FDC Bi-Monthly Update

Volume 9, Issue 4

April 09, 2019

A Financial Derivatives Company Publication

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

In This Issue ...

IMF's Article IV Review of Nigeria

The IMF, in its latest Article IV Review of Nigeria, raised some concerns about structural and policy challenges that constitute major constraints to growth. According to the Fund, Nigeria's economy is on the path of recovery but the current growth level is not sufficient to reduce poverty and improve the quality of life of the citizens.

Gender inclusivity is a growing trend in Africa and the IMF is encouraging the Nigerian government to pass the Gender and Equal Opportunities Bill" into law. According to the Fund, if the gap between female and male education is bridged, Nigeria's economic growth could increase by 5%.

The Fund has projected growth rates of 2.1% in 2019 and 2.5% in 2020, which would be largely driven by higher agricultural production as the farmers/herdsmen clash subsides. However, the downside risks to this growth forecast include delay in policy implementation, falling crude oil prices and a resumption of monetary policy normalization in advanced countries.

IMF's Recommendations

The Fund stressed the importance of strengthening domestic revenue mobilization through additional excise duties, VAT reforms and elimination of tax incentives. While channeling the expenditure mix towards priority areas, the Fund suggested a full removal of fuel subsidy. In order to keep inflation rate within the target range of 6-9%, the Fund recommended a tight monetary policy stance, unified and more flexible exchange rate regime.

Meanwhile, the Fund opined that strengthening capital base and risk-based supervision would help screen out distressed banks and reduce the level of non-performing loans. The Fund further suggested an exit strategy for the state backed asset management company AMCON. According to the IMF, AMCON has a high contingent liability around 4.8% of GDP and recommends a withdrawal of CBN from its ownership. Finally, the Fund emphasized the need to strengthen governance, transparency and anti-corruption initiatives in the public sector.

Implications on the economy

IMF's outlook on Nigeria's headline inflation rate is in line with the CBN's forecast i.e. inflation would increase slightly to about 12% in 2019, and then moderate due to gains in the agricultural and manufacturing sectors. Meanwhile, raising the MPR would lead to higher costs of borrowing for investment purposes, thereby undermining efforts towards achieving strong economic recovery.

Fuel subsidy payments are estimated to have accounted for 10.2% of the 2018 budget. According to the IMF, the government implicitly spent N623bn on fuel subsidy in the same year. A gradual removal of fuel subsidy coupled with other revenue generating measures (e.g increased efficiency in tax administration and collection) will have a significant impact on the government's fiscal position.

MPC cuts benchmark interest rate by 50bps

The monetary policy committee (MPC), at its meeting on March 25/26, took investors by surprise by cutting the monetary policy rate (MPR) by 50bps to 13.5%pa. This happened after it maintained status quo for 16 consecutive sessions (33 months). The voting pattern showed an almost equal vote (6:5) in favour of the rate cut. Of the 11 members present at the meeting, 10 voted to leave all other monetary parameters unchanged, while one was in favour of a cut in the cash reserve ratio (CRR) by 100bps.

Rationale/Justification

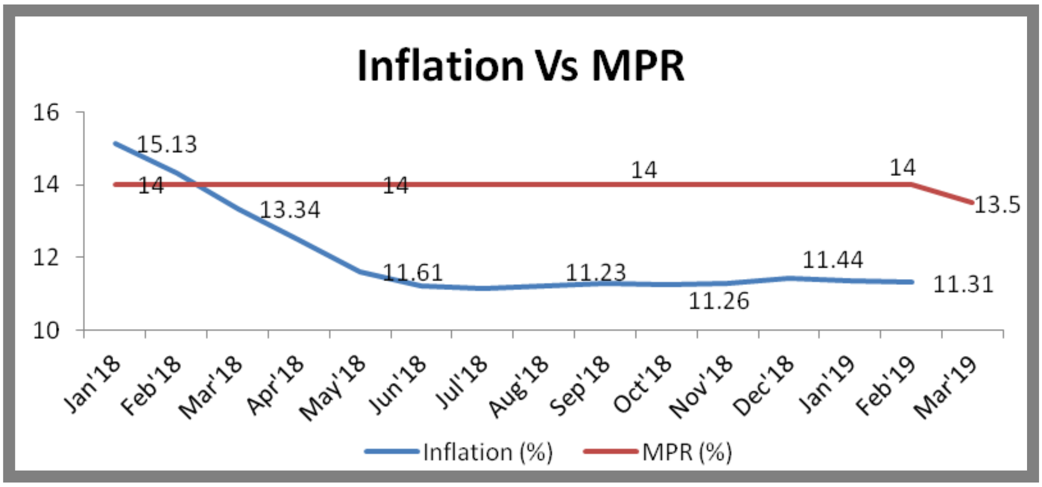
The move to cut the monetary policy rate (MPR) was premised on:

- **Tepid GDP growth**: GDP growth increased to 2.38% in Q4'18 from 1.81% in the preceding quarter. This level of growth is below potential GDP, population growth and full employment of 2.9%, 3% and 6% respectively. There is a need for increased flow of credit to the employment elastic sectors. Credit to the private sector (CPS) grew by 6.41% in February, below the target of 9.41%.

- **Moderation in the general price level**: The headline inflation slowed for two consecutive months to 11.31% in February 2019. However, the risks to inflation include - high energy costs and insecurity in the food producing states.

- **Strengthening currency**: The exchange rate was relatively stable within a range of N359/$-N361/$ at the IEFX window and parallel market.

- **Robust external buffers**: The external reserves have increased steadily in the last four weeks. This was partly due to an increase in foreign capital inflows.



Implications

Rate easing but not accommodating stance

The decision to reduce the MPR is essentially a rate easing exercise which is expected to reduce cost of government borrowing - a critical determinant of the level of fiscal stability. Lending rates which currently hover around 21%p.a - 22%p.a, are expected to slide marginally.

However, the decision to leave the CRR at 22.5% coupled with aggressive OMO auctions means that the supply of money will be fixed and the interest rate inelastic nature of supply of credit will remain unchanged. This implies that the transmission effect of the rate cut might have limited impact on access to credit. Reducing CRR and increasing money supply will have a greater impact on the price and availability of credit.

Stock Market – Reaction muted

So far in March, the stock market gained 5 days and lost 14 days. In all, it has lost 3.01% this month. Market sentiment has been driven by profit taking and sell pressures, despite positive earnings. Typically, there is an inverse relationship between interest rates and asset prices. A reduction in interest rates would push up price of assets such as bonds and equities.

Fiscal stability

A drop in the monetary policy rate will reduce Government debt service burden and create additional room for new projects. This is likely to increase output and taper inflationary pressures.

Country comparison

Economists sometimes argue that a fall in interest rates will stimulate growth but could also stoke inflation. In recent times, the Ghanaian Cedi came under intense pressure in the forex market. It lost 11% in four weeks. Investors are of the view that the Bank of Ghana's (BOG) aggressive rate cutting precipitated the fall in the value of the Cedi in the forex market. The BOG had cut rates 3 times in the last 12 months, raising GDP growth to as high as 7.4% and bringing inflation down to 9.0%. The last cut though triggered an overreaction. It is pertinent for Nigeria to learn from Ghana's experience and be cautious of the possibility of the rate cut leading to currency weakening in the near term.

Country	Inflation (%)	Policy rate (%)
Nigeria	11.31 ↓	13.5 ↓
Kenya	4.14 ↓	9.0 ↔
Ghana	9.2 ↑	16 ↓
Uganda	3.0 ↑	10 ↔
South Africa	4.1 ↑	6.75 ↔
Angola	17.96 ↓	15.75 ↓

Outlook

The new fiscal team of the FGN will be in place in June. Apart from other tasks, one of its first assignments will be to present a supplementary budget to the National Assembly to accommodate the new minimum wage and other shortfalls arising from significant changes in the macroeconomic environment. The monetary policy authorities are thus unlikely to make any major changes at their next meeting in May.

An effective means to raise Nigeria's tax to GDP ratio

Nigeria's total tax revenue to GDP ratio is currently at 4 percent.[1] This is significantly below sub-Saharan African (SSA) peers such as Kenya (18.4 percent), Ghana (20.80 percent) and South Africa (26.9 percent) among others.[2]

Tax to GDP ratio of largest SSA markets

	Economy	Tax to GDP Ratio (percent)
1	Nigeria	4.00
2	South Africa	26.90
3	Angola	10.33
4	Kenya	18.40
5	Ethiopia	11.60
6	Tanzania	12.00
7	Ghana	20.80

Nigeria's relatively low position suggests that there is ample space to boost tax revenue and raise the tax to GDP ratio. In order to achieve this, the country would have to improve upon its tax collection and compliance strategy through enforcing online tax payments. This measure has been found to be effective in countries such as Kenya and South Africa. An increase in tax revenues and the tax to GDP ratio would enhance the government's capacity to spend on areas that could drive growth such as infrastructure, education and health.

