FDC Bi-Monthly Update

Volume 9, Issue 2

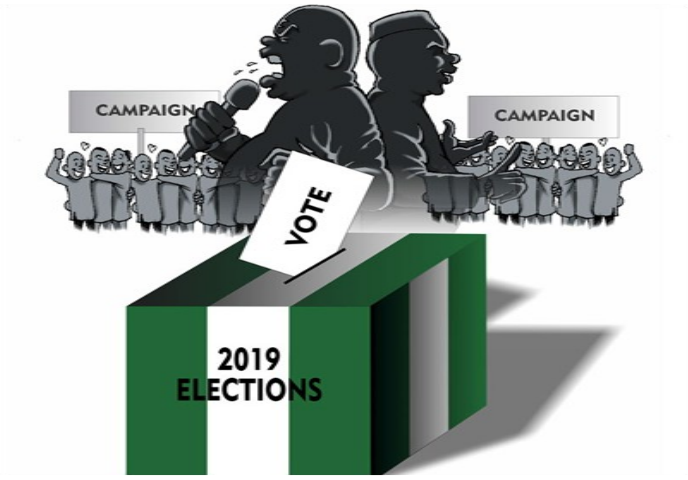
March 04, 2019

A Financial Derivatives Company Publication

☏:01-2715414, 6320213; Email: info@fdc-ng.com; Website: www.fdcng.com

In This Issue …

Nigeria's election and the market dynamics



Euphoria for champions of continuity and skepticism for those who believe that a management and leadership change of style is imperative for economic success in Nigeria.

The incumbent President, Muhammadu Buhari, has emerged the winner of the 2019 Presidential election held on February 23rd, surpassing his close contender (Atiku of PDP) by 3.93 million votes. Indeed, the race was a two-man contest as both parties accounted for 96.82% of the total valid votes (27,324,583). Despite the low turnout of 35.6% relative to 44% in 2015, the recently concluded presidential election showed a wide margin of 3.93 million relative to 2015 (2.57 million).

Market Reacts

The NSE ASI endured a three-day losing streak up to February 28th, losing 2.5% to close at 31,718.70 pts from 32,515.52 pts on February 22nd, a day before the election. This can be partly attributed to the outcome of the presidential polls. However, the market gained 0.34% on March 1st. The rejection of the election results by the main opponent who had dominant support in the South-south (mainly oil producing states) could trigger agitations by the militants. This poses further threats to trading activities in the stock market.

On the other hand, the foreign exchange market has shown resilience to heightened political tensions as the naira traded flat at 360/$ in the parallel market.

Impacts on the Market Players

The banking sector, which accounts for approximately 70% of the total volume traded on the Nigeria Stock Exchange, lost 6.25% between February 22 and 28.

The naira appreciated at the IEFX window by 0.14% to N360.99/$ on February 28th from N361.48/$ on February 22nd. This is positive for manufacturers and traders as they could utilize the opportunity to reduce their cost of importation.

Policy Direction

With the re-election of the incumbent president, the FGN may want to consolidate on its existing policies while also exploring new options for accelerated and sustainable growth of the country. We anticipate a continuation of the social investment programmes such as N-power, trader moni etc and also, we expect the ERGP to be intensified. To ensure prudent management of public resources, the administration could intensify its fight against corruption. However, for the success of these strategies, the administration needs to explore and consolidate its revenue base.

To hit the ground running, the president needs to assemble his cabinet to guard against the delay experienced in the last inauguration.

Should Nigeria ban the importation of tomato paste?

The Minister of Agriculture and Rural Development, Chief Audu Ogbeh, recently announced that the Federal Government will place a final ban on the importation of tomato paste before the end of 2019.[1] The rationale is to boost domestic production of the commodity. This also ties in with the protectionist stance and the "produce what you eat and eat what you produce" mantra of the Buhari administration. You may ask, "why is this important or why should I care?" For starters, Nigerians' "obsession" with tomatoes cuts across tribe, religion and class. Tomatoes are a major ingredient in almost everything we eat, starting from the famous Jollof rice, to different traditional soups and stews, etc. Given that the demand for tomato is both price and income inelastic, an increase in price will be passed down to the final consumers – you and I.

One of the pillars of "Buharinomics" is protectionism – essentially hampering free trade by imposing huge tariffs on imports or refusing to sign free trade agreements. This protectionist sentiment is evidenced in the Federal Government declining to sign monumental trade agreements such as the African Continental Free Trade Agreement[2] and the Economic Partnership Agreement with the European Union.[3] It is also seen in the huge tariffs imposed on some commodities such as rice and tomatoes.

The principles of macroeconomics and microeconomics confirms that comparative advantage occurs when a country can produce a commodity at a relatively low opportunity cost and therefore sell the commodity cheaper than other countries. The theory of comparative advantage states that if countries produce the commodities they have comparative advantage in and trade, then economic welfare will increase. In other words, countries should produce the goods they have comparative advantage in and trade with other countries.

[1]Kolade Adeyemi (February 27, 2019), "FG to ban importation of tomato paste says, Ogbeh", The Nation, http://thenationonlineng.net/fg-ban-importation-tomato-paste-says-ogbeh/

[2]Johnbosco Agbakwuru (2018), "AfCFTA: Buahri bows to pressure, cancels Nigeria's participation", Vanguard, https://www.vanguardngr.com/2018/03/afcfta-agreement-buhari-bows-pressure/.

[3]Chris Giles (Updated April 6, 2018), "Nigeria rejects west Africa-EU free trade agreement,"CNN World, https://edition.cnn.com/2018/04/06/africa/nigeria-free-trade-west-africa-eu/index.html

Nigeria consumes approximately 2.3 million metric tonnes of tomatoes annually; meanwhile it produces about 1.8 million metric tonnes annually.[4] The gap of roughly 500,000 metric tonnes is bridged with imported tomato paste. About 45 percent of the domestically produced tomatoes are destroyed before they reach the market or dinner table. The reasons aren't far-fetched – bad roads, exposure to weather elements for extended periods, poor handling of the crop post-harvest, inadequate storage facilities; the list is endless. All these factors are especially important because of the fragile nature of the fruit and its short shelf life. Already, there is not enough domestically produced tomatoes to go around and the country must import to fill the gap. To further exacerbate the situation, the FG is planning to finally ban the importation of tomato paste.

This is not surprising as tomatoes and tomato paste are already part of the 41 items ineligible for foreign exchange at the CBN window. It was particularly troubling when Nigeria had an exchange rate crisis in 2015/2016. Erisco – a tomato processing company - shut down operations and laid off about 1,500 workers only after eight months of operation partly due to an FX shortage.[5] This was also part of the reason that the Dangote tomato processing plant was temporarily shut down in 2016. Furthermore, as part of the new tomato policy of the FG (announced in April 2017 and "implemented" in May 2017), the tariff on tomato importation was increased from 5 percent to 50 percent with a $1,500 levy per tonne of imported tomato paste.

Despite these costs, imported tomato paste still floods the domestic market for two major reasons: one there is a huge supply deficit in the economy and two, the country's borders are porous. Assuming the Nigerian borders were not porous, the current tariffs on tomato paste would have caused tomato prices to increase significantly. However, this was not the case as a basket of tomatoes averaged N10,000 in 2017 with little or no price oscillations; currently it costs approximately N6,000. With a complete ban on the importation of tomato paste and concentrate, prices will spike because domestic supply is not growing as fast as the demand for the product.

[4]PwC (2018), "X-raying the Nigerian tomato industry, focus on reducing tomato waste", https://www.pwc.com/ng/en/assets/pdf/nigeria-tomato-industry.pdf
[5]Anamesere Igboeroteonwu (November 3, 2016), "Nigerian tomato plant to close, in public embarrassment for Buhari", Reuters, https://www.reuters.com/article/us-nigeria-currency/nigerian-tomato-plant-to-close-in-public-embarrassment-for-buhari-idUSKBN12Y2D6

Currently, there are only a handful of tomato processing plants in the country with Dangote being the largest. Another reason Dangote shut down operations in 2016 was because there were not enough domestically produced tomatoes to service the giant processing plant.[6] This is despite contracting about 5,000 local farmers to supply fresh tomatoes.[7] During the 2016 tomato "crisis" in Nigeria, a pest, "tuta absoluta," wiped out about 80% of the tomato farms in Kaduna (one of the largest tomato producing states in Nigeria).[8] The price of a basket of tomatoes jumped from N5,000/basket in April 2015 to N25,000/basket in April 2016. The price of tinned tomatoes also increased significantly due to the decrease in supply. Taking all these factors into consideration, imagine a total ban on the importation of tomato paste. The price of jollof rice and other delicacies that require the use of tomato as an ingredient will go through the roof!

Nigeria has one of the lowest tomato yields in the world at 5.47 tonnes/harvested area, compared to the global average of 38.1 tonnes/ harvested area.[9] It is common knowledge that most of the tomatoes in Nigeria are grown in the North and transported via road to the South where the market is – at least 10 hours. The tomatoes are gathered in baskets mounted on each other and packed into lorries like sardines. It is no wonder that almost half are destroyed before they reach the market.

Banning tomato importation will create monopolies or oligopolies – where one or a few large firms dominate the market and control prices. Banning tomato importation may not only increase the price, it will also increase smuggling through our porous borders and encourage corruption. Banning tomato paste without addressing yields, porous borders, transportation, and manufacturing is not an optimal policy choice for the country.

However, it is not all gloom and doom, Nigeria can actually produce enough tomatoes to meet domestic demand and even export the surplus, but this requires some structural changes and a strong commitment by the government to improve the tomato value chain.

