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Subsidies Reduction – Shifting From Consumption to Production

Economic prudence, which emphasizes the need to be discerning and forward-looking, has been the clamour for pro-subsidy advocates like the IMF. The fund is now sounding like a broken record on the call for the removal of subsidies. In the last three decades, it has become a vicious cycle – IMF recommendation on subsidy removal, followed by fuel queues, adjustment and in some cases the IMF is ignored and then intended and unintended consequences that follow.

What is the true cost of subsidies?

It is noteworthy to mention that subsidy is not disdained in itself. However, the abuse and inefficient administration of the incentive has made it a fraud that must be checked. For instance, the Petroleum Products Pricing Regulatory Agency (PPPRA) disclosed that Nigeria's daily consumption increased by two million litres to 56 million litres in 2019. This is a 22% surge over 2017 daily consumption of 46 million litres. This increase is largely not in line with our consumption pattern during the time. There has been a drastic decline in the importation of new cars over the period due to high import duties and levies. Similarly, the increased traction of diesel engine vehicles and other modes of transportation such as air, water and rail, also do not support the supposed rapid growth in daily fuel consumption.

Another bane of fuel subsidy is the arbitrage and smuggling opportunities across national borders. This means the Nigerian Government is indirectly subsidizing the petrol consumption of some neighbouring countries and it could justify the increase in consumption over the last three years.

Short-term pain vs. long-term gain

Although subsidy removal is not without its costs, the potential benefit far outweighs its cost. Subsidy savings will be utilized in the provision of essential social needs – such as access to free education and quality healthcare services. These services are crucial to the improvement of living standard and the quality of life of the average Nigerian. More importantly is the reduction in the fiscal burden by at least 8%.

Will potential subsidy savings be used efficiently?

The impending expenditure cut from the removal of fuel subsidies will free up resources to embark on other social safety nets. However, the fact that there are no guarantees that these savings will be used to improve the quality of life of the economically vulnerable drags the case for subsidy removal.

Reduction of other subsidies will aid fiscal consolidation

Fuel subsidy is not the only item that needs to be priced efficiently. The government also needs to allow for efficient resource allocation in the power sector and foreign exchange market. Resource allocation through the interplay of market forces (demand and supply) limits market distortions. The adoption of cost reflective electricity tariffs will help address the power sector's liquidity issues, improve the capacity of players across the power value chain and eventually output. Similarly, the gradual convergence of exchange rates will also ease pressure on external reserves, improve transparency and bolster confidence in the forex market.

Call for cost reflective fuel prices

The economics of fiscal responsibility suggests that price should be in equilibrium and that subsidies should be targeted at production and not consumption. Production subsidies facilitate investment flows and capacity building within the sector. This is positive for employment creation, tax revenue generation and output (economic growth) in the long-term.

The reality is that petrol subsidies are being abused and ripping off the people who are the victims of inefficiency and fraud. Therefore it is necessary to change the template and tie it to parameters – mainly the price of crude oil, the exchange rate and other costs metrics.

Aviation Sector Records Double-digit Growth in 2018

In 2018, the aviation sector recorded a double-digit growth rate of 20.7%. This was 18.87% above its 2017 growth of 1.83%. This is compared to Nigeria's growth rate of 1.9% in 2018. This could be attributed to Nigeria's positive economic growth trajectory, which resulted in a boost in activities within the sector.

Within the year, there were some major developments noticed in the aviation sector. The FGN formally initiated plans to float another national carrier called Nigeria Air by Q4'18. This came 15 years after the liquidation of Nigeria Airways. However, Nigeria Air was suspended indefinitely. In the meantime, it is imperative for the FG to prioritize key issues such as airport concessioning as well as introducing flight stimulation and Maintenance, Repair and Overhaul (MRO) centres. Addressing these issues would reduce both government expenditure and operation costs of airlines.