Drivers of tax revenues

The aggregate tax receipts that accrue to a government consist of direct and indirect taxes. Direct sources include personal income tax, corporate income tax, property tax, etc. Indirect taxes are taxes on goods and services (e.g. VAT). Direct taxes, specifically personal and corporate income tax, account for the largest proportion of total tax revenues. In Nigeria, these two sources contribute over 44 percent to total tax revenue.[3] In South Africa, they collectively contribute 50 percent.[4] As a result, an increase in personal income tax and corporate income tax receipts are usually strategic considerations in the process of raising

[1]Budget Office of the Federation, FDC Think Tank
[2]World Bank, 2019. "Tax revenue (% of GDP)". World Bank Group, https://data.worldbank.org/indicator/GC.TAX.TOTL.GD.ZS
[3]Budget Office of the Federation, 2019. "2018 Third Quarter Budget Implementation Report". Federal government of Nigeria, http://www.budgetoffice.gov.ng/index.php/2018-third-quarter-budget-implementation-report?task=document.viewdoc&id=708
[4]Organization for Economic Co-operation and Development, 2019. "Details of Public Revenues - South Africa". https://stats.oecd.org/Index.aspx?DataSetCode=REVZAF

tax revenues. However, neither of the two is currently favorable for Nigeria. Raising personal income tax, already at 24 percent, could constrain aggregate demand and limit economic growth.[5] Likewise the 30 percent corporate income tax rate is already higher than Africa's average of 28.26 percent and global average of 24.03 percent.[6] Raising it further could be a deterrent to new business startups in the country.

Broadening the tax base is also restricted for Nigeria as it already has property and sin taxes. In April 2018, the Federal Government introduced a tax on alcoholic beverages and spirits. Other similar taxes on goods and services were already in place. The impact of raising the indirect tax rates could also be inflationary and detrimental to business and consumer confidence. Therefore, the option of broadening the tax base is not advisable at the moment.

The good news is Nigeria still has a strong strategic option - improving on tax compliance. Nigeria's tax compliance rate is below 10 percent.[7] A viable means to improve tax compliance is to ease tax payment systems in the country. In 2018, the World Bank ranked Nigeria 157th (out of 190 economies) in terms of the ease attached to tax payments.[8] Nigeria's ranking compares poorly with South Africa and Kenya, which rank 46th and 91st respectively.[9] It is interesting that the tax to GDP ratios of these economies are even above Nigeria's, despite higher personal income tax rates. Nigeria's personal income tax rate of 24 percent is below South Africa's (45 percent) and Kenya's (30 percent).[10] Nonetheless, the countries' tax to GDP ratios are higher partly due to easier tax payment systems. This reinforces the view that despite relatively low tax rates, an easier tax payment system could achieve the objective of raising tax revenues.

Easing the tax payment system through online tax collections

Nigeria needs to draw lessons from other economies in order to boost its tax to GDP ratio. The payment system is more digital in Kenya and South Africa. In 2015, Kenya introduced the iTax system, a web-based tax payment system to replace the old manual system. Tax payers found this system easier. Consequently, Kenya's position has improved significantly in terms of ease of paying taxes to 91st in 2018 from 125th position in 2015.[11]

[5]KPMG, 2018. "Individual income tax rates table". Available at https://home.kpmg.com/xx/en/home/services/tax/tax-tools-and-resources/tax-rates-online/individual-income-tax-rates-table.html
[6]KPMG, 2018. "Corporate tax rates table". Available at https: https://home.kpmg/vg/en/home/services/tax1/tax-tools-and-resources/tax-rates-online/corporate-tax-rates-table.html
[7]Abdulsalam Masud, Almustapha Alhaji Aliyu and El-Maude Jibreel Gambo, 2014. "TAX RATE AND TAX COMPLIANCE IN AFRICA". European Centre for Research Training and Development UK, https://www.researchgate.net/publication/284435538_TAX_RATE_AND_TAX_COMPLIANCE_IN_AFRICA
[8]World Bank, 2019. "DOING BUSINESS 2019". World Bank Group, http://www.worldbank.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report_web-version.pdf
[9]Ibid
[10]Ibid
[11]Ibid

The country's tax to GDP ratio has also increased to 18.4 percent, from 15 percent in 2015.[12] In South Africa similarly, there is an online tax payment platform, eFiling, which was introduced in 2001. While the World Bank's ease of doing business report did not yet include the ease of tax payment metrics in 2001, the platform still has measurable impact. South Africa's tax to GDP ratio increased by approximately 3 percent between 2001 and 2018.[13] It is noteworthy that while the improvement in the tax to GDP ratios of these countries may look small, they are rising despite an increase in nominal GDP.

Nigeria has embraced online tax payment techniques. However, the level of awareness remains likewise the level of compliance. This has to be improved on in order to boost tax revenues and the tax to GDP ratio. It is particularly needed at a time when oil revenues are falling due to lower crude oil prices. Nigeria's failure to implement this would translate to suboptimal revenues and limit the government's efforts to stimulate growth.

[12]Ibid
[13]Ibid

Promoting and protecting Nigeria's external reserves

In January 2019, production cuts came into effect for members of the Organization of Petroleum Exporting Countries, limiting Nigeria's average production by 3.71 percent, to 1.685 barrels a day. The production cuts also limited inflows of foreign reserves, putting Nigeria's naira defense strategy at risk, as the Central Bank of Nigeria (CBN) requires foreign exchange (forex) to support the market. Case in point, on February 26, external reserves declined by 0.17 percent to $42.31 billion. Yet, the CBN continued to defend the naira with forex sales totaling $210 million that same day. Such activity is simply not sustainable. The CBN cannot both defend the naira and sustain foreign reserves, especially when their growth is at risk. To mitigate this trade off, the CBN and federal government need to avoid reserves depletion. To do this, they should focus on unifying the exchange rates to address round tripping, ensure full remittances of crude oil payments, reduce the Eurobond percentage of the debt profile and reduce flows of hot money. Addressing these challenges would save the naira from a free fall against the US dollar and keep the reserves intact.

Addressing round tripping by unifying the exchange rate

A key step the CBN should take is to address round tripping. Round tripping is a situation whereby investors buy forex at a lower rate at the official exchange market and then sell the currency in the parallel market for a profit. Round tripping flourishes when there is a large disparity between the official and parallel market rates. It creates artificial scarcity of forex which further widens the gap between parallel and official rates. The CBN, therefore, shoulders the burden of at least reducing that gap with the aid of the available reserves. One possible way to deal with round tripping is for the CBN to unify the exchange rates. This is no easy feat. Achieving a unified exchange rate requires an official devaluation and an appreciation of the pre-unification parallel exchange rate. However, we only have to look as far as Ghana to see success with these efforts.

The Bank of Ghana (BoG) took three basic steps. First, it took a gradual approach rather than forcing overnight results. The BoG took almost a decade to provide the necessary liquidity that helped shift forex demand from the parallel market to the official market. This resulted in a decline in the parallel market premium following the depreciation of the cedi at the official market. Secondly, the BoG enlisted IMF and World Bank support for foreign loans and aid, which helped to meet forex demand obligations. Thirdly, and most importantly, Ghana had the political will and determination articulated through fiscal discipline. These are not three easy ingredients to achieve, but against expectations the Ghanaian economy witnessed a decline in both the inflation rate and fiscal deficits in the post-unification era.

Eliminate the diversion of crude oil earnings

A second key step should be increasing the crackdown on crude oil diversions. Owing to the inefficiencies and lack of transparency in public agencies, unscrupulous public officials have been successful in diverting public funds to their private accounts. The 2015 PwC audit report on the Nigerian National Petroleum Corporation showed that a sum of $20 billion was missing from the agency's treasury. Correspondingly, the CBN reported a decline in external reserves to $29.13 billion as of December 29, 2015.

According to the Transparency International Corruption Index, Nigeria is amongst the most corrupt nations in the world, ranking 140th out of 180 countries in 2018. The Nigerian government needs to enforce discipline across all facets of the economy if it is going to stop leakages, an effort which would help reduce the rate of depletion in external reserves. Botswana stands as a strong role model for Nigeria in this regard. Botswana is the leading African country on the Transparency International index, ranking 34th on the list. In its fight against corruption, the Government of Botswana enacted the 2016 Whistle-Blowing Act. Under the Act, citizens are encouraged to report corruption cases and are protected from victimization. Nigeria is currently adopting Botswana's whistle blowing strategy. This has helped the Nigerian government recover N9.12 billion in looted funds as of 2018. Nonetheless, to achieve substantial success in the fight against corruption, the government needs to be holistic in its campaign and not spare culprits based on party or ethnic affiliation.

Overreliance on Eurobonds

A third factor Nigeria needs to address is the accumulation of dollar-denominated bonds. This exposes an issuing country (Nigeria) to exchange rate risks with consequences for its external reserves position. For instance, the depreciation of the naira implies higher yields on Eurobonds. Since Nigeria does not mint the US dollar, it would have to fall back on the hard-earned reserves to retire the accumulated debts at maturity. The essence of raising Eurobonds in the first place was to fund capital projects not adequately catered for in the national budget. They should not be used to refinance previous Eurobonds at maturity.

However, this was the case with Nigeria's 2018 Eurobond. It used part of the $2.79 billion raised to refinance maturing Eurobonds to the tune of $82.5 million. With the continuation of monetary tightening in developed countries, such as the US, Nigeria risks paying a high debt service for its bonds, to remain attractive to foreign investors. One way to prevent external reserves depletion, in this scenario, is for the country to restructure its debt profile to be biased towards the local market. This move would reduce the burden of servicing dollar-denominated debts with less pressure on the external reserves.

Uncontrolled influx of hot money

A fourth and final factor Nigeria needs to consider is its portfolio investments, otherwise known as hot money. These are funds that are constantly in search of higher returns. Nigeria has a long history of these funds dominating its total capital importation; for instance, portfolio investment accounted for 65% of total capital importation in the fourth quarter of 2018. The ongoing monetary normalization in developed countries, such as the US, could further trigger capital flow reversals in emerging markets, Nigeria inclusive. This would in turn weigh on external reserves and threaten the stability of the naira.

