability to grow its market share in the region.

APPENDIX - Valuation

We derived our valuation for Nestlé Nigeria by using the Discounted Cash Flow (DCF) methodology. Our fair value estimate for Nestlé stood at **N1457.43**, which is a 4.07% upside on its current share price of N1400.00 as at Oct 6, 2018. The discount rate [weighted average cost of capital (WACC)] of 10.38% is derived using a 14.39% risk free rate [the yield for a 10-year Federal Government of Nigeria (FGN) bond maturing in March 2027], a beta of 0.8755[30] an after-tax cost of debt of 4.52%, and a market risk premium of 6.4%. The calculated long-term cash flow growth rate to perpetuity is 5%.

Good Food, Good Life

[30]Financial Times URL: https://markets.ft.com/data/equities/tearsheet/summary?s=NESTLE:LAG

DCF Valuation			
N'000	**2018**	**2019**	**2020**
EBIT	65,561,566	77,958,065	95,854,215
Less: Taxes	(17,550,300)	(20,868,743)	(25,659,397)
EBIAT	48,011,266	57,089,322	70,194,817
Plus: Depreciation & Amortization Expense	6,025,231	6,507,427	7,067,757
Less: CAPEX	(7,830,458)	(9,335,157)	(11,460,101)
Less: Change in Working Capital	(16,880,477)	538,519	5,144,641
Free Cash Flow (FCF)	29,325,562	54,800,112	70,947,115
WACC	10.38%	10.38%	10.38%
Present Value (PV) of FCF	26,568,528	44,980,446	52,759,201
Terminal Value @ Perpetual Growth Rate (2019)	**2018**	**2019**	**2020**
Terminal Value as of 2020	-	-	1,385,411,244
Present Value of Terminal Value	1,030,248,940		

DCF Calculation	Valuation
PV of Explicit Period	124,308,175
PV of Terminal Value	1,030,248,940
Enterprise Value	1,154,557,115
+ Cash	51,351,152
- Borrowings	(50,669,298)
Equity Value	1,155,238,969
Share Price	***1,457.43***