[6] Ulf Laessing (2017), "Ghost tomato factory showcase for Nigeria's farming problems", https://www.reuters.com/article/us-nigeria-farming/ghost-tomato-factory-showcase-for-nigerias-farming-problems-idUSKCN1BA0IZ

[7] Ibid., Ulf Laessing (2017). Z

[8] Agence-France Presse, May 24, 2016. "'Tomato Ebola' hits Nigeria as moths destroy country's staple food," The Guardian, https://www.theguardian.com/world/2016/may/24/tomato-ebola-nigeria-moths-staple-food-crops

[9] Ibid., PwC (2018)., "f

Currently, Nigeria is the second largest producer of tomatoes in Africa and the 14th largest in the world so there is hope. First, the type of tomato grown in Nigeria is weak and has low yield. The government can invest in and subsidize a stronger tomato species for local farmers. The private sector can also invest in obtaining better tomato species. For instance, Dangote has acquired some greenhouses to grow disease-resistant, high yielding tomatoes.[10] The goal is to improve the yield of Nigerian tomatoes and to sell the hybrid tomato species to local farmers. Another important factor is to reduce the tomato waste. India and Florida (the second largest tomato producing state in the U.S., after California), use plastic crates and chlorine water dump tanks to transport tomatoes which have been found to reduce waste.[11] The government can also incentivize the private sector to invest in tomato processing plants by granting tax holidays, import duty relief, soft loans etc. Finally, and most importantly, the government should demonstrate strong commitment to infrastructure development – road and power in particular. Once these changes are in place, there would be no need to ban the importation of tomato paste, the invisible hand would bring the domestic market to equilibrium.

[10]Babajide Komolafe (February 7, 2019), "CBN, Dangote target Nigeria's self-sufficiency in tomato production," Vanguard https://www.vanguardngr.com/2019/02/cbn-dangote-target-nigerias-self-sufficiency-in-tomato-production/
[11]Ibid., PwC (2018).

The Construction Sector Update

Pre-election spending buoys construction activities in 2018

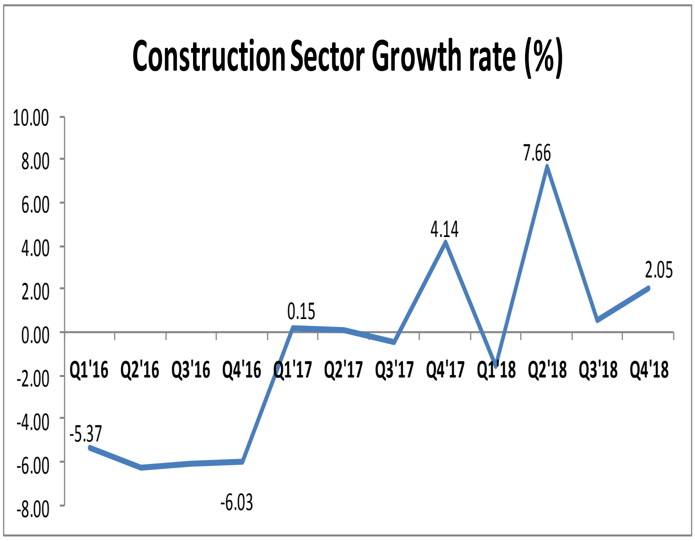
Highlights

The construction sector was one of the key sectors that outperformed GDP growth in 2018. The sector grew by 2.33%, from 1% in 2017. The sector's growth of 2.33% compares with a GDP growth of 1.93%. In Q4'18, the sector's growth also quickened to 2.05% from 0.54% in Q3, reflecting electioneering, favourable weather conditions and forex availability. Meanwhile, Finance Minister Zainab Ahmed stated that Dangote Industries, Unilever Nigeria and four other investors will construct 19 federal roads across Nigeria. The inclusion of private sector players in road development is positive news for the economy, as previous independent attempts by the government have yielded limited results. If the plan is also implemented in 2019, it is expected to sustain contribute positively towards the construction sector's performance in the year. The Lagos State government has disclosed plans to construct a new modern city in the widely acclaimed Ibeju-Lekki Epe area. Real estate players have hitherto viewed the area to have ample prospects, and the construction of a city confirms this. In the SSA region, the Trans-Gambia bridge, the first bridge to cross the Gambia river, was inaugurated on January 21st. China Road & Bridge Corporation also won a 77bn CFA francs ($134mn) tender to build a bridge in Abidjan (Ivory Coast). This would bring the total number of bridges in the commercial city to five.

Nigeria

Construction sector's performance in Q4'18 and FY'18

The Nigerian construction sector expanded by 2.05% and 2.33% in Q4'18 and FY'18 respectively. The sector's full year growth was underpinned by a stellar growth of 7.66% in Q2. Year 2018 saw some pre-election spending in road and rail that impacted positively the construction sector's performance. The sector also benefited from relatively high oil prices and increased forex availability. The sector's contribution to GDP increased to 4.72% in 2018 from 4.14% in 2017. It is expected that the Federal Government's continued infrastructure drive, the approval of the 2019 budget and the disbursement of capital votes would sustain the sector's positive trajectory into 2019.



Private companies to construct 19 federal roads in Nigeria

Nigeria's Finance Minister, Zainab Ahmed, has disclosed that six investors will construct 19 federal roads across 11 states in Nigeria. This is contained in the Executive Order 007, signed by President Buhari. The road project will span a total of 794.4KM across the six geopolitical zones of the country. The companies identified include Dangote Industries, Lafarge Africa, Unilever Nigeria, Flour Mills of Nigeria, Nigeria LNG and China Road and Bridge Corporation Nigeria. In return, the federal government intends to grant investors tax holidays. The eligible road projects are expected to be published in an official gazette, and the government would agree with investors on modalities to kick start implementation.

Implications

The government's attempt to invite private investors in road construction is expected to expedite the pace of infrastructure development in the country. Past efforts by the government to independently improve Nigeria's roads have yielded limited results. Meanwhile, roads are the most used means of transportation in the country. Improvement of the roads would ease the transportation and delivery of goods and services in the country.

FGN to subject public buildings to compulsory maintenance

The Federal Government plans to subject government owned buildings in the country to a mandatory maintenance check. This was contained in the national infrastructure maintenance framework presented by the Ministry of Power, Works and Housing to the Federal Executive Council (FEC) on January 9th. The FGN plans to start with buildings, before extending its efforts to roads, rails and power installations.

Implications

The compulsory maintenance of public buildings, roads and other infrastructure in Nigeria is expected to improve productivity and enhance the country's business friendliness. Furthermore, it is expected to save the government the cost of repairs in future. Artisans in the informal sectors such as electricians, plumbers and carpenters would also benefit from the development.

Lagos State discloses plan to construct a new modern city

Lagos State plans to construct a new modern city, the Alaro Satellite City, at the cost of $249mn, as disclosed by Governor Akinwunmi Ambode. The project is located in the North West Quadrant of the Lekki Free Zone in the Ibeju-Lekki-Epe area. The project would be implemented in collaboration with private partners. Alaro City will be located on a 2,000 acre of land and will include residential buildings for different income groups, office spaces, schools, healthcare facilities, hotels, entertainment, parks and open spaces.

Implications

Since 2017, the Ibeju-Lekki area has been widely acclaimed by real estate agencies to be a promising part of the Lagos Metropolis. Thus, real estate firms have advised their clients and the general public to acquire land there. The Lagos State government's attempt to construct a city in the area reinforces its prospects. More importantly, the construction of more residential and corporate buildings would ease congestion in other parts of Lagos.

SSA

The Trans-Gambia bridge inaugurated

The Trans-Gambia bridge, the first bridge to cross the Gambia river, was inaugurated in late January. Access to the bridge is restricted to cars and minibuses in the meantime. Lorries will be granted access in July 2019. The 1.8KM bridge is part of the wider Trans-Gambia road corridor, which is a vital economic and strategic link connecting the north and south of both Senegal and the Gambia.

Implications

The inauguration of the Trans-Gambia bridge is positive news to both Gambia and Senegal. The bridge will boost trade between the two countries and improve logistics and ease movement. In addition, the bridge will help reinforce cohesion among previously isolated communities in the project's zone of economic influence by improving access to regional markets and boosting economic growth. There is however a moderate risk that the bridge will result in the temporary loss of jobs (frictional unemployment) for ferry operators.

China Road wins $134mn Ivory Coast bridge-building tender

China Road & Bridge Corporation has won a 77bn CFA francs ($134mn) tender to build a bridge in Ivory Coast's commercial capital, Abidjan. This will bring the total number of bridges in the city to five. The construction of the road will be funded by the Islamic Development Bank. The road will link Cocody to downtown Plateau.

Implications

The investment in the project is expected to have a positive multiplier effect on Ivory Coast's GDP. The construction of the bridge would ease transportation and improve Abidjan's appeal to tourists.