Effective capital controls, would help to avert this pressure on external reserves by tightening the movements of these funds in and out of Nigeria. The Nigerian economy could explore useful lessons from China's capital control experience. China has a ceiling on the amount of money that can be transferred to overseas accounts. This has helped to reduce capital flight in China. However, the IMF has cautioned that capital controls should be targeted, temporary and non-discriminating between residents and non-residents. Stricter capital controls are capable of eroding investor confidence in the Nigerian economy.

Stabilizing Nigeria's foreign reserves

External reserves constitute an important metric to evaluate the credit worthiness of a country by international agencies and foreign investors. External reserves are increasing in recent times, thanks to the rally in crude oil prices and higher oil production in Nigeria. By implication, the frequency of CBN's forex intervention is expected to increase with the resulting stability in the exchange rate. In order to maintain the current tempo, various measures have been suggested, and they include convergence of the exchange rates, transparency in the remittance of crude oil earnings, less emphasis on Eurobond issuance and controlling the influx of hot money That said, political will is the crucial ingredient to ensuring that these measures achieve their deliverables.

Global Perspective: Global economy enters 'synchronized slowdown' *Culled from the Financial Times*

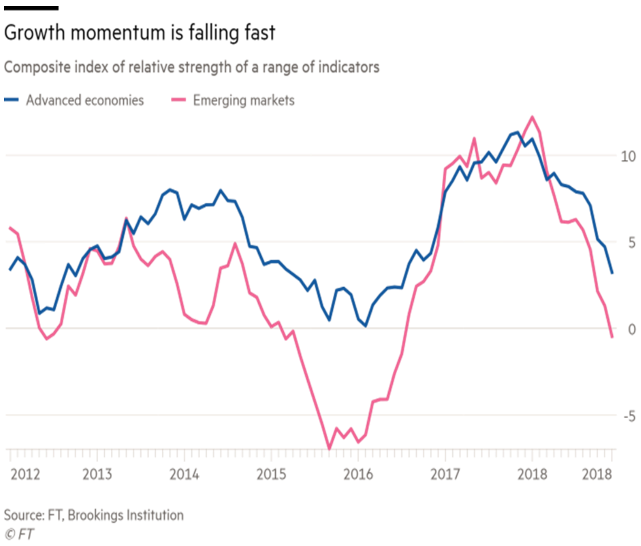
Disappointing indicators show similar picture in US, China and Europe

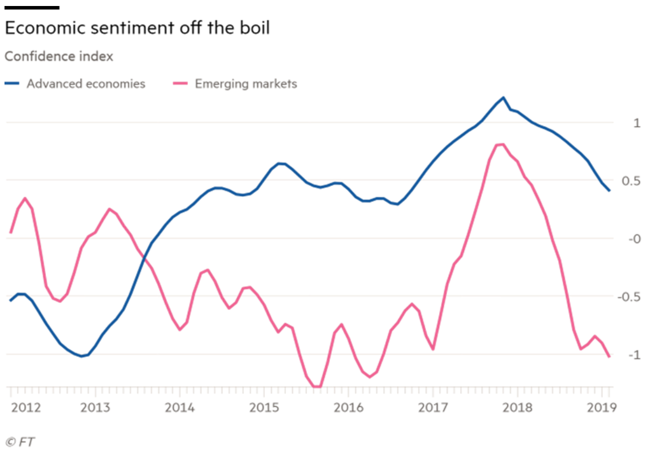
The global economy has entered a "synchronized slowdown" which may be difficult to reverse in 2019, according to the latest update of a tracking index compiled by the Brookings Institution think-tank and the Financial Times. Sentiment indicators and economic data across advanced and emerging economies have been deteriorating since last autumn, suggesting fading momentum in global growth and the need to resort to new forms of economic stimulus.

The worsening outlook has sparked warnings from Christine Lagarde, managing director of the IMF, who said the fund would cut its growth forecasts later this week, and the World Trade Organization which has said the continued threats of trade skirmishes had weakened forecasts. The findings follow generally disappointing economic indicators over the past six months that have shown a similar picture in the US, China and in Europe.

Professor Eswar Prasad of the Brookings Institution said the slowdown did not yet appear to be heading for a global recession, but all parts of the world economy were losing momentum. "The nature of the slowdown has ominous portents for these economies over the next few years, especially given present constraints on macroeconomic policies that could stimulate growth," he said. The Brookings-FT Tracking Index for the Global Economic Recovery (Tiger) compares indicators of real activity, financial markets and investor confidence with their historical averages for the global economy and for individual countries.

The headline readings slipped back significantly at the end of last year and are at their lowest levels for both advanced and emerging economies since 2016, the year of the weakest global economic performance since the financial crisis. The index fell partly because hard data indicating real economic activity has been weaker, with countries such as Italy falling into recession and Germany narrowly avoiding one and with the US economy losing steam as the effects of Donald Trump's tax cuts wear off.





Although economic sentiment remains high in advanced economies, it has fallen from its peaks and has plummeted to well below normal levels in emerging economies, led by fears that China's years of rapid economic growth are coming to an end. Although China's economy has been showing signs of improvement following government efforts to stimulate capital spending and the US Federal Reserve's reversal of its plans for further interest rate rises this year has had a steadying effect, economic confidence has taken a knock over the past six months.

Growth indicators in Europe have been disappointing, Prof Prasad said. Globally, only India stands out as an exception to the slowing trend, boosted by fiscal and monetary stimulus ahead of national elections starting later this month.

Delays in the anticipated trade rapprochement between the US and China have also raised questions over the prospects for greater momentum in the world economy in the second half of the year. "Trade tensions and the uncertainty they have spawned are likely to leave a long-lasting scar on the world economy. This uncertainty is undermining business confidence and depressing private investment, which has implications for longer-term productivity growth," Prof Prasad said, He added that any weakness might be amplified by policymakers' inability to provide effective stimulus to boost prospects later this year.

"High levels of public debt are likely to limit the ability of major advanced economies to counteract a slowdown with fiscal stimulus," he said. "Conventional monetary policy remains constrained in many advanced economies where policy rates are close to or below zero, while any further unconventional monetary policy actions present significant risks and uncertain pay-offs.

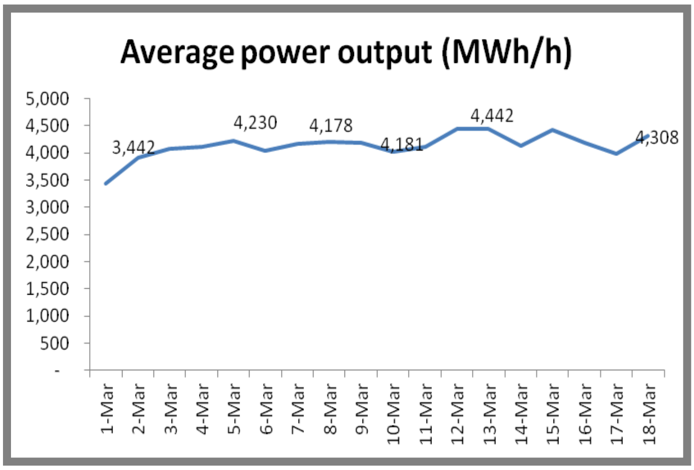

14TH
ANNIVERSARY
CELEBRATION 2005-2019
NEXTZON
... the next frontier,
Covering Africa from Nigeria
Since 2005, Nextzon has been offering world-class advisory and consulting services to organizations, supporting them for phenomenal success.
OUR SERVICES:
STRATEGY. VENTURES. GOVERNANCE. E-BUSINESS. RESEARCH
SME DEVELOPMENT. PUBLIC SECTOR CONSULTING. RECRUITMENT
Website: www.nextzon.com Email: info@nextzon.com Address: 1 Racheal Nwangwu Close, Lekki Phase 1, Lagos, Nigeria.

Macroeconomic indicators (March 1st - 19th)

Power Sector

The average on-grid power output increased by 2.48% to 4,136MWh/h in the review period of March 1st to 19th. The absence of gas constraints in the Kanji power plant coupled with a mild rise in gas constraints in the Egbin power plant contributed to the moderate increase in power output.

Although the gas supply constraint is easing gradually, power output is still limited by insufficient gas supply. The gas constraint during the period was 36.29% (42,017MWh/h) of total constraints (57,266MWh/h). Revenue loss in the first 19 days in March amounted to N27.49bn (N527.53 billion annualized).



[14]

Outlook

The Nigerian Gas Processing and Transportation Company Limited (NGPTC) has recently threatened to cut gas supply should the GenCos refuse to make timely monthly payments. If the GenCos fail to meet this demand, we expect an increase in gas constraints. This could reduce power output to less than 4,000MWh/h. Hydro-power constraints would however be eased with the onset of the rainy season. This is expected to moderate the shortfall in power output.

Impact

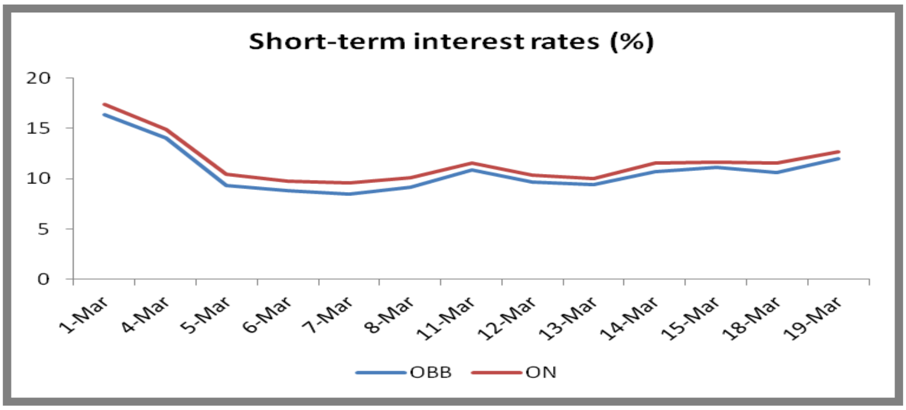
A decline in power supply would filter through to increased logistics costs of businesses as they shift to alternative energy sources such as diesel.