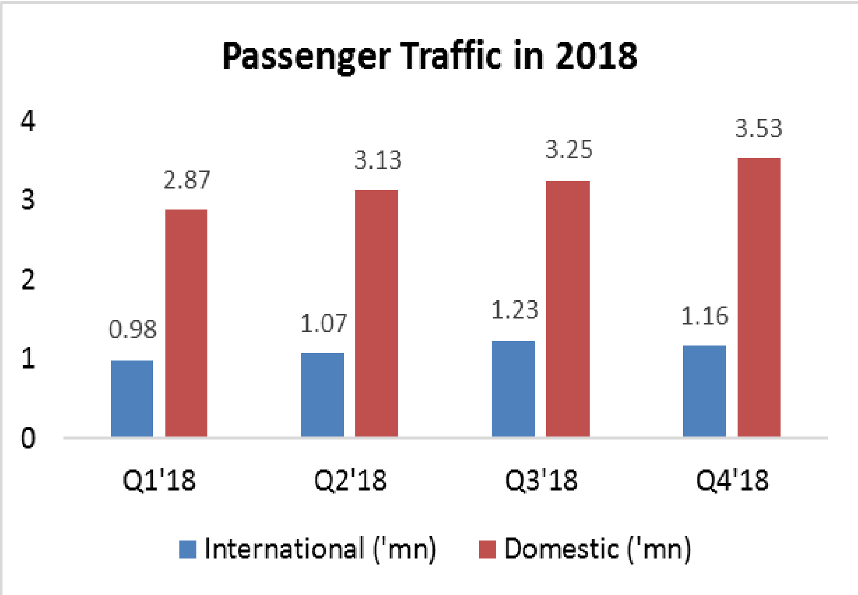
There was also the introduction of new terminals and new routes in 2018. New terminals were introduced in the Port Harcourt and Abuja airports, which President Buhari inaugurated in Q4'18. In addition, Nigeria's economic recovery encouraged airlines such as Cameroon Air and Air Namibia to return to Nigeria in 2018.

The boost in activities within the aviation sector is evident in the increase in passenger traffic in 2018. According to statistics from the National Bureau of Statistics (NBS), the total number of passengers who passed through Nigerian airports within the year increased by 28.7% (year-on-year) to 17.23million. A further breakdown of the report showed that international passengers accounted for 25.8% (4.44million) of total passengers while domestic passengers accounted for 74.2% (12.79million), with both recording a year-on-year growth of 9.42% and 23.19% respectively.

Noteworthy Trends

Some trends observed in passenger traffic in 2018 are as follows:

* Total passenger traffic was the slowest in Q1, which is likely due to the lull in economic activities. This is similar to the trend observed in 2017.
* The highest passenger traffic was witnessed in the last quarter of 2018. This was likely driven by an increase in political activities in Q4'18 and the influx of visiting family and friends for the festivities.
* Similar to 2017, Lagos and Abuja recorded the highest passenger traffic on both domestic and international routes.



[1]

State-by-State breakdown

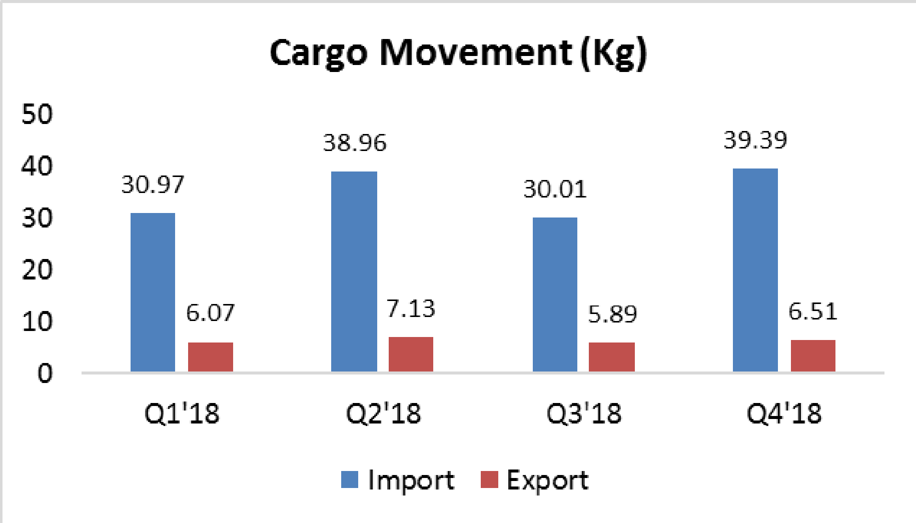
On a state-by-state basis, Lagos, Abuja and Port Harcourt recorded the highest number of passenger traffic on both domestic and international routes. Of the 17.23million passengers recorded in 2018, Lagos state alone accounted for 42.4%. Other states that recorded high passenger traffic were Abuja and Port Harcourt. This is not surprising as these states are the trade and business hubs of Nigeria.