Tanzania signs $250mn bridge construction deal in Dar es Salam

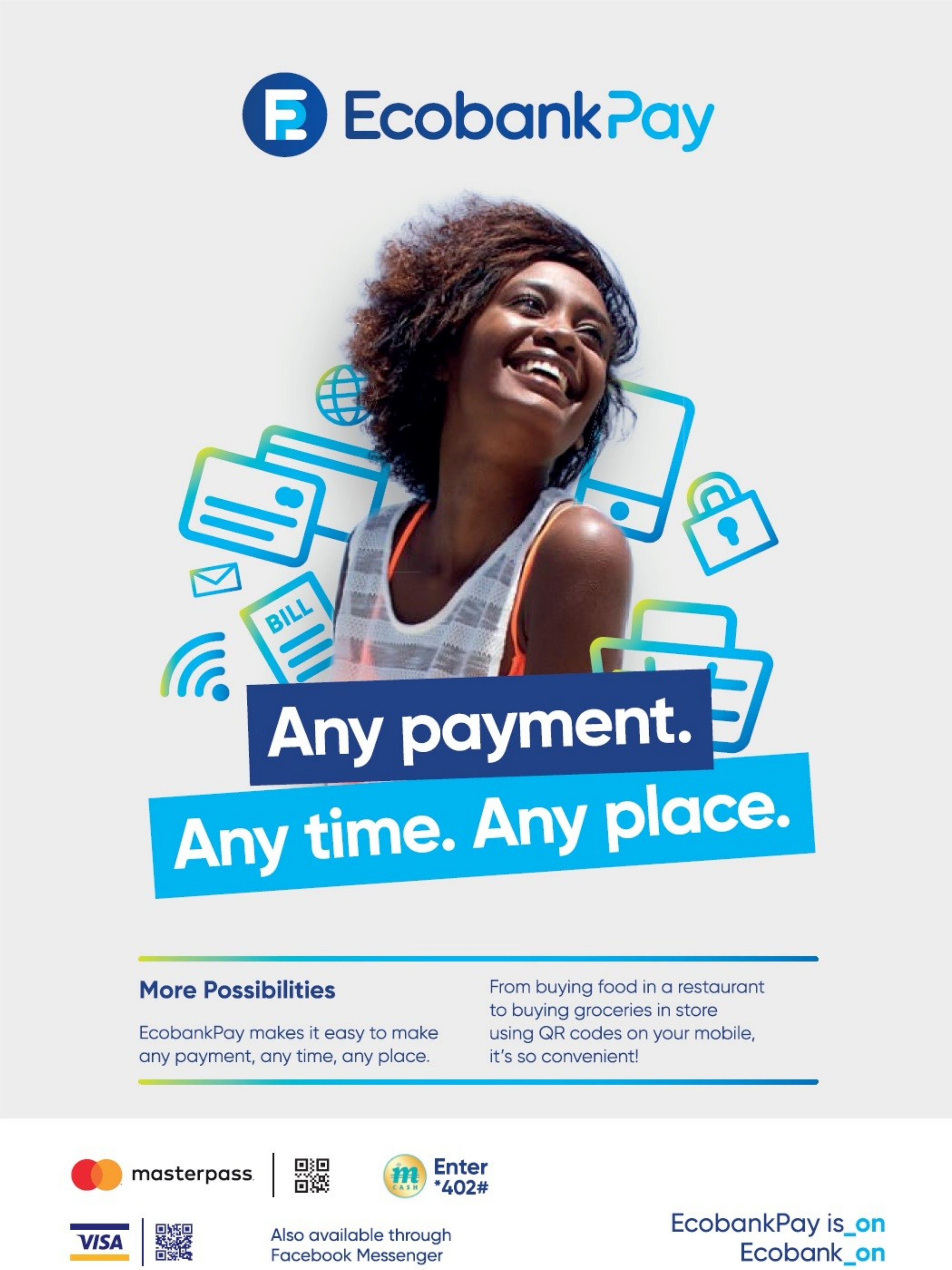
The Tanzania National Roads Agency (TANROADS) has signed a $250mn contract with Japanese Sumitomo Mitsui Construction Company (SMCC) to construct a four-lane bridge along Bandari Road of Gerezani in Dar es Salaam City. The bridge construction deal will be funded as a grant by Japan International Cooperation Agency (JICA). The sum of $222mn will be disbursed to the contractor. $28mn will also be allocated to Ingerosec Corporation of Japan, the consultancy company for the project. The bridge project in Tanzania entails the construction of a four-way bridge that will replace the two-way bridge currently used to reduce traffic volume in Dar es Salaam city.

Implications

The completion of the bridge is expected to ease traffic congestion in Dar es Salaam, Tanzania's largest city, and boost economic activities. The city is renowned for an international Airport, a large ocean port and several tourist attractions.

Outlook

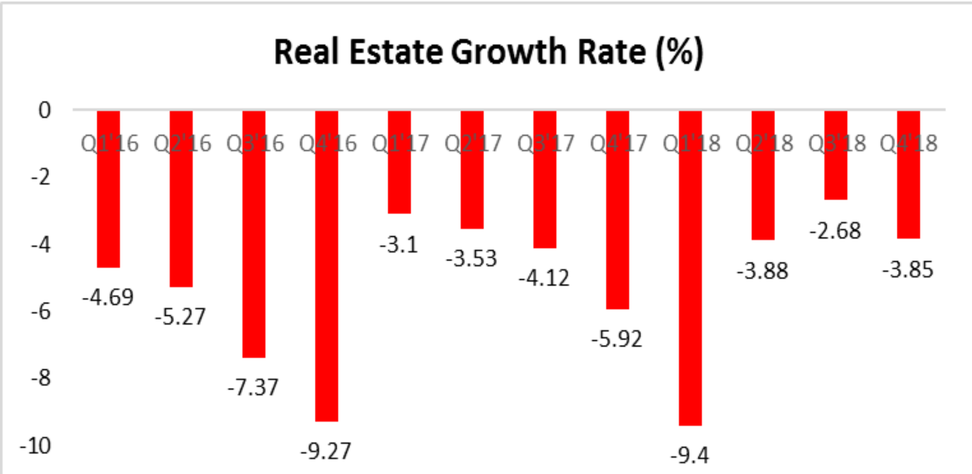
Nigeria's general election in February is expected to slow activities in the construction sector. So far in the month, it has also rained intermittently across the country. This would distort construction activities to a significant extent.


EcobankPay
BILL
Any payment.
Any time. Any place.
More Possibilities
EcobankPay makes it easy to make any payment, any time, any place.
From buying food in a restaurant to buying groceries in store using QR codes on your mobile, it's so convenient!
masterpass
Enter *402#
VISA
Also available through Facebook Messenger
EcobankPay is_on
Ecobank_on

Real Estate Update

Sector's growth yet to recover from recession

A breakdown of the recently released GDP report by the National Bureau of Statistics showed a further contraction in the real estate sector. The sector's real growth stood at -3.85% from -2.68% recorded in the preceding quarter. The sector has now been in the negative territory for at least 12 consecutive quarters. However, the sector's contribution increased from 6.5% in Q3'18 to 6.6% in Q4'18.



[12]

Global Update

London still an attractive investment destination despite Brexit

The global real estate agency, Knight Frank, *recently released its 'The London Report 2019'*. In this report, the agency observed:

1. Commercial offices in central London attracted a total of £16.2 billion of global capital ahead of other cities like Paris, Manhattan and Hong Kong. China was the largest investor in the city.

2. London's real estate market remains the most liquid and transparent in the global market. This will remain an attractive feature for global and domestic investors.

[12]NBS

What does this mean for developing countries like Nigeria?

Renewed hope in London's real estate market coupled with the negative growth recorded in Nigeria's real estate market reduces the possibility of increased investment in the domestic real estate sector.

Performance of real estate companies in Nigeria

Currently, four companies – UPDC, UAC Property, Union Homes and Skye Shelter Fund – are listed on the Nigerian Stock Exchange. In the period between December 31, 2018 and January 31, 2019 there was mixed movement in share prices across the board. UPDC and UAC shares declined by 9.9% and 9.95% respectively to N5.95 and N1.72. Union Homes and Skye Shelter Fund's share prices remained flat at N45.20 and N95.00 respectively.

Companies	**Price as at December 31, 2018**	**Price as at January 31, 2019**	**Directional change**
UPDC	N6.60	N5.95	↓
UAC Property	N1.91	N1.72	↓
Union Homes	N45.20	N45.20	↔
Skye Shelter Fund	N95.00	N95.00	↔

Outlook for real estate in February

Minimal activities are expected within the real estate sector in February. The election season will slow down activities across various sectors including real estate. However, we expect activities within the sector to improve by H2'19, driven by increased government spending.

The Tables Are Turning on Emerging Markets

Emerging markets made it through the turmoil in late 2018 relatively unscathed. The MSCI Emerging Markets Index of equities actually rose 1.03 percent over the final two months of the year, compared with a decline of 5.97 percent in the MSCI All-Country World Index. That outperformance continued in January, but the tables have turned in February with the 0.14 percent gain in the emerging-market benchmark trailing the 2.32 percent surge in the broader market despite emerging markets posting their best day in six weeks on Wednesday by surging as much as 1.50 percent.

Investors jumped on the emerging-market bandwagon last month, leading the remarkable turnaround in risk sentiment globally from the dark days of December. But that's the problem. A number of influential investors and strategists now say it's time to reconsider the prospects for such assets, raising concern that a reversal in sentiment could drag global markets lower just as they led them higher. A combination of potentially hawkish Federal Reserve surprises and already stretched performance has persuaded HSBC Holdings Plc strategists including Max Kettner to turn cautious on emerging-market assets, while Bank of America Merrill Lynch strategist Ralf Preusser thinks developing-nation bonds are vulnerable to positive U.S. data releases, Bloomberg News's Cormac Mullan reports. "Might now be the time to reduce EM exposure in portfolios tactically, that is over three months? We think it is indeed time for a breather," the HSBC strategists wrote in a research note. In another sign that optimism is waning, investors added money to emerging-market exchange-traded funds at the slowest pace this year last week. Inflows into U.S.-listed funds that invest across developing nations as well as those that target specific countries totaled $313.1 million in the five days through Feb. 15, according to Bloomberg News's Aline Oyamada. That's a fraction of the $3.97 billion inflow in the previous week.

What's important to know is that emerging markets are increasingly having a bigger impact on the direction of asset prices given how fast their economies have grown. Based on a study by PricewaterhouseCoopers Global, the seven largest emerging-market economies could grow around twice as fast as the Group of 7 on average in the years ahead. As a result, six of the seven largest economies in the world are projected to be emerging economies in 2050 led by China (1st), India (2nd) and Indonesia (4th).

Ignore bonds at your peril

Having digested the minutes from the Federal Reserve's last meeting in January, bond traders can now turn their attention to the two main geopolitical risks that remain outstanding: trade talks between the U.S. and China and the rising possibility of a so-called hard Brexit, in which the U.K. crashes out of the European Union without a negotiated deal. As the top-ranked interest rate strategists at BMO Capital Markets point out, neither of the impending deadlines of March 1 or March 29 appear set in stone, and either one could be extended. "Whether this dynamic increases the probability of a comprehensive agreement, or merely kicks the can down the road, is difficult to discern ahead of time," but the fact that 30-year government bond yields in Germany, Japan and the U.S. "are all back at late-2016 levels suggests that markets aren't exactly anticipating a global synchronized acceleration anytime soon; if anything, the opposite." In other words, don't dismiss the signals being sent by the global government bond market. When it comes to U.S.-China trade talks, an extension of the deadline may not be seen as positive news, as it just means that investors will have to continue to deal with more uncertainty when the Global Economic Uncertainty Index, a measure of unpredictability in 20 countries with the U.S., China and euro zone being some of the biggest components, has risen to a record. What that means is that any misstep on the policy front could have an outsized negative impact on riskier assets, as the bond market seems to expect.