Money Market

The average opening position of the interbank money market over the review period rose to N241.3bn from N91.25bn in the second half of February. The rise in liquidity has resulted in increased OMO sales. A sum of N2.29trn was sold compared to N805.31bn in the last half of February. The total OMO bills that matured totalled N441.68bn, not sufficient to ease the CBN's liquidity tightening.

[14]FGN, FDC Think Tank

There was however a decline in interbank rates (OBB/ON) to an average of 10.81% and 11.66% respectively over the review period.



[15]

At the last primary market auction, the yields on the 91-day, 182-day and 364-day T/Bill tenors fell by an average of 73bps. The performance of the secondary market was however mixed. While the yields on the 91-day and 182-day T/Bills tenors rose by an average of 118bps, the yield on the 364-day T/Bill tenor fell by 110bps.

T/bills Tenor	Secondary market rates as at Feb 28th (%pa)	Secondary market rates as at Mar 15th (%pa)	Direction	Primary market rates as at Feb 28th (%)	Primary market rates as at Mar 14th (%)	Direction
91	9.57	11.61	↑	10.90	10.75	↓
182	12.74	13.05	↑	13.01	12.50	↓
364	13.66	12.56	↓	14.37	12.85	↓

[16]

Similarly, the trends in Nigerian Inter-Bank Treasury bill True Yield (NITTY) rates were mixed across the three tenors. The rate for 30-day tenor declined by 32bps whereas the rates for both 90 -day and 180-day tenors increased by an average of 102bps within the review period.

NITTY Tenor	Rates on Feb 28th (%pa)	Rates on March 15th (%pa)	Direction
30	9.46	9.14	↓
90	10.64	11.77	↑
180	13.04	13.95	↑

[17]

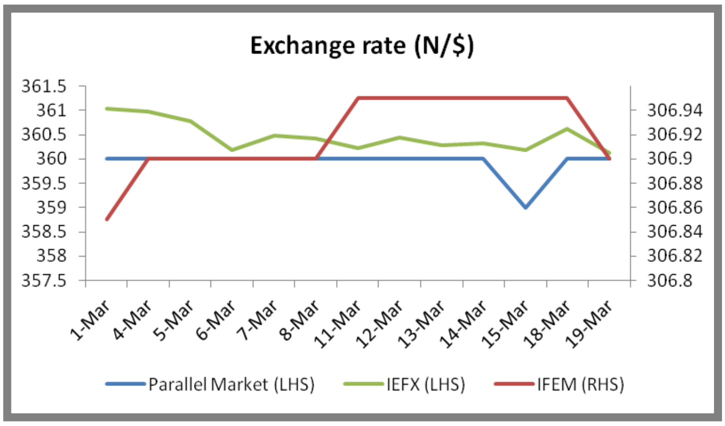
[15]FMDQ, FDC Think Tank
[16]FMDQ, FDC Think Tank
[17]FMDQ, FDC Think Tank

Outlook

There would be another series of primary market auction of N48.57bn this week. We expect sustained CBN's forex intervention and OMO sales to keep the liquidity further tightened. This would in turn drive up the interest rates.

Forex Market

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.



[18]

Impact

An increase in interest rates would raise the debt servicing cost of the government and limit the lending capacity of the deposit money banks.

Exchange Rate

At the parallel market, the naira traded flat at N360/$, except that it appreciated by 0.28% to N359/$ on March 15th. This is despite the lower frequency of CBN intervention in recent times. The CBN's intervention so far in March stood at $297mn. Over the review period, the naira appreciated by 0.74% against the euro to N405/€, while it depreciated by 1.06% against the pound sterling to N475/£.

At the interbank market, the naira depreciated by 0.02% to close the review period at N306.90/$ while at the IEFX window, the naira appreciated by 0.25% to N360.13/$. This could be attributed to an increase in the total turnover at the IEFX window which rose sharply by 77.03% to $6.32bn over the review period.

[18]FMDQ, CBN, FDC Think Tank

Impact

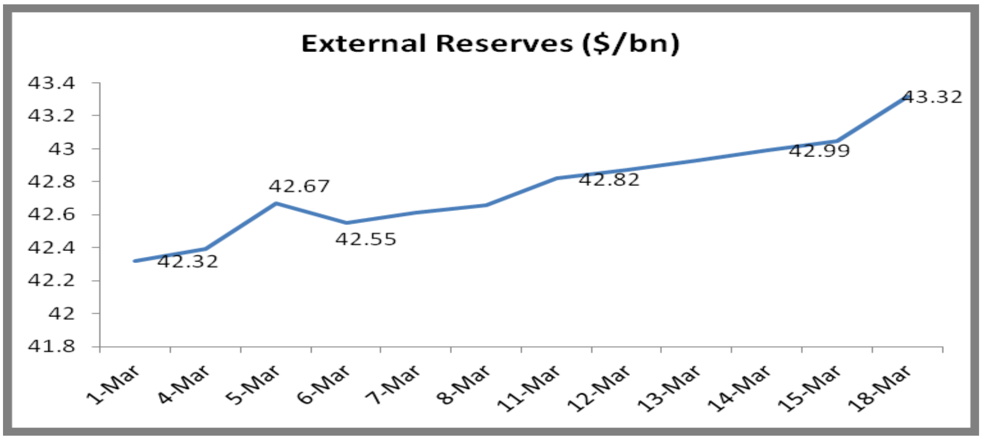
Currency stability is positive for the manufacturing firms that are import-dependent and then filters through to lower imported inflation.

Outlook

With further additions to the external reserves, we expect increased frequency of CBN's forex intervention. Demand pressures in the build up to the Easter celebrations would be suppressed in due course with consequences for exchange rate stability.

External Reserves

Over the period of March 1st to 19th, there was an accretion in the country's external reserves position. Gross external reserves advanced by 2.36% to $43.32bn as at March 18th from $42.32bn at the beginning of the review period. The increase in external reserves could be partly explained by a decline in the demand for dollars, the rise in crude oil production above the new OPEC quota and the recent rally in crude oil prices. Consequently, the import cover increased to 10.79 months from 10.54 months in the second half of February.



[19]

Outlook

With the current rally in crude oil prices, we expect external reserves to be positively affected. However, the commitment of Nigeria towards implementing the new OPEC quota of 1.685mbpd would be negative for export earnings and consequently weigh on external reserves.

Impact

The sustained rise in external reserves would enhance CBN's forex intervention and increase the country's buffers against external shocks.

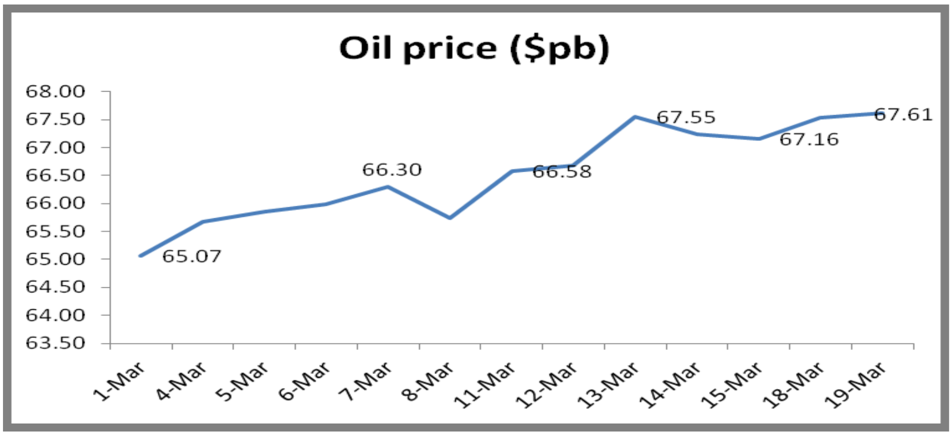
[19] CBN

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 prices averaged $66.54pb during the review period, 0.82% higher than the average of $66pb in the second half of February. Crude oil prices reached a 4-month high of $67.61pb on March 19. The rally in oil prices could be attributed to the supply tightening policy of OPEC and its allies. However, the build-up in the US crude has so far capped gains.



[20]

Outlook

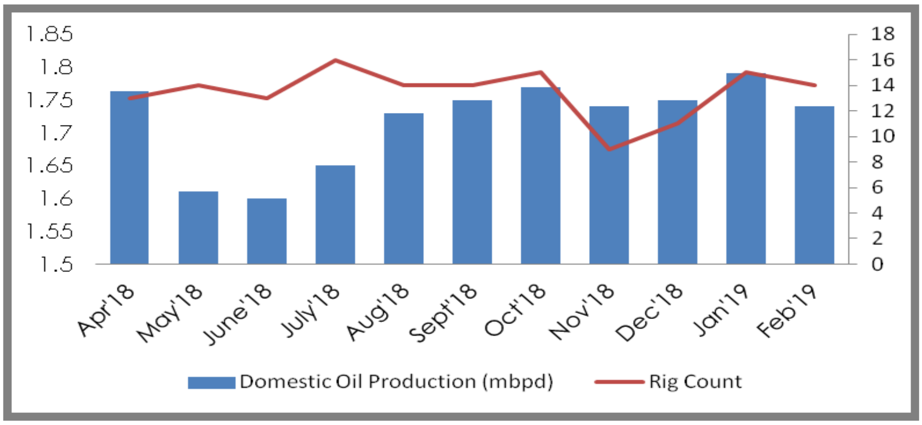
We expect crude oil prices to remain above $65pb in the coming weeks due to the commitment of OPEC and its allies to implement production cut till June 2019. The gains might however be subdued by higher shale oil production in the US.