On the other hand, Dutse, Kebbi and Bauchi recorded the lowest passenger traffic on the international route while Calabar, Osubi (Delta state) and Finima (Rivers state) witnessed the lowest traffic on the domestic route.

[1]National Bureau of Statistics. 2019. Air Transportation Data (2018). http://www.nigerianstat.gov.ng/

Air Cargo Movement

Total cargo movement recorded in 2018 stood at 164.94million kilograms, up 1.94% from 161.8million kilograms recorded in 2017. Lagos airports recorded the highest cargo volume, contributing a total of 78.3% to Nigeria's total cargo movement in 2018. Other airports that recorded high cargo movements were located in Kano and Abuja.



Outlook

In Q1'19, the election seasonality had a consistent pattern with 2015 in passenger traffic. The aviation sector witnessed semi-strong booking in the run up to the general election in February.

In the coming quarters, Nigeria's passenger traffic would remain subject to seasonalities. Seasonal factors such as Hajj, summer and Christmas would boost traffic in Q3'19 and Q4'19.

However, the recent talks of the removal of fuel subsidy and the subsequent panic buying across various states of the Federation could hinder domestic airlines from purchasing aviation fuel. If this happens, aviation sector activities would be negatively affected.

Offer-Circular

DEBT MANAGEMENT OFFICE
NIGERIA

Pursuant to the Debt Management Office (Establishment) Act 2003 and the Local Loans (Registered Stock and Securities) Act, CAP. L17, LFN 2004

THE DEBT MANAGEMENT OFFICE

on behalf of the

FEDERAL GOVERNMENT OF NIGERIA

Offers for Subscription by Auction

and is authorized to receive applications for

₦40,000,000,000 - 12.75% FGN APR 2023 (5-Yr Re-opening)*
₦40,000,000,000 - FGN APR 2029 (10-Yr New Issue)*
₦20,000,000,000 - FGN APR 2049 (30-Yr New Issue)*

Auction Date: **April 24, 2019**
Settlement Date: **April 26, 2019**

SUMMARY OF THE OFFER

ISSUER:
Federal Government of Nigeria ("FGN")

UNITS OF SALE:
₦1,000 per unit subject to a minimum subscription of ₦50,001,000 and in multiples of ₦1,000 thereafter.

INTEREST RATE:
For **Re-openings** of previously issued bonds, (where the coupon is already set), successful bidders will pay a price corresponding to the yield-to-maturity bid that clears the volume being auctioned, plus any accrued interest on the instrument.

INTEREST PAYMENT:
Payable semi-annually

REDEMPTION:
Bullet repayment on the maturity date

STATUS:

1. Qualifies as securities in which trustees can invest under the Trustee Investment Act.
2. Qualifies as Government securities within the meaning of Company Income Tax Act ("CITA") and Personal Income Tax Act ("PITA") for Tax Exemption for Pension Funds amongst other investors.
3. Listed on the Nigerian Stock Exchange and FMDQ OTC Securities Exchange.
4. All FGN Bonds qualify as liquid assets for liquidity ratio calculation for banks.

SECURITY:
FGN Bonds are backed by the full faith and credit of the Federal Government of Nigeria and are charged upon the general assets of Nigeria.