Stock Bulls search for meaning

U.S. equities have modestly outperformed the rest of the world this year, with the MSCI US Index gaining 11.3 percent compared with a 9.34 percent increase in an MSCI index of global stocks that excludes the U.S.

Such performance raises the question of whether U.S. stocks have risen too far, too fast, especially with the possibility of an earnings recession looming. After all, an 11 percent gain would be good for any full year, and February isn't even over yet. But the bulls are searching hard for trading patterns that would suggest the good times have further to go. Keith Lerner, the chief market strategist at SunTrust Private Wealth Management, has zeroed in on stocks in the S&P 500 Index that exceed their 50-day moving average. Lerner has found that more than 90 percent were above the threshold Friday for the first time since March 2016 based on data compiled by Bloomberg, according to Bloomberg News's David Wilson. The earlier instance was among 14 that Lerner cited since 1990, and the S&P 500 rose all but once in the next three and 12 months after those moves. That sounds tempting, but DataTrek Research notes that analysts on average have been cutting their price targets for individual stocks despite this year's rally in the S&P 500. Currently, that aggregate price target is 3,059, representing an 11 percent expected return over the next 12 months, down from a forecast if 3,094 in early January. That's one trend going in the wrong direction for the bulls.

Commodities Rally. Just don't tell wheat Farmers

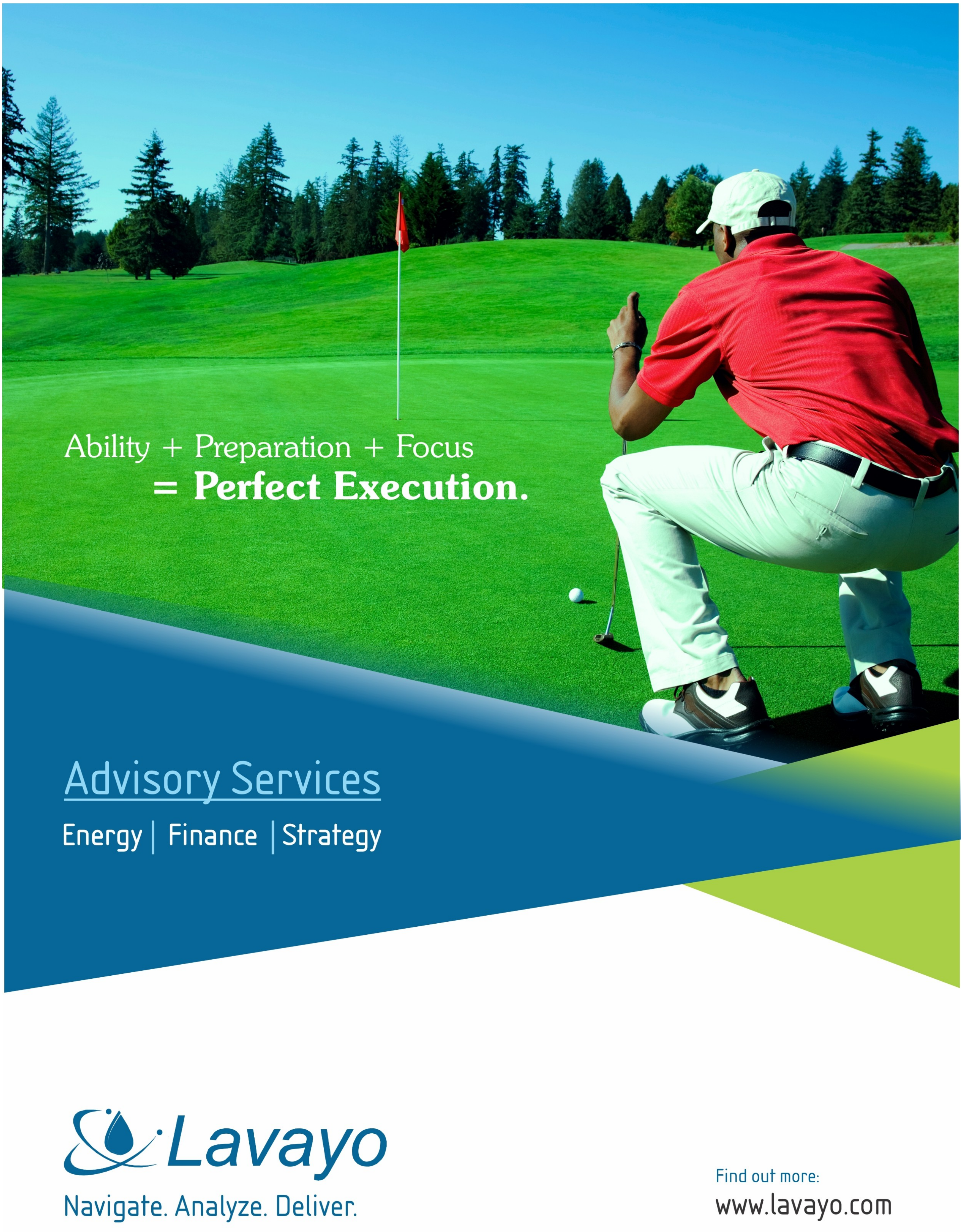
The commodities market is having a moment, rising every day this week. In that period the Bloomberg Commodity Index rose as much as 2.31 percent in its biggest three-day gain since the start of October. Perhaps the move is tied to comments made by President Donald Trump that trade talks with China, the world's largest consumer of raw materials, are going well. If true, then maybe China's economy will stabilize. Heavy equipment machinery company Caterpillar Inc. gave some credence to such notions on Wednesday when Amy Campbell, head of investor relations, said in a presentation at a conference that the pace of equipment replacement in the Asian nation is at normal levels. Just don't tell wheat farmers. The price of the grain fell to its lowest since July on Wednesday, hurt by signs that U.S. exports are struggling to compete with global oversupply. Also, Egypt had a wheat tender that could bring about the "worst scenario" for American and European supplies, according to Bloomberg News's Isis Almeida and Salma El Wardany. With prices slumping, Russian grain has made a comeback to the list of cheapest offers, according to traders familiar with the process. On top of that, French supplies, which were expected to be competitive, turned out more expensive than Romanian and Ukrainian wheat, after freight costs are included, said the traders, who asked not to be identified because they're not authorized to speak to the media.

Sweden has fallen and it can't get up

The Swedish krona did nothing on Wednesday, basically ending unchanged against a basket on nine other developed-market peers. But that's a significant victory for a currency that has been beaten down badly this year as poor economic data thwart the Riksbank's plans to finally start raising interest rates out of negative territory for the first time in more than four years. The krona has depreciated some 5.63 percent this year to an all-time low against the basket as measured by the Bloomberg Correlated-Weighted Indexes. The latest blow came on Tuesday in the form of a weaker-than-forecast inflation report. Consumer prices with a constant interest rate rose an annual 2.0 percent in January, below the 2.3 percent median estimate by economists surveyed by Bloomberg and the 2.4 percent predicted by the central bank. Sweden's economic growth is forecast to slow to 1.3 percent this year from 2.2 percent in 2018, according to a survey by Bloomberg News. The troubling thing is that Sweden is just one example. More and more large economies and central banks are grappling with subpar data, which is why more and more market participants are expecting a global synchronized slowdown. In fact, the data in major economies is coming in below estimates at a degree that is among the worst seen over the past five years, according to the Citigroup Economic Surprise Indexes.

Tea Leaves

In many ways, the euro zone is ground zero when it comes to concerns about a budding synchronized economic slowdown. The median estimate of economists surveyed by Bloomberg is that the currency bloc's economy expanded at an anemic 1.5 percent annualized rate in the fourth quarter. The forecast for all of 2019 isn't any better at 1.4 percent. That's why market participants will be keeping a close eye on the PMI manufacturing reports due out Thursday for a sense of just how rapidly economic conditions are deteriorating. The good news is that it appears things are stabilizing. IHS Markit Economics' composite purchasing managers' index is seen little changed at about its lowest level since late 2014 with a reading of 51.1 for February. The European Central Bank signaled at its last meeting that it was in data-watching mode in the run-up to its next meeting on March 7 as it tries to assess the nature of the euro area downturn and how long it is set to last, the strategists at RBC Capital Markets wrote in a research note. "The February flash 'PMIs,' therefore, represent one of the more significant data points ahead of that next gathering," they added.