Oil Production

According to OPEC's latest monthly report, Nigeria was among the seven OPEC members that exceeded their respective production quotas. Domestic oil production rose by 0.58% to 1.74mbpd in February from 1.73mbpd in January. Likewise, the latest production level is 3.26% higher than Nigeria's quota of 1.685mbpd. However, Nigeria's oil rig count fell to 14 in February from 15 in January.[21]

[20]Bloomberg

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



22

Outlook

The Nigerian government is gradually showing the commitment towards implementing the new production quota of 1.685mbpd. Therefore, we expect a further decline in crude oil production in March.

Impact

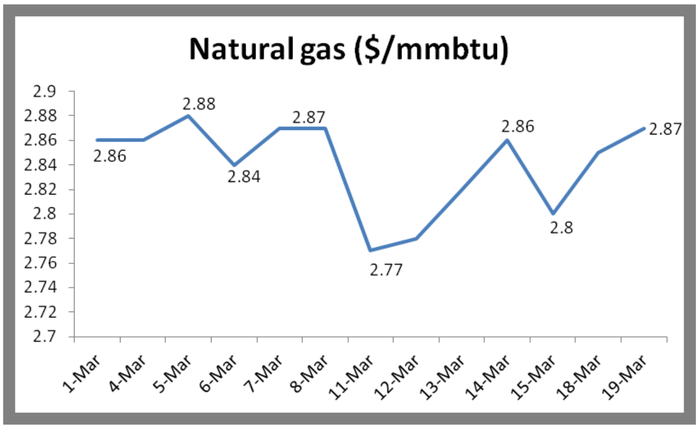
The expected decline in crude oil production coupled with the volatility in crude oil prices would weigh heavily on export earnings and external reserves.

Natural Gas

Over the review period, the average natural gas prices stood at $2.84/mmbtu, which is 3.65% higher than the average price of 2.74/mmbtu in the last half of February. This could be partly explained by reports of a surge in China's natural gas imports.

Outlook

We expect a decline in natural gas prices in the near term. The recent discovery of natural gas in the Red Sea by Saudi Arabia and expectations of increased production in the US would help sustain excess supply of the product on the global market.



23

Impact

Nigeria is a small player in the production of natural gas globally. Nonetheless, a decline in prices would weigh on non-oil export earnings and FAAC disbursements.

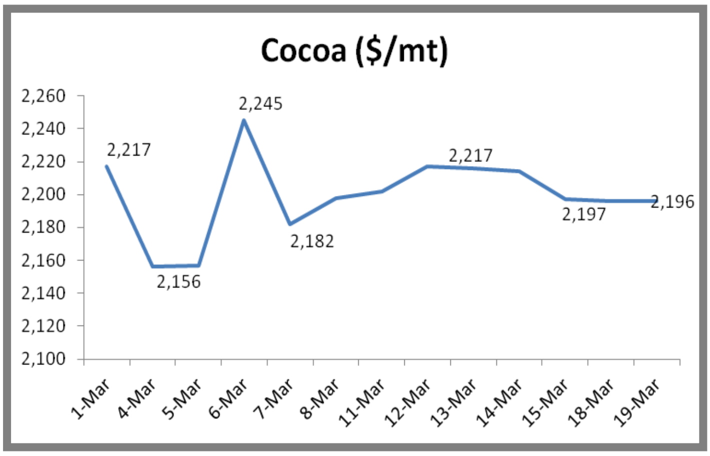
[22]OPEC and Baker Hughes
[23]Bloomberg

Cocoa

The average price of cocoa stood at $2,199/mt over the review period. This is 3.89% lower than the average price of $2,288/mt in the second half of February. The decline in prices was largely driven by expectations of bumper harvests in the world's major producers (Ghana and Ivory Coast) in the 2019/20 season.

Outlook

The possibility of a bumper harvest hinges on favourable weather condition. Also, the continued fight against deforestation in Ivory Coast and Ghana would support higher cocoa production. The resulting surplus in global supply is expected to depress prices further.



24

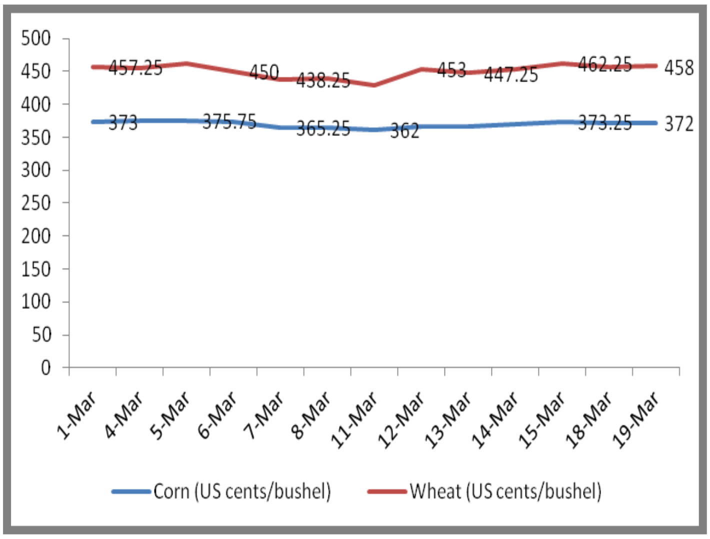
Impact

Nigeria is the sixth largest producer of cocoa in the world.[25] A decline in cocoa prices would weigh heavily on its export revenue and constrain fiscal space.

IMPORTS

Wheat

Average wheat prices declined by 6.43% to $4.51/bushel over the review period from $4.82/bushel in the last half of February. This was largely driven by robust global wheat supplies.



26

Corn

Corn prices fell by 2.71% to $3.69/bushel in the first 19 days in March from $3.79/bushel in the last half of February. This decline could be partly explained by a surge in Ukraine's exports.

[24] Bloomberg
[25] The Economist Pocket World in Figures (2019 Edition)
[26] Bloomberg

Grains- Outlook

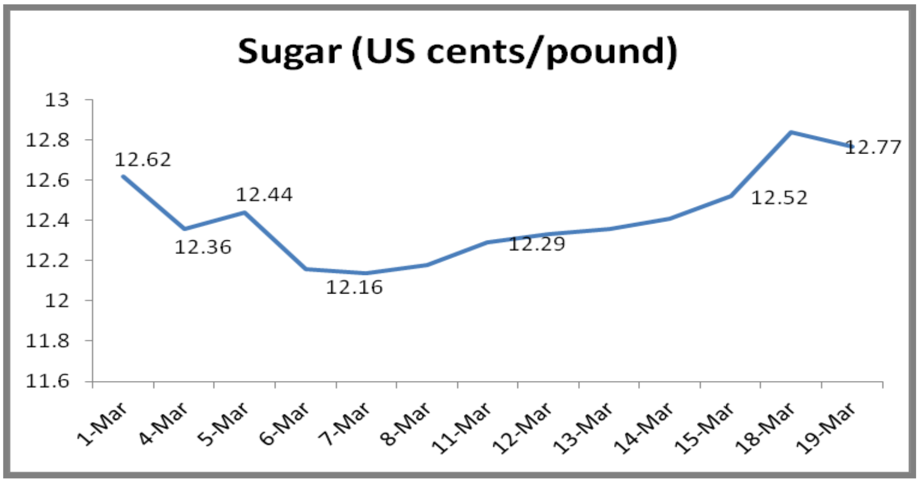
We expect the grains market to remain volatile in the near term. Continued delay in corn planting in the US would be supportive of corn prices. Similarly, the eventual termination of the ongoing trade war between the US and China would boost the demand for US wheat.

Impact

Nigeria's manufacturing firms in the FMCG sector are largely dependent on imported grains due to inadequate domestic production. An increase in global grain prices would be negative for production costs of these firms and push up the prices of grain-dependent products.

Sugar

Sugar prices averaged $0.1242/pound over the review period. This is 4.53% lower than the average of $0.1301/pound in the second half of February. This was attributable to a surge in India's sugar production and exports.



[27]