INTERESTED INVESTORS SHOULD CONTACT OFFICES OF ANY OF THE FOLLOWING PRIMARY DEALER MARKET MAKERS (PDMMs):

Access Bank Plc.
Citibank Nigeria Ltd.
Coronation Merchant Bank Ltd.
Ecobank Nigeria Ltd.
FBNQuest Merchant Bank Ltd.
First Bank of Nigeria Ltd.
First City Monument Bank Plc.
FSDH Merchant Bank Ltd.
Guaranty Trust Bank Plc.
Stanbic IBTC Bank Plc.
Standard Chartered Bank Nigeria Ltd.
United Bank for Africa Plc.
Zenith Bank Plc.

* **The** DMO reserves the right to alter the amount allotted in response to market conditions.

Developing the tomato value chain:

A hidden source of revenue for the Nigerian Government and a pathway for poverty alleviation

Nigeria is the largest producer of tomatoes in sub-Saharan Africa and the 12th largest in the world, making the industry a prime candidate in the government's quest to achieve self-sufficiency in food production.[2] In a bid to boost domestic production, improve the value chain and attract investments, the government introduced a new tomato policy in 2017. Through this policy, the tariff on tomato concentrate was increased to 50% from 5%. In addition, there was an additional levy of $1,500 on every metric ton of tomato concentrate imported. This has had a positive impact on the country's tomato market. In 2017, Nigeria's fresh tomato production was estimated at 4.1 million metric tons, 1.69% of the total global production and an increase of over 90% in the last five years.[3] The improvements also encouraged renewed interest from tomato processing companies such as Erisco Foods Ltd and Dangote industries. Following the 2017 policy, Erisco Foods recorded an approximate 20% rise in its sales.[4] This was after it threatened to shut down its operation in 2016 as a result of denied access to foreign exchange.

Despite this growth in production, the country still imports tomato paste worth $360 million annually, emerging as the world's largest importer of tomato paste.[5] According to the Federal Ministry of Agriculture and Rural Development, Nigeria loses approximately 45% of its total output annually.[6] This implies that in 2017, when tomato production was roughly 4.1 million metric tons, only 2.3 million metric tons made it to the market. Despite being close to the national demand of 2.4million, it wasn't enough. Imported processed tomato products closed the gap. Nigeria needs to focus on research and development, improving storage and transportation and encouraging backwards integration to support local farmers and reduce wastage. If these challenges remain unaddressed, Nigeria will quickly lose its 2017 momentum.

[2] FAOSTAT
[3] FAOSTAT
[4] www.thisdaylive.com/index.php/2017/10/06/erisco-foods-says-sales-up-by-20-on-tomato-policy
[5] http://thenationonlineng.net/man-cautions-tomato-paste-importation/
[6] FMARD, https://fmard.gov.ng/tomato-summit-stakeholders-in-the-sector-converged-in-kano/

Challenges of the tomato value chain in Nigeria

There are a number of challenges that have prevented the Nigerian tomato market from operating at optimum capacity. These include:

Low yield

Despite being the 12th largest tomato producer in the world, Nigeria ranks 162nd in terms of tomato yield. Nigeria's average yield of tomatoes was seven metric tons per hectare (mt/ha) in 2017, while the global average was 55.3mt/ha. Nigeria also lagged countries such as South Africa and Kenya, which had yields of 76mt/ha and 19.4mt/ha respectively.[7] Clearly, Nigeria needs to focus on improving its yield per hectare.

Inadequate Storage

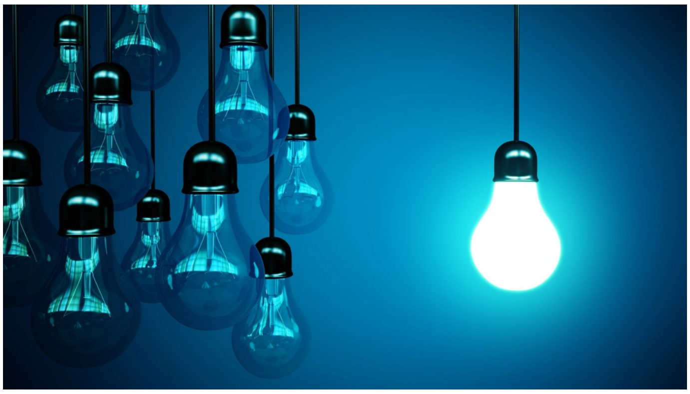
Tomatoes are a highly perishable commodity. They contain a high water content (about 80%) which makes them deteriorate quickly if not properly stored. In Nigeria, most of the tomato farmers are small scale farmers who cannot afford proper storage facilities. To this end, tomatoes are stored and transported in baskets rather than crates, increasing the rate of deterioration and reducing the quantity of tomatoes available for consumption and processing.