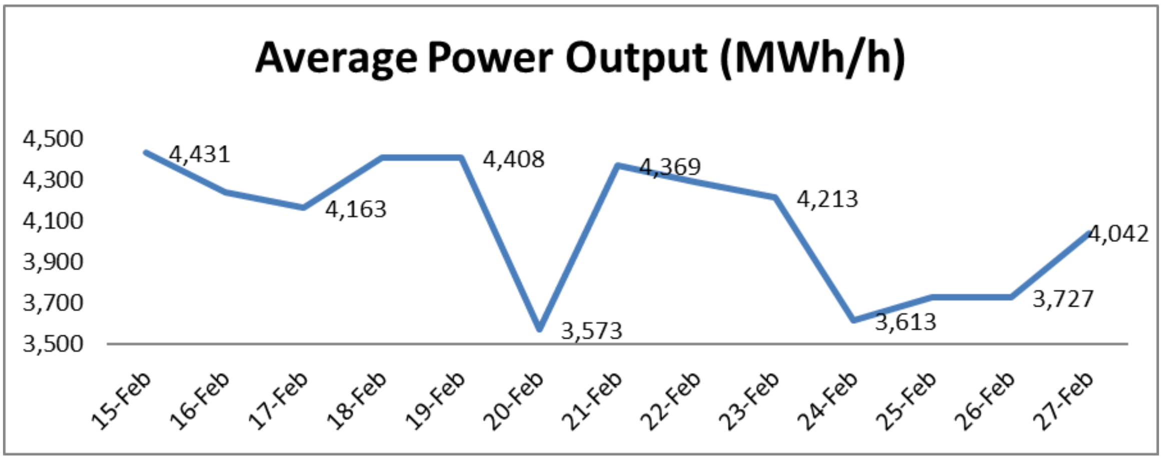
Ability + Preparation + Focus
= Perfect Execution.
Advisory Services
Energy | Finance | Strategy
Lavayo
Navigate. Analyze. Deliver.
Find out more:
www.lavayo.com

Macro-economic indicators (February 15th – 28th)

Power Sector

The average power output during the review period increased by 6.34% to 4,092MWh/hour compared to the corresponding period in January.

The major constraint to power output during the period remained gas challenges, which accounted for 61.87% of the total constraints. This led to an aggregate revenue loss of N22.47bn (N584.22bn annualized).



[13]

Outlook

We expect power supply to remain dependent on the availability of gas and to fall to a range of 4,000-4,200MWh/hour in the coming weeks.

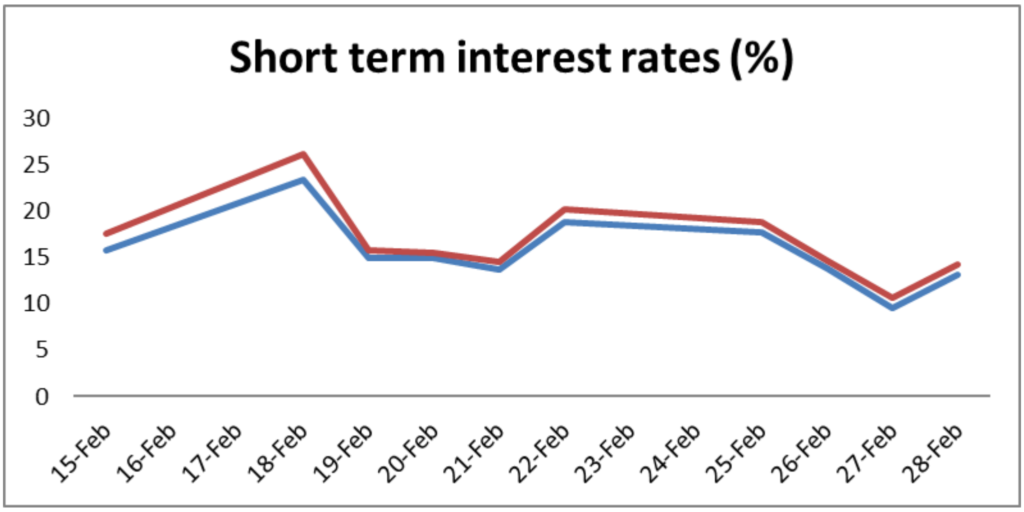
Impact

A decline in power supply is expected to filter through to an increase in demand for alternative energy sources. This would lead to a rise in the operating expenses of firms.

Money Market

The average liquidity within the banking system was N115.48bn long, 59.39% higher than N72.45bn in the second half of January. Short term interest rates (OBB/ON) decreased by 266bps and 325bps to close the period at 13.17% and 14.25% respectively. Total OMO sales during the period was N1.31trn relative to maturities of N978.32bn. This resulted in a net inflow of N330bn.

[13]FGN



[14]

At the last primary market auction on February 27th, the 91-day, 182-day and 364-day T/Bills tenors fell by an average of 35bps to 10.90%pa, 13.01%pa, and 14.37%pa respectively. At the secondary market, the yield on the 91-day and 364-day T/Bill tenor declined by an average of 173.5bps while the 182-day yield increased by 24bps.

T/bills Tenor	Secondary market rates as at Feb 15th (%pa)	Secondary market rates as at Feb 28th (%pa)	Direction	Primary market rates as at Feb. 13th (%)	Primary market rates as at Feb. 27th (%)	Direction
91	11.87	9.57	↓	10.97	10.90	↓
182	12.50	12.74	↑	13.40	13.01	↓
364	14.83	13.66	↓	14.95	14.37	↓

The Nigerian Inter-Bank Treasury bill True Yield (NITTY) rates - the 30-day, 90-day tenors and the 180-day tenor declined by an average of 118bps.

NITTY Tenor	Rates on Feb 15th (%pa)	Rate on Feb 27th (%pa)	Direction
30	12.07	10.37	↓
90	12.25	11.08	↓
180	13.65	12.94	↓

[14]FMDQ

Outlook

Movement of interest rates in the coming weeks would remain a function of market liquidity. Injections from OMO maturities and FAAC disbursements in the second half of February is expected to increase naira liquidity. However, we expect the CBN to manage excess liquidity using measures such as the sale of OMO and Treasury Bills and foreign exchange.

Impact

Economic theory suggests that nominal interest rates move at variance with the level of liquidity. An increase in rates will lead to a higher debt service payment for the government.

Forex Market

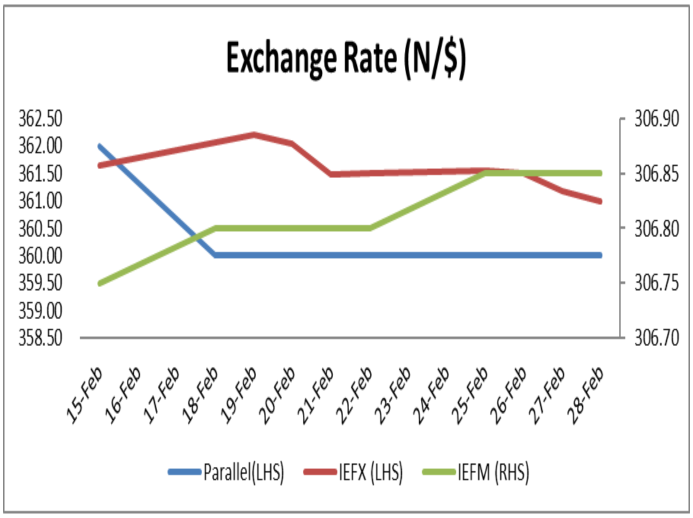
The Nigerian forex market is segmented with multiple exchange rates. The most important rate being the Investors and Exporters window (IEFX). No less than 55%-60% of Nigerian forex transactions are traded at this window. The CBN and most exporters and investors use this window. It serves not only as a source of price discovery but also a barometer for measuring potential and actual CBN intervention in the market. Some of the exchange rate determinants are balance of payments, capital inflows and trade balance.

Exchange Rate

At the parallel market, the currency appreciated by 0.55% to close the period at N360/$ from N362/$ on February 15th. The depreciation in the value of the naira can be attributed partially a weaker dollar and increased CBN intervention. The naira appreciated against the euro and pound sterling by 0.64% and 0.74% respectively to close the period at N408/€ and N470/£.

At the interbank market, the naira depreciated by 0.03% to close the period at N306.85/$ from N306.75/$ on February 15th. On the other hand, the naira appreciated at the IEFX window from N361.65/$ on February 15th to close at N360.99/$.

Total forex traded in the IEFX window declined by 19.72% to $2.28bn.



[15]

[15]FMDQ, CBN, FDC Think Tank

Outlook

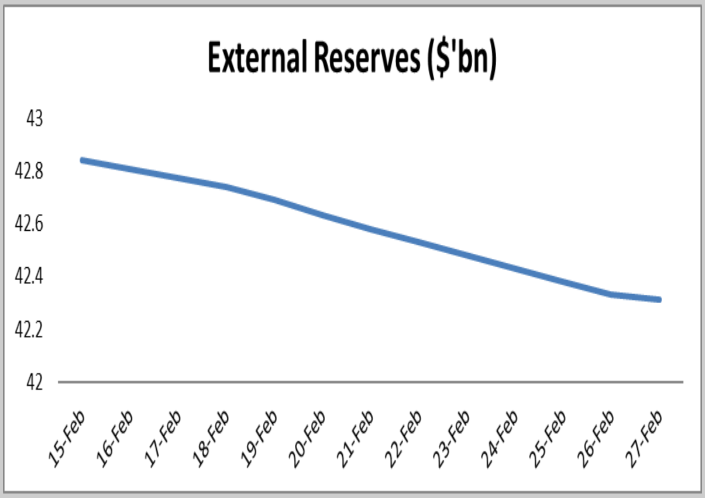
During the review period, the CBN intervened only once in the forex market. If sustained, a slowdown in the frequency of the CBN's intervention could mount pressures on the currency. We expect the naira to trade within the range of N361-363/$ in the coming weeks.

Impact

During the review period, the CBN intervened only once in the forex market. If sustained, a slowdown in the frequency of the CBN's intervention could mount pressures on the currency. We expect the naira to trade within the range of N361-363/$ in the coming weeks.

External Reserves

Nigeria's gross external reserves declined by 1.24% to $42.31bn on February 17th from $42.84bn on February 15th. Subsequently, Nigeria's import cover is down to 10.53 months from 10.67 months on February 15th.



16

Outlook

The level of the gross external reserves in the coming weeks depends on the outcome of the elections. A peaceful outcome of the general election would boost investor confidence and translate to an increase in capital inflow. In addition, the recent rally in Brent prices (now trading above $65pb) is positive for Nigeria's fiscal and dollar accretion.

Impact

An increase in the level of external buffers would boost the CBN's ability to intervene in the forex market and consequently strengthen the currency.