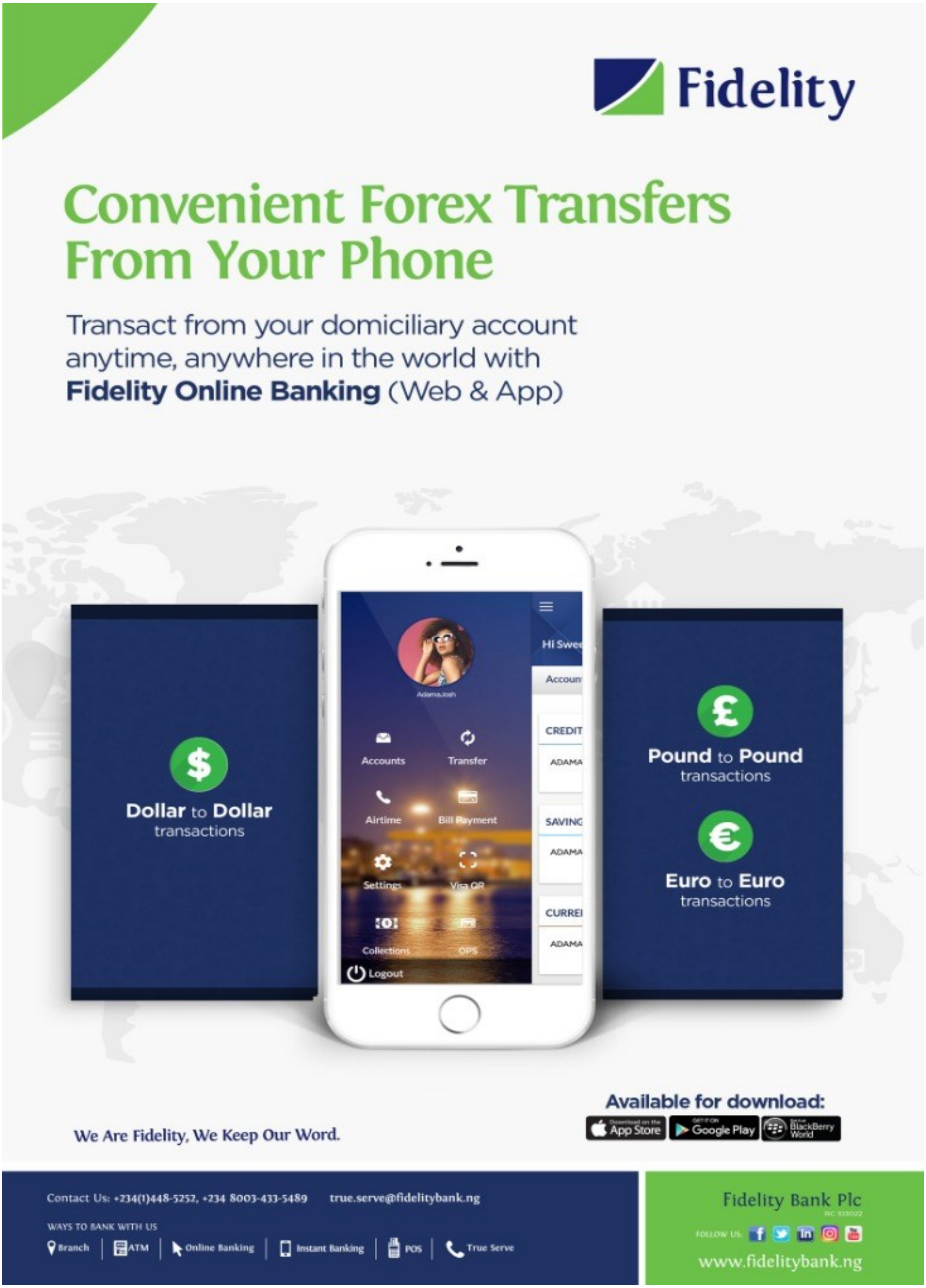
Outlook

There are reports of sugar recoding a larger supply deficit in the 2019/20 season. We therefore expect global supply shortages to support prices.

Impact

Nigeria is among the top ten importers of sugar. A rise in sugar prices would be negative for the profit margins of large players in the FMCG sector such as Nestle and Cadbury.

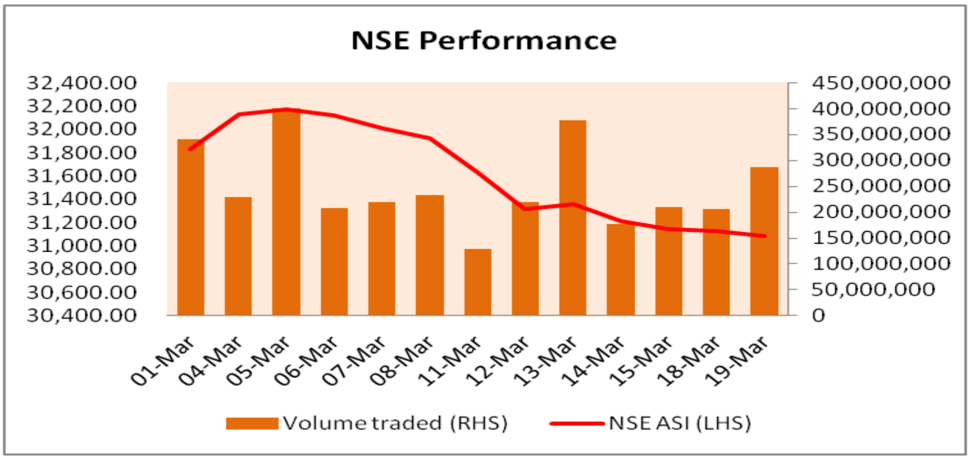
[27]Bloomberg


Fidelity
Convenient Forex Transfers From Your Phone
Transact from your domiciliary account anytime, anywhere in the world with **Fidelity Online Banking** (Web & App)
Dollar to Dollar transactions
Accounts
Transfer
Airtime
Bill Payment
Settings
Visa QR
Collections
OPS
Logout
Pound to Pound transactions
Euro to Euro transactions
Available for download:
App Store
Google Play
BlackBerry World
We Are Fidelity, We Keep Our Word.
Contact Us: +234(1)448-5252, +234 8003-433-5489 true.serve@fidelitybank.ng
WAYS TO BANK WITH US
Branch | ATM | Online Banking | Instant Banking | POS | True Serve
Fidelity Bank Plc
FOLLOW US
www.fidelitybank.ng

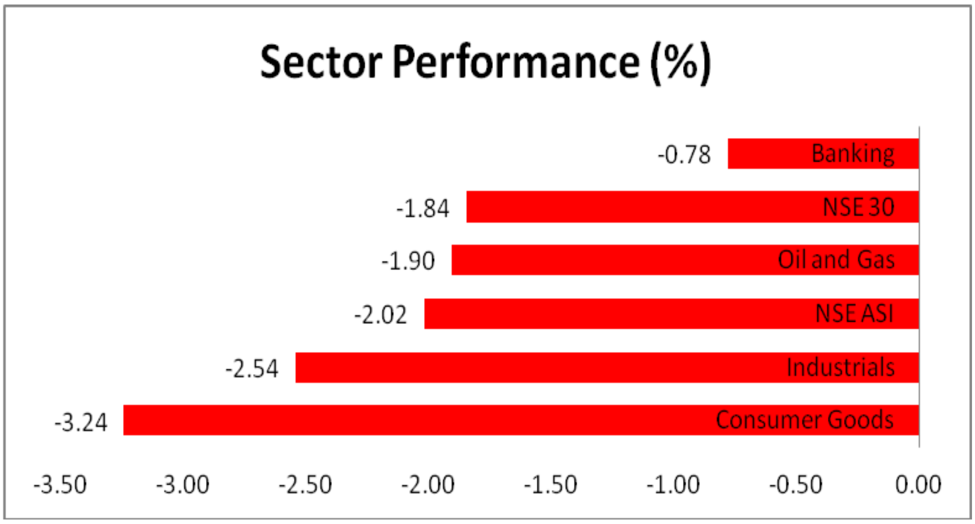
Stock Market Review

Profit-taking and sell pressure drove market sentiments on the bourse in the first 19 days of March despite positive earnings released by some companies. Consequently, the market lost nine days and gained in four days. Market breadth was negative at 0.32x relative to 3.0x in February as 60 stocks lost, 89 remained unchanged and 19 stocks gained. The NSE ASI lost 2.02% to close at 31,082.32 points on March 19th relative to its close of 31,721.76 points on February 28th. The market capitalization also declined by 2.03% to N11.59trn.

The NSE traded at a price to earnings (P/E) ratio of 7.88x as at March 19th, 1.55% higher than the close of February (7.76x).



The market also saw a slowdown in activity level. Average volume traded declined by 30.31% to 286.90mn units while the average value of trades fell by 41.37% to N3.09bn.



All sector indices lost within the review period as full year earnings was not enough to overhaul the bearish market sentiment. Consumer Goods sub-sector led the laggards (3.24%), followed by the industrial sub-sector (2.54%), while the banking index recorded the least loss of 0.78%.

McNichols Consolidated Plc topped the gainers' list with a 29.41% increase in its share price; closely followed by Cadbury Nigeria Plc (15.38%), Chemical and Allied Products Plc (10%), C&I Leasing Plc (9.98%) and FBN Holdings Plc (7.84%).

TOP 5 GAINERS (N)				
Company	Feb 28'19	Mar 19'19	Absolute Change	% Change
McNichols Consolidated Plc	0.51	0.66	0.15	29.41
Cadbury Nigeria Plc	10.40	12.00	1.60	15.38
Chemical and Allied Products Plc	34.00	37.40	3.40	10.00
C&I Leasing Plc	6.61	7.27	0.66	9.98
FBN Holdings Plc	7.65	8.25	0.60	7.84

On the flip side, Africa Prudential Plc fell by -21.49%, followed by Ikeja Hotels Plc (-20.19%), Jaiz Bank Plc (-20.00%), PZ Cussons Nigeria Plc (-19.33%) and Mutual Benefit Assurance Plc (-14.81%).

TOP 5 LOSERS (N)				
Company	Feb 28'19	Mar 19'19	Absolute Change	% Change
Africa Prudential Plc	4.84	3.8	-1.04	-21.49
Ikeja Hotels Plc	2.13	1.7	-0.43	-20.19
Jaiz Bank Plc	0.65	0.52	-0.13	-20.00
PZ Cussons Nigeria Plc	13.45	10.85	-2.6	-19.33
Mutual Benefit Assurance Plc	0.27	0.23	-0.04	-14.81

Nestle's topline increased by 9.06 percent to N266.27 billion in 2018. The company's profit before tax and profit after tax spiked by 27.59 percent and 27.76 percent to N59.75 billion and N43.08 billion respectively due to a reduction in its finance and administrative expenses.

Seplat's revenue spiked 65.16 percent to N228.39 billion in 2018 due to higher crude oil prices. However, the company's profit after tax fell by 44.68 percent to N44.87 billion due to a tax expense of N35.75 billion.

GTB's gross earnings fell by 9.82 percent to N222.43 billion in 2018. However, the company's profit after tax increased by 9.96 percent to N 184.64 billion due to a 39% increase in the non-interest income.

Stanbic IBTC reported a 4.67 percent increase in its gross earnings to N222.36 billion in 2018. Also, the profit after tax rose by 53.87 percent to N74.44 billion due to a net impairment write-back of N2.94 billion.

UBA's gross earnings rose by 11.44 percent to N362.92 billion as a result of an increase of interest income. Also, the company's profit after tax increased by 1.37 percent to N78.61 billion.

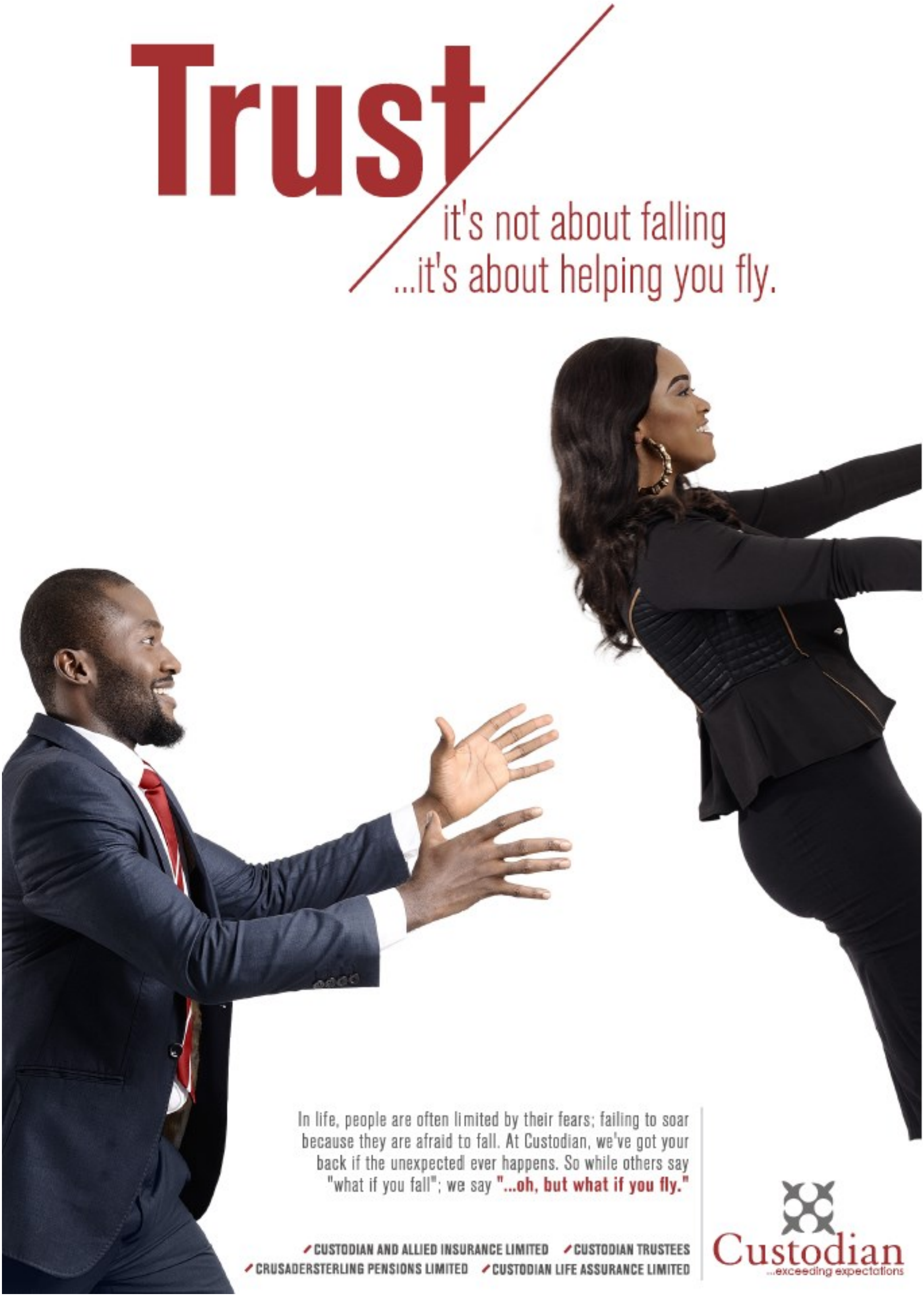
Access bank's gross earnings rose by 15.17 percent to N528.74 billion in 2018 due to an increase in the interest income. Similarly, the profit before tax and the profit after tax increased by 32 percent and 58.06 percent to N103.19 billion and N94.98 billion respectively. The bank secured additional capital of $162.5 million through a syndicated loan.

Below is a summary of the above mentioned companies' financial performances.

Company	Sector	Top line (N'billion)	Profit After Tax (N'billion)	Dividend (N/share)	Dividend Yield (%)
Nestle Nigeria Plc	Consumer	266.27 9.06% ↑	43.08 27.76% ↑	58.50	3.83
Seplat Petroleum Development Company	Oil & Gas	228.39 65.16% ↑	44.87 44.68% ↓	46.05	7.71
Guaranty Trust Bank Plc	Banking	222.43 9.82% ↓	184.64 9.96% ↑	2.75	7.46
Stanbic IBTC Holdings Plc	Banking	222.36 4.67% ↑	74.44 53.87% ↑	2.5	5.23
United Bank for Africa Plc	Banking	362.92 11.44% ↑	78.61 1.37% ↑	0.85	11.26
Access Bank Plc	Banking	528.74 15.17% ↑	94.98 58.06% ↑	0.25	4.20

Outlook

We expect a mixed performance in the near term as investors await the release of more corporate results. However, short-term performance will be mainly driven by liquidity and hunting on undervalued stocks


Trust
it's not about falling
...it's about helping you fly.
In life, people are often limited by their fears; failing to soar because they are afraid to fall. At Custodian, we've got your back if the unexpected ever happens. So while others say "what if you fall"; we say "...oh, but what if you fly."
CUSTODIAN AND ALLIED INSURANCE LIMITED
CUSTODIAN TRUSTEES
CRUSADERSTERLING PENSIONS LIMITED
CUSTODIAN LIFE ASSURANCE LIMITED
Custodian
...exceeding expectations

Equity Report: 11 Plc

ANALYST NOTE

The Nigerian oil and gas industry has remained vibrant since the discovery of crude oil in 1956 by Shell-BP. However, the weak global demand in 2008 led to a decline in the price of oil. Since 2014, global oil prices have fallen significantly due to excess crude supply. The advancement in shale oil production techniques in the US and the inability of the Organization of the Petroleum Exporting Countries (OPEC) to agree on a production cut were factors leading to the supply increase and the resulting decline in oil prices.

The fall in global oil prices resulted in low foreign exchange earnings, naira depreciation and ultimately capital controls which weighed on the earnings of petroleum industry operators. The adverse currency movement also led to higher financing costs and increased logistics cost. The need for collaboration between OPEC and non-OPEC members became inevitable in order to ensure a tighter oil market. Thus, an agreement between OPEC and its allies yielded a total production cut by 1.8 million barrels per day (mbpd) in 2018. This strategy impacted the oil market positively as prices increased by 28% to an average of $71.82pb in 2018 and volatility reduced. Further cuts were agreed in December 2018 extending to H1'2019.

11 Plc remained resilient in a tepid growth environment where GDP continues to expand below the population growth rate (2.6 percent). The company recorded a 42 percent surge in year-on-year revenue in 9M'18. In addition, the company saw its bottom-line earnings increase by 71 percent to N7.87 billion in 9M'18. Taking into account its diversified business segments, growth strategy, and relative valuation, 11 Plc is currently trading around its intrinsic valuation. Thus, we place a HOLD rating on 11 Plc.

Approximately 71 percent revenue growth

11 Plc posted revenue of N125.04 billion in 9M'18 representing a 42.7 percent increase compared to N88.25 billion in 9M'17. The rise was driven primarily by strong sales given improved availability of petroleum products.

Higher operating costs not enough to offset margins

11 Plc recorded a 21.61 percent increase in its total operating costs to N8.61 billion in 9M'18 from N7.08 billion posted in Q1'17. The increase in operating costs was offset by the 71 percent growth in sales and a 21 percent growth in other income to N6.58 billion in 9M'18. The company saw its profit before tax increase by 70.57 percent to N11.65 billion in 9M'18 from N6.83 billion in 9M'17. Profit after tax surged by 71.46 percent to N7.87 billion from N5.45 billion recorded in 9M'17.

Earnings per share surges

11 Plc reported earnings per share of N2.18 in 9M'18 compared to N1.27 posted in 9M'17. This represents a 71.25 percent increase.

Industry and company overview

Nigeria remains the largest oil and gas producer in Africa contributing 8.60 percent to GDP in 2018. The oil and gas sector has continued to grow since the country recovered from a recession in Q2'17. The sector recorded a growth of 1.14 percent in 2018.

Exploration for oil and gas in Nigeria dates back to 1908, with the first commercial discovery made in the Niger Delta by Shell-BP in 1956. The industry was largely dominated by multinationals until Nigerian companies began to make a foray into the industry in the early 1990s. Nigeria's oil production was boosted by the implementation of the Nigerian Content Directives, issued by the Nigerian National Petroleum Corporation ((NNPC) in 2004, and the promulgation of the Nigerian Oil and Gas Industry Content Development Act in 2010. The NNPC, through its subsidiary, Petroleum Product Marketing Company (PPMC) supplies petroleum products in Nigeria to the oil marketers through a pipeline system that links the refineries to regional storage/sale depots.