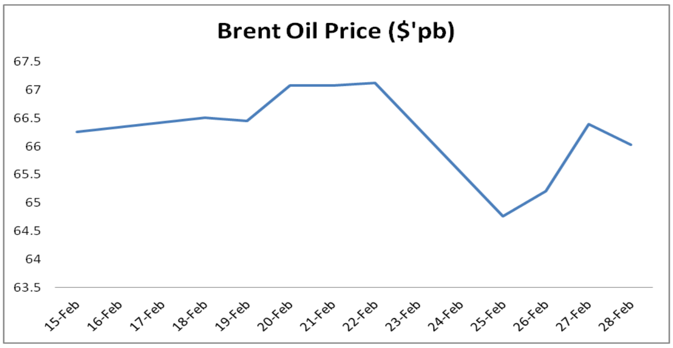
[16]CBN

COMMODITIES MARKET - EXPORTS

Nigeria is an export dependent economy. It derives over 80%-90% of its export revenue from crude petroleum and LNG.

Oil Prices

Brent price averaged \$66.29pb in the second half of February, 7.98% higher than the average of \$61.39pb in the corresponding period in January. During the review period, brent crude touched a 3-month high of \$67.12pb on February 22nd. The rally in oil prices was supported by anticipation of the US/China trade talks, OPEC led production cut and US sanctions on Venezuela's oil industry.



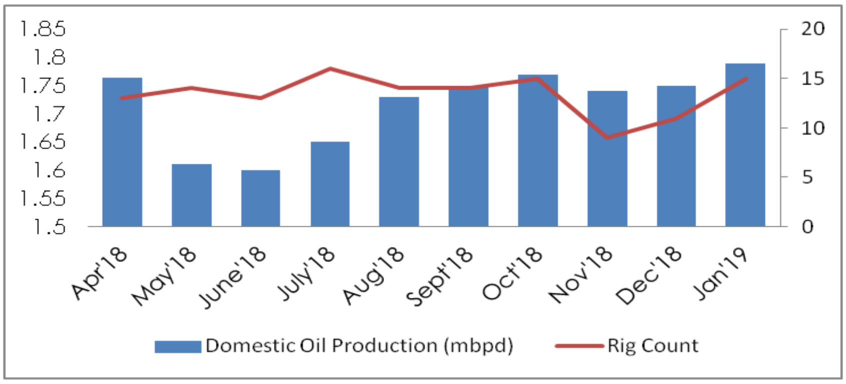
17

Outlook

The bullish trend recorded in crude prices is likely to be sustained on expectations of Saudi Arabia's output cut to 9.8million bpd in March and a stronger global demand. Hence, prices are expected to trade within the range of \$65-\$68pb.

Oil Production

According to OPEC's latest monthly report, Nigeria recorded the highest increase in domestic oil production among the OPEC members. Domestic oil production in January stood at 1.79mbpd. This is 2.87% higher than December's output of 1.74mbpd and 6.55% higher than Nigeria's quota of 1.68mbpd. In the same vein, Nigeria's oil rig count increased to 15 in January from 11 in December.[18]



19

[17]Bloomberg
[18]Oilfield Knowledge Center, October 2018. Baker Hughes (a GE Company) Rig Count, http://phx.corporate-ir.net/phoenix.zhtml?c=79687&p=irol-rigcountsintl
[19]OPEC and Baker Hughes

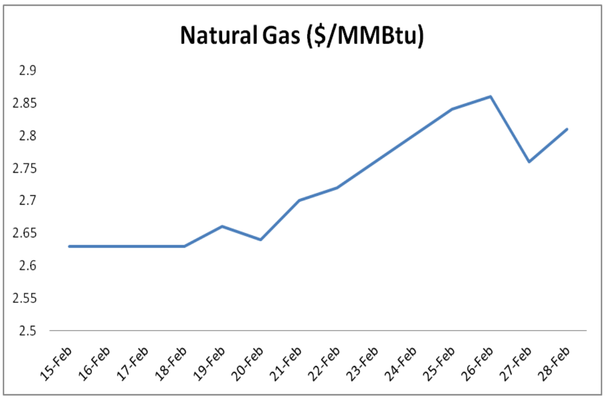
Outlook

The increase in the oil rig count coupled with the production of approximately 200,000bpd from the Total Egina oil field suggests a potential increase in oil production in the near term. However, Nigeria's oil production is currently capped at 1.68mbpd. This might push the country to reduce the level of domestic production.

Impact

Crude oil accounts for approximately 90% of Nigeria's export revenue. A continuous increase in oil prices would result in higher oil proceeds. This would significantly boost the government's fiscal consolidation efforts and also have a positive impact on key economic indicators such as external reserves, exchange rates and balance of trade.

Natural Gas



[20]

Natural gas prices rose by 6.84% to close the review period at $2.81/mmbtu from $2.63/mmbtu at the beginning of the review period. The bullish trend is attributed to EIA's report of lower US LNG stockpiles.

Outlook

Prices are expected to reverse its trend in the near term due to the discovery of new natural gas reserves in China.

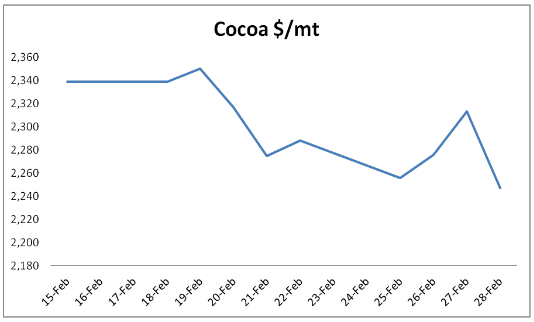
Impact

According to EIU, Nigeria produced approximately 20mn tonnes of LNG in 2018. The projected increase in the price of the commodity is positive for fiscal and external reserves accretion.

[20]Bloomberg

Cocoa

Cocoa prices averaged $2,300/mt during the review period, 1.01% higher than the average of $2,277/mt in the corresponding period in January due to higher global demand for chocolate.



21

Outlook

We expect cocoa prices to trend upwards in the near term due to unfavourable weather conditions in Ivory Coast output. Prices are thus expected to remain around $2,200/mt-$2,400/mt.

Impact

Nigeria, the world's fourth largest exporter of cocoa, produces 205,000 tonnes annually. An increase in global prices will result in higher export revenue.

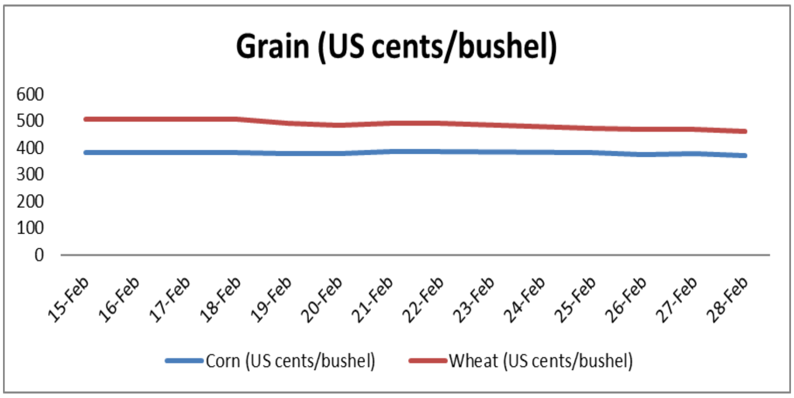
IMPORTS

Wheat

Wheat prices declined by 9.27% to $4.60/bushel on February 28th, from $5.07/bushel on February 15th. This was as a result of a weak global wheat demand.

Corn

The average price of corn increased by 0.53% to $3.80/bushel from $3.78/bushel in the corresponding period in January. This was due to projections of a tighter global supply.



22

[21] Bloomberg
[22] Bloomberg

Grains- Outlook

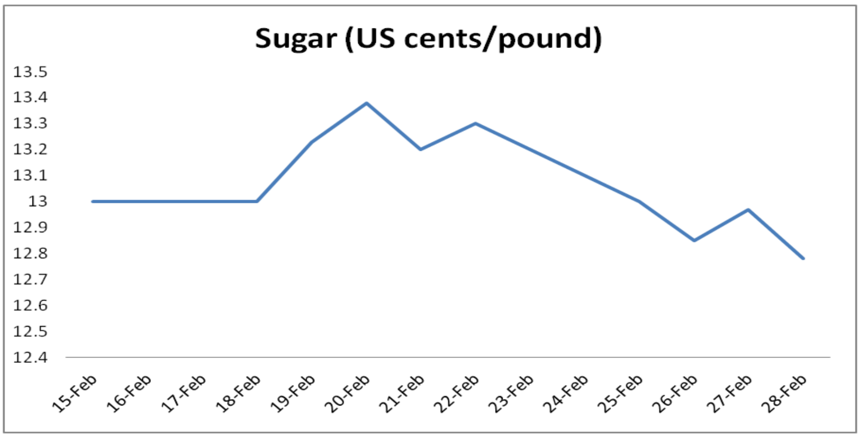
We anticipate an increase in wheat prices in the coming weeks driven by forecast of a fall in the export of wheat from the European Union.

Impact

Nigeria is the second largest consumer of wheat in Sub-Saharan Africa (SSA). The country imported 4.8mn metric tonnes in 2017/18 with the expectation of a 4% rise in the 2018/19 season. The increase in global wheat prices could drive up the prices of wheat dependent commodities such as bread, noodles and pasta.

Sugar

Sugar prices dropped by 1.69 % to $0.1278/pound at the end of the review period from $0.1300/pound on February 15th. This was despite a forecast of a fall in India's sugar output.



[23]

Outlook

The price of sugar is expected to trend upwards in the near term due to unfavourable weather conditions in Brazil, the world's largest producer and exporter of sugar.

Impact

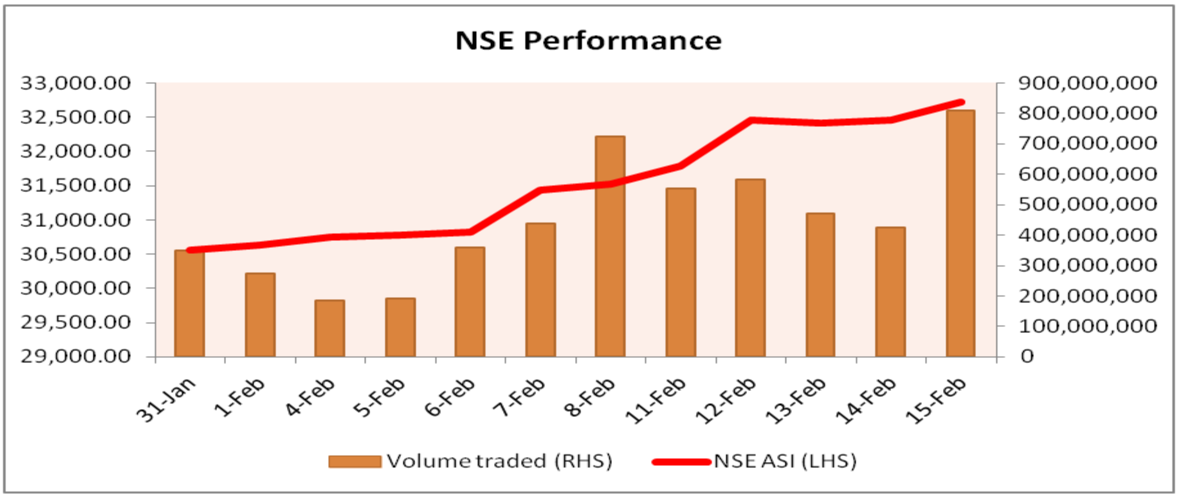
Sugar is an important ingredient in most consumable goods. Nigeria imports 1.87mn metric tonnes of this commodity annually, emerging as the world's 9th largest importer. An increase in the global price of sugar signals a possible increase in the country's import bill.

[23] Bloomberg

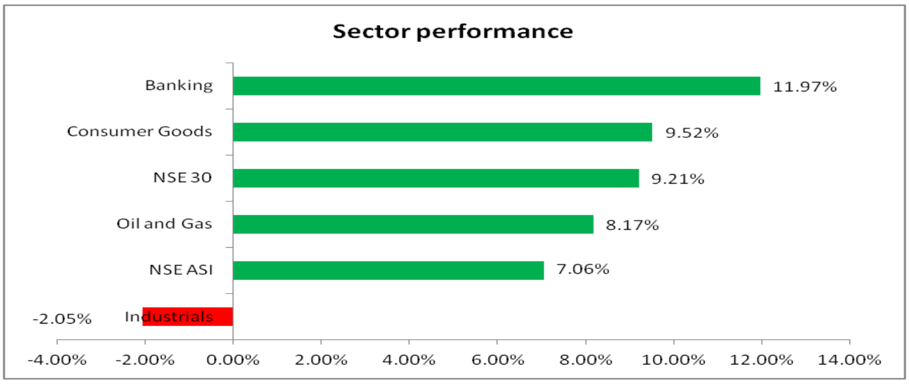
Stock Market Review

The Nigerian Stock Market recorded a bullish performance in the first half of February. The NSE ASI gained 7.06% to close the review period at 32,715.20 points relative to its close on January 31st (30,557.20 points). Similarly, the market capitalization increased by 7.11% to N12.20trn. Investors are currently taking advantage of basement prices as reflected in increased buying interests ahead of the 2019 general elections.

As at February 15, the NSE traded at a price to earnings (P/E) ratio of 9.44x which is 6.79% higher than the close on January 31st (8.84x). The market breadth was positive at 2.6x, as 65 stocks gained, 78 stocks remained unchanged, while 25 lost. This is higher than the market breadth in the second half of January (1.14x).



The market also saw an increase in activity level. Average volume traded rose by 49.41% to 454.45mn units while average value of trades jumped 84.30% to N5.40bn.



All indices except the industrial sector gained within the review period. The banking, consumer goods and oil & gas sectors recorded gains on account of investors' buy interests in large heavy-weights such as Zenith Bank, Forte Oil Plc and Nestle Nigeria Plc.

Wema Bank of Nigeria Plc led the gainers' list with a 58.46% increase in its share price. This was followed by Dangote Flour Mills Plc (52.50%), Transnational Corporation of Nigeria Plc (36.80%), McNichols Consolidated Plc (36.36%) and Livestock Feeds Plc (35.85%).

TOP 5 GAINERS (N)				
Company	Jan 31'19	Feb 15'19	% Change	Absolute Change
WEMA BANK PLC.	0.65	1.03	58.46	0.38
DANG FLOUR PLC.	6.00	9.15	52.50	3.15
TRANSCORP PLC.	1.25	1.71	36.80	0.46
MCNICHOLS PLC.	0.33	0.45	36.36	0.12
LIVESTOCK PLC	0.53	0.72	35.85	0.19

The laggards were led by C&I Leasing Plc (-18.92%), Academy Press Plc (-17.78%), Guinea Insurance Plc (-13.04%), Cement Company of Northern Nigeria Plc (-12.50%) and Champion Breweries Plc (-10%).

TOP 5 LOSERS (N)				
Company	Jan 31'19	Feb 15'19	% Change	Absolute Change
C&I LEASING PLC.	9.04	7.33	-18.92	-1.71
ACADEMY PLC	0.45	0.37	-17.78	-0.08
GUINEAINS PLC.	0.23	0.20	-13.04	-0.03
CCNN PLC.	24.00	21.00	-12.50	-3.00
CHAMPION PLC	1.80	1.62	-10.00	-0.18

Corporate Disclosure

Nigerian Breweries Plc released its financial statements for FY'18. The company posted a 4.26% decline in net revenue to N350.23bn. This was on account of a spike in excise duty expense by 21.49% to N19.44bn. Profit before tax and profit after tax fell by 36.93% and 41.18% to N29.42bn and 19.44bn respectively. This was partly due to a 4.77% increase in marketing and distribution expenses to N70.05bn. The company also declared a dividend of N1.83 per share, implying a dividend yield of 2.44%.

Outlook

We expect the NSE to reverse its bullish streak in the second half of February. This would be partly due to investor profit taking. The postponement of the 2019 general elections would also weigh on investor sentiment.

Equity Report: Forte Oil PLC

Analyst Recommendation: Sell

Market Capitalization: N36.47bn

Recommendation Period: 365 days

Current Price: N29.85

Industry: Oil and Gas

Target Price: N30.50

ANALYST NOTE

Top line back to winning ways

Forte Oil Plc (FO) posted a 39.4 percent increase in revenue to N94.81billion (excluding assets held for sale) in the first nine months of 2018 (9M'18), compared to 9M'17. The increase can be mainly attributed to the pickup in the fuel business, which accounted for 70.28 percent of the group's revenue. FO's fuel business bounced back in 2018 due to its strategic retail network and the pickup in activities of its industrial customers, especially aviation clients. The air transport sector recorded a double digit growth of 20.7 percent despite an anemic economic growth of 1.93 percent in 2018.

Internal efficiencies remained volatile

Despite the improvement in top line, FO's production costs increased at a much steeper rate (42.4 percent) to N86.35billion. Its cost of sales-to-revenue worsened to 91.1 percent from 89.1 percent in 9M'17. However, the group's control of its operating and finance costs helped it turn in a profit before tax of N375.89million from a loss position of -N474.61million in 9M'17 and profit after tax of N78.73mn from –N626.06mn.

Divestment efforts drag on

In a bid to focus on Nigeria's downstream marketing business, the management has shown its motivation to restructure the group by divesting from its power, upstream services and downstream marketing in Ghana.

Consequently, Forte Upstream Service Limited (upstream service business), AP Oil & Gas Ghana Limited (downstream business) and Amperion Power Distribution Company Limited (APDCoL) (power generating business) have been reclassified as assets held for sale in its 9M'18 financial report.

This disposal group has a net current asset of N61.19billion and accounts for 23.12 percent (N28.52billion) of consolidated top line during the period. This brings consolidated revenue to N123.33bn in 9M'18, a 27.3 percent increase compared to 9M'17. Management has been largely unimpressed with offers received, but is committed to seeing the process through.

New development has also seen the majority shareholder, Mr. Femi Otetola, signify his interest to personally buy-out FO's upstream and power businesses in an effort to raise funds for the group's core business owing to the low interest and price expectations.

Possible divestment from the most profitable business segment

Although businesses classified as discontinued operations accounted for only 23.12 percent of revenue in 9M'18, they contributed approximately 99.14 percent to the consolidated bottom line. This alludes to the fact that the group is looking to divest from a key segment of the business. The successful divestment of interests will have extreme implications for the group – loss of profit share in disposed assets on one hand and access to funds to deepen core operations. However, this could weigh on the financial performance and investor sentiments in the short-run.

Stock price lagged over the last three years

A combination of the tough operating environment and internal inefficiencies led FO emerging as the worst performing stock on the Nigerian Stock Exchange (NSE) in 2016 with a loss of 74.42 percent. Similarly, the group's stock lost 48.5 percent in 2017 and 33.99 percent in 2018. The tepid pickup of economic activities and the ensuing improvement in the group's top line did not improve investor sentiment. Accordingly, we place a SELL rating on the company's stock, considering its potential downsides and the uncertainties that surround operations.

Industry and company overview

Nigeria's oil and gas industry remains one of the largest in Africa with oil reserves of 37.2billion barrels and gas reserves of 197 trillion cubic feet. Oil and gas remains a mainstay in Nigeria, as the sector contributes about 10 percent to Nigeria's gross domestic product (GDP), and 93 percent of export earnings.

Policy inconsistencies and uncertainties have stalled investment into the oil sector. Given that investment has a huge multiplier effect on GDP and economic growth, there has been immense pressure on policy makers to sign the Petroleum Industry Bill (PIB) into law.