The Nigerian oil and gas sector is categorized into the upstream, downstream and services sectors. The downstream sector, in which 11 Plc operates, deals mainly with the distribution and marketing of refined petroleum products from the refineries through channels such as pipelines, road trucks, etc to storage and sales depots.

11 Plc dates back to 1907 when Socony Vacuum Oil Company started its operations in Nigeria through the sale of Sunflower Kerosene. It became a limited liability company with a change in name to Mobil Oil Nigeria Ltd in 1951. Mobil Oil was converted into a public limited company after 27 years in operation to Mobil Oil Plc. NIPCO Investments Company acquired a majority interest (60 percent) in 2016 and in May 2017, Mobil Oil was rebranded as 11 Plc at its annual general meeting. NIPCO Investments Company is currently the main shareholder (74.18 percent) of 11 Plc.

11 Plc is one of the major refined petroleum products marketers in Nigeria. The company has a strong presence with over 250 retail outlets located in all 36 states including the Federal Capital Territory. It operates mainly in the marketing of petroleum products and the manufacturing of automotive/industrial lubricants and petroleum jelly.

11 Plc's financial results reflect its growth performance. A snapshot of 11 Plc's latest annual financials is shown below.

Income Statement for 11 Plc (FY Dec)

N'000	2013	2014	2015	2016	2017
Revenue	78,744,100	79,583,738	64,220,901	94,107,683	125,257,109
Cost of Sales	(68,803,945)	(68,846,436)	(53,229,847)	(78,618,050)	(109,983,726)
Gross Profit	**9,940,155**	**10,737,302**	**10,991,054**	**15,489,633**	**15,273,383**
Other Income	2,752,085	2,374,323	4,670,282	6,561,700	7,461,437
Selling & Distribution Expenses	(7,372,649)	(5,226,522)	(5,517,566)	(6,586,717)	(5,796,586)
Administrative Expenses	-	(2,115,561)	(3,165,076)	(3,688,590)	(3,828,732)
Other Expenses	(95,241)	(147,524)	(23,427)	(16,569)	(24,164)
Operating Profit	**5,224,350**	**5,622,018**	**6,955,267**	**11,759,457**	**13,085,338**
Gain on Disposal of Investment Property	-	2,851,585	-	-	-
Finance Income	50,592	158,633	74,135	260,727	368,463
Finance Cost	(151,940)	(186,099)	(123,080)	(292)	(86,916)
Net Finance Cost	(101,348)	(27,466)	(48,945)	260,435	281,547
Profit Before Exeptional Items	**5,123,002**	**8,446,137**	**6,906,322**	**12,019,892**	**13,366,885**
Exceptional Items	-	-	-	-	(2,229,019)
Profit Before Tax	**5,123,002**	**8,446,137**	**6,906,322**	**12,019,892**	**11,137,866**
Income Tax Expense	(1,642,217)	(2,053,347)	(2,033,393)	(3,865,599)	(3,619,153)
Profit for the Year (PAT)	3,480,785	6,392,790	4,872,929	8,154,293	7,518,713

Balance Sheet for 11 Plc (FY Dec)					
N'000	**2013**	**2014**	**2015**	**2016**	**2017**
Property, Plant & Equipment	7,111,042	7,287,171	7,612,813	7,936,980	8,780,077
Investment Property	20,695,199	26,954,798	29,288,265	29,374,398	25,949,059
Intangible Assets	135,311	121,838	100,862	82,683	64,863
Prepayments	1,525,090	1,552,726	1,598,378	1,978,780	2,033,239
Deferred Tax Assets	350,964	1,049,185	156,455	-	-
Non-current Assets	29,817,606	36,965,718	38,756,773	39,372,841	36,827,238
Inventories	4,509,924	4,364,245	5,878,400	5,071,338	7,948,601
Prepayments	159,372	142,625	190,200	186,064	7,435,402
Trade and Other Receivables	5,151,839	7,342,543	6,028,505	8,629,379	18,047,817
Cash and Cash Equivalent	961,706	411,444	3,218,211	8,441,707	4,389,870
Assets Held for Sale	128,075	-	-	-	-
Current Assets	10,910,916	12,260,857	15,315,316	22,328,488	37,821,690
Total Assets	40,728,522	49,226,575	54,072,089	61,701,329	74,648,928
Share Capital	-	194,678	180,298	194,678	194,678
Share Premium	-	-	14,380	-	-
Retained Earnings	-	13,354,772	16,972,173	21,262,818	27,164,151
Equity	9,537,631	13,549,450	17,166,851	21,457,496	27,358,829
Other Reserves	-	-	(1,803,450)	-	-
Total Equity	9,537,631	13,549,450	15,363,401	21,457,496	27,358,829
Retirement Benefit Obligation	1,253,087	1,853,525	3,279,629	2,293,775	-
Deferred Income	14,470,669	17,481,536	21,148,601	18,506,428	16,961,598
Loans and Borrowings	1,086,259	-	-	-	-
Deferred Tax Liability	-	-	-	622,074	2,190,178
Non-current Liabilities	16,810,015	19,335,061	24,428,230	21,422,277	19,151,776
Loans and Borrowings	-	1,708,955	413,371	-	-
Bank Overdrafts	-	-	-	-	-
Current Income Tax Liabilities	1,940,830	2,348,901	141,531	2,730,605	2,355,463
Trade and Other Payables	7,913,886	9,882,281	9,824,419	9,836,831	19,543,153
Deferred Income	4,526,160	2,401,927	3,901,137	6,254,120	6,239,707
Current Liabilities	14,380,876	16,342,064	14,280,458	18,821,556	28,138,323
Total Liabilities	31,190,891	35,677,125	38,708,688	40,243,833	47,290,099
Total Equity and Liabilities	40,728,522	49,226,575	54,072,089	61,701,329	74,648,928

Source: 11 Plc Annual Reports

Other leading players in the downstream segment are mainly multinational oil firms and some indigenous oil enterprises. These include Total Nigeria Plc, Conoil, MRS Oil, Forte Oil and Oando. Total Nigeria Plc is the dominant player as it has continued to show solid performance despite strong competition.

Management:

Experienced management capable of unlocking growth opportunities

11 Plc's management aspires to improve its margin and market share in the industry by leveraging its investments in liquefied petroleum gas (LPG). The team aims to provide consumers with a steady supply of LPG by opening more operational sites in Lagos state. This move is in line with the federal government's initiative to grow local consumption of LPG to reduce environmental pollution. 11 Plc plans to leverage its parent company, NIPCO, in executing its strategy. NIPCO has a strong presence in Nigeria's LPG market as it has extensive assets and infrastructure within various value chains.

11 Plc's management team has a wide range of experience in the oil and gas industry. Mr Adetunji Oyebanji is the Managing Director/Chief Executive Officer. He joined the Mobil Oil sales team in December 1980 and has since held several positions in the company including Branch Manager North, Branch Manager West and Manager Fuels Services. Furthermore, he has held several off-shore positions such as Executive Director Mobil Ethiopia and Cameroun, and Manager Industrial and Wholesale Fuels (Africa/Middle East). He holds a BSc Honors degree in Economics from the University of Lagos and an MBA in Marketing from City University, London, United Kingdom. He is also an alumnus of the Lagos Business School Senior Management Program.

Mr Ramesh Kansagrais is the Chairman of the Board of Directors. He is currently the Managing Director of Solai Holdings Limited (SHL) with over 30 years of experience of managing the group. SHL is involved in oil trading, raw materials for the ceramic, agriculture and food processing industries with investments in Africa and the UK.

MD/CEO

Mr. Adetunji Oyebanji

Chairman

Mr. Ramesh Kansagrais

What the Bulls and Bears Say

Bulls say:

- Extensive and robust distribution channels, which can be strengthened through retail network optimization and strategic expansion
- Diversified revenue base enhances its sustainability and flexibility
- Investment in LPG will provide opportunities for further revenue growth
- Qualified, talented and experienced management team

Bears say:

- Intense competition from other reputable downstream brands such as Total, Forte Oil and Oando
- Volatility in the price of petroleum products could threaten earnings growth
- A possible delay subsidy payment can result in a reduction in petroleum products importation
- Possible industrial strikes by downstream workers could affect the company's sales

Risks and Outlook:

The major risks that could impede 11 Plc from achieving its goals of boosting earnings and increasing sales include persistent macroeconomic challenges and risks such as credit and market (foreign exchange, price and interest rate risks). The company's directors are responsible for reviewing and formulating policies that will mitigate risks.

Market risk is a major risk that the company faces. 11 Plc is exposed to changes in market prices of petroleum products, interest rates and currency volatility. The company has a significant portion of its purchases and sales made in foreign currency, especially, USD, Euro and GBP. It currently does not hedge against its foreign exchange exposure.

11 Plc borrows long-term funds from banks and is exposed to interest rate fluctuation. However, the company's management deems the maximum exposure as negligible.

The risks facing 11 Plc could limit the achievement of its objectives. Although its talented and experienced management team has put structures in place to ensure growth in sales, market share and cost efficiency, the macroeconomic challenges facing the company are mostly exogenous.

APPENDIX - Valuation

We derived our valuation for 11 Plc by using the Discounted Cash Flow (DCF) methodology. Our fair value estimate for 11 Plc stood at **N175.5**, which is a 0.88 percent downside on its current share price of N170.00 as at March 8, 2019. The discount rate [weighted average cost of capital (WACC)] of 15.90 percent is derived using a 14.80 percent risk-free rate, a beta of 0.2486, an after-tax cost of debt of 9.10 percent, and a market risk premium of 6.3 percent. The calculated long-term cash flow growth rate to perpetuity is 5 percent.