In order to minimize the complexity of the PIB, the policy makers split the bill into four distinct parts: the Petroleum Industry Governance Bill (PIGB), the Petroleum Industry Administration Bill, the Petroleum Industry Fiscal Bill and the Petroleum Host Community Bill. The PIGB, which aims to ensure oil industry transparency, was successfully passed by the legislative arm of government. As the President is yet to assent to the passage of the bill, the delay has negatively impacted investment in the oil and gas sector. Some international oil companies (exited their position in the sector due to the uncertainty, as well as the unfavorable policy environment. These divestments, although costly, have provided indigenous oil companies the opportunityto acquire ownership in the upstream industry.

The dominant indigenous players include: Conoil, Oando, Seplat, while multinational oil companies include Chevron and ExxonMobil.

FO was incorporated in December 1964 as British Petroleum and later changed its name to African Petroleum in 1978. Zenon Petroleum, led by Femi Otedola, acquired a majority interest in 2007. In 2010, African Petroleum was rebranded and restructured as Forte Oil Plc.

FO is primarily engaged in the marketing of petroleum products with a strong presence across Nigeria. The company is divided into four business segments – fuels, production chemicals (upstream services), lubricants and greases, and power generation.

In the last three years, the group has struggled to impress market participants as its share price declined from a peak of N342/share in 2016 to a trough of N17.30 in 2018, before picking up to N28 in February 2019.

Before the close of 2018, the majority shareholder, Mr. Femi Otedola reached an agreement with Prudent Energy (through Ignite Investment and Commodities Limited) to increase his share to over 75 percent of the Group's downstream business. The transaction, which is expected to be completed before the end of Q1'19, will see new injections of cash into the group.

Coupled with the above, Mr. Otedola has also shown interest in buying out the divestment interests of the group. This has received some mixed reactions, as Mr. Otedola (including his direct and indirect holdings), has been excluded from the decision process that will determine the next course. The management has promised that the process will remain transparent and competitive.

Income Statement for Forte Oil Plc (FY Dec 2017)

N'000	2014	2015	2016	2017
Revenue	170,127,978	124,617,238	148,605,261	129,443,804
Cost of sales	(151,663,049)	(106,255,812)	(128,021,347)	(105,327,865)
Gross profit	18,464,929	18,361,426	20,583,914	24,115,939
Other income	1,398,062	4,050,967	2,347,180	2,058,140
Distribution expenses	(2,482,002)	(2,754,213)	(3,015,582)	(1,796,742)
Administrative expenses	(9,244,250)	(10,969,932)	(10,293,350)	(10,119,573)
Other expenses	-	-	-	-
Operating profit	8,136,739	8,688,248	9,622,162	14,257,764
Finance income	2,077,351	3,470,012	1,887,824	2,096,143
Finance expenses	(4,207,792)	(5,145,818)	(6,169,742)	(5,726,751)
Net finance cost	(2,130,441)	(1,675,806)	(4,281,918)	(3,630,608)
Profit before tax	6,006,298	7,012,442	5,340,244	10,627,156
Income tax expense	(1,549,681)	(1,218,387)	(2,449,814)	1,599,266
Profit after tax (PAT)	4,456,617	5,794,055	2,890,430	12,226,422

Balance Sheet for Forte Oil Plc (FY Dec 2017)

N'000	2014	2015	2016	2017
Property, plant & equipment	54,253,330	62,420,249	69,297,575	65,730,699
Investment property	1,934,928	1,831,743	1,799,462	1,557,444
Intangible assets	475,849	286,110	229,307	210,616
Investment in subsidiaries	-	-	-	
Other investments	-	-	-	
Trade and other receivables	-	-	-	
Deferred tax assets	120,990	131,141	165,152	3,681,641
Long-term employee benefits	16,364	41,819	1,674	38,822
Non-current assets	56,801,461	64,711,062	71,493,170	71,219,222
Inventories	12,201,950	10,059,871	4,655,295	6,100,441
Other assets	572,565	389,579	744,636	-
Trade and other receivables	53,600,153	34,896,618	46,819,458	68,146,204
Cash and cash equivalent	16,062,169	11,700,826	17,043,933	1,771,949
Current assets	82,436,837	57,046,894	69,263,322	76,018,594
Total assets	139,238,298	121,757,956	140,756,492	147,237,816
Share capital	546,095	546,095	655,314	655,314
Share premium	8,181,162	8,181,162	8,071,943	8,071,943
Foreign exchange reserve	-	-	-	
Other reserves	(248,099)	(257,985)	(222,357)	(218,135)
Retained earnings	3,958,962	6,001,847	4,200,191	7,928,047
Equity attributable to equity holders of the	12,438,120	14,471,119	12,705,091	16,437,169
Treasury stock	-	(1,388,574)	(1,388,574)	(1,388,574)
Non controlling interests	31,896,549	33,198,198	32,017,060	40,230,626
Total equity	44,334,669	46,280,743	43,333,577	55,279,221
Long-term employee benefits	-	-	-	
Deferred tax liabilities	82,373	73,914	495,372	1,711,028
Loans and borrowings	12,253,829	13,951,682	17,394,641	13,599,405
Non-current payables	421,839	400,487	397,615	378,045
Medium term bond	-	-	8,704,594	7,178,006
Deferred fair value gain on loan	-	1,432,781	1,021,572	567,538
Non-current liabilities	12,758,041	15,858,864	28,013,794	23,434,022
Loans and borrowings	12,288,927	13,757,807	21,395,842	13,175,342
Bank overdrafts	16,496,305	10,268,358	1,928,321	802,392
Current income tax liabilities	845,611	967,834	1,230,362	733,172
Trade and other payables	52,514,745	34,183,495	44,400,564	53,359,633
Deferred fair value gain on loan		440,855	454,032	454,034
Current liabilities	82,145,588	59,618,349	69,409,121	68,524,573
Total liabilities	94,903,629	75,477,213	97,422,915	91,958,595
Total equity and liabilities	139,238,298	121,757,956	140,756,492	147,237,816

Management Overview

FO's management has chosen to restructure the current business in order to shift focus to the group's core business – downstream marketing. They intend to leverage on the strong presence across all 36 states, including the Federal Capital Territory, to deepen returns from the fuel business which contributed over 75 percent to revenue in Q3'18 alone. Furthermore, management plans to improve its high-margin products like lubricants and related products. This strategy will complement its high-volume fuel business and help the group in its course to achieve an optimal debt structure.

Management has also taken advantage of government priorities and interventions through the Power Intervention Loan. This was granted to Geregu Power Plant, a subsidiary of APDCoL (51 percent stake), in which FO has a 57 percent equity holding. Effectively, FO has a 29.07 percent stake in Geregu Power Plant.

Management has kicked off its diversification initiative into renewable energy. This has mainly been through collaboration with top energy solution experts.

The management of FO is under the stewardship of Mr. Akin Akinfemiwa. As group Chief Executive Officer (CEO) and Chairman of the Board of Directors of Forte Upstream Services Limited, he brings experience in oil commodities trading, as well as negotiating complex contract terms.

Mr. Femi Otedola has been the Chairman of the Board of Directors since 2007. He ventured into the oil and gas sector by incorporating Zenon Petroleum & Gas Limited in 1999. However, as his impending exit as the majority shareholder, Mr. Otedola may drastically change the structure and priorities of the group. He has been key to the milestones achieved since 2007, when he acquired a majority interest from Nigerian National Petroleum Corporation (NNPC).

CEO

Mr. Akin Akinfemiwa

Chairman

Mr. Femi Otedola

Bulls and Bears say

Bulls Say:

- Leading indigenous player in downstream marketing
- Strong brand presence within Nigeria
- Competent management team

Bears Say:

- Consistent loss in shareholders' value over the last three years
- Divestment from the most profitable segment of strategic business units
- Restricted margins in the downstream segment
- Intense competition from other reputable downstream brands such as Total, 11 and Oando
- Revenue dependence on a highly regulated and subsidized market - fuel accounts for 75 percent of top line

Risks and Outlook

The most potent risks that could hinder FO from achieving its business priorities and delivering shareholders' value include market risk, liquidity, credit, as well as corporate governance risk.

Management has set out to divest from some portfolio investment which are outside the purview of the group's long term objective. The funds from these divestments will be used to pay down some of its current debts, as well as improve its current working capital management approach. For instance, the successful divesture from assets held for sale will free up funds that could either facilitate the reduction of the debt position, or deepen existing business opportunities.

The group has also leveraged strategic alliances to diversify its business portfolio and set a new course.

Our valuation

Using the Discounted Cash Flow (DCF) methodology, we estimated a stock price of N30.50, which is a 2.18 percent upside on the current price of N29.85 as of February 16, 2019. The discount rate (Weighted Average Cost of Capital (WACC)) of 19.4 percent was derived using a 15.25 percent risk free rate (FGN 5-year Bond as at December 2018), a Beta of 1.0603, an after-tax cost of debt of 15.4 percent, and a market risk premium of 6.34 percent. The long-term cash flow growth rate to perpetuity calculated is 4.7 percent.

Based on our analysis above and anecdotal evidences, we place a SELL rating on the stock.

DCF Valuation

N'000	2018E	2019E	2020E
EBIT	3,825,766	4,439,060	5,207,501
Less: Taxes	(726,896)	(843,421)	(989,425)
EBIAT	3,098,871	3,595,639	4,218,076
Plus: D&A Expense	3,890,060	3,930,601	3,976,388
Less: CAPEX	(1,351,800)	(1,376,600)	(1,486,970)
Less: Change in working capital	1,777,590	7,187,862	5,522,662
Free Cash Flow (FCF)	7,414,719	13,337,501	12,230,156
WACC	19.4%	19.4%	19.4%
Present Value (PV) of FCF	6,208,350	9,350,556	7,179,207

	2018	2019	2020
Terminal value			86,923,016
Present value of terminal value	51,024,559		

DCF Calculation	Valuation
PV of explicit period	22,738,114
PV of terminal value	51,024,559
Enterprise Value	73,762,673
+ Cash	969,557
- Borrowings	(34,755,145)
Equity Value	39,977,085
Share price	***30.50***