In addition, tomato production is seasonal. Its supply is usually high between January and April with prices of a basket of tomatoes falling to as low as N5,000. In the off season, tomato prices can peak at N15,000. The lack of proper storage and processing facilities prevent the farmers from taking advantage of this boost in output for the period of scarcity. This pushes up prices and increases the demand for imported processed tomato products.

[7] Food and Agriculture Organization of the United Nations FAOSTAT. 2017. http://www.fao.org/faostat/en/#data/QC

Backward integration Challenge

Another major challenge facing the tomato industry is the lack of patronage by processors. This is primarily as a result of the low quality of this commodity. Tomatoes produced in Nigeria contain high water content. This increases the quantity of inputs that would be needed for processing.



Solutions

For Nigeria to meet its demand for fresh and processed tomatoes, attain self-sufficiency in tomato production and processing, and be a major player in the global tomato market, it is essential that the aforementioned challenges are addressed.

Firstly, there is a need to improve the tomato yield in Nigeria. To achieve this, it is expedient to invest in research and development. This will help to keep farmers informed on the best seedlings to adopt, proper planting techniques and how to improve the commodity yield. An improvement in yield would help boost output and attain self-sufficiency. A quick lesson can be drawn from South Africa, which has one of the highest tomato yields per hectare in sub-Saharan Africa. Access to agro technology – knowledge, synthetic inputs and information technology - played a crucial role in enhancing productivity. Given the high cost of research and development, the government needs to partner with farmers in order to achieve a higher tomato yield.

Secondly, it is also important to increase expenditure on tomato processing facilities. The government recently commissioned a processing facility in Kaduna with a capacity of 30 metric tons per day.[8] While this is a significant development, it is essential to deepen investments in this segment of the value chain in order to increase processed tomatoes and reduce tomato wastages in the country. More importantly, it is necessary that these processing facilities are situated close to the source of raw materials. This would help to minimize deterioration and produce quality tomato paste.

[8]FMARD, https://fmard.gov.ng/tomato-summit-stakeholders-in-the-sector-converged-in-kano/

Thirdly, a backward integration plan for the tomato processing companies needs to be enforced. This would ensure that these companies patronize farmers and increase the local content of their inputs. It would motivate farmers to increase production, thereby expanding their income and empowering them to address their storage and transportation issues. There is also a need for partnerships between producers and key processors to locally source raw materials, and thereby increase their competitiveness, increase jobs in rural areas, and reduce poverty. This is one of the strategies adopted in South Africa. Tomato processors purchase high quality seedlings which are suitable for processing and then distribute to farmers based on their production and harvesting capacity. After harvest, farmers then sell the tomatoes to the processors. This boosts production and increase farmers' revenue. At the same time, it makes the raw materials available for processors.

Finally, the high cost of operating a plant (power, infrastructure, multiple taxation, etc.) in the country needs to be addressed. Processing companies could also be granted tax relief, in order to reduce production costs. This would raise their competitiveness with imported tomato paste.

Driving toward tomato self-sufficiency

Nigeria's ability to improve its tomato output to a level of self-sufficiency would help to achieve non-dependency on imported tomato products. The country also stands to be a major player in the global tomato market, an avenue for diversification. This would serve as a major source of foreign exchange and play a crucial role in reducing the misery level in the Nigerian economy. Increasing production by at least 20% would assist the country in meeting its self-sufficiency target in the next two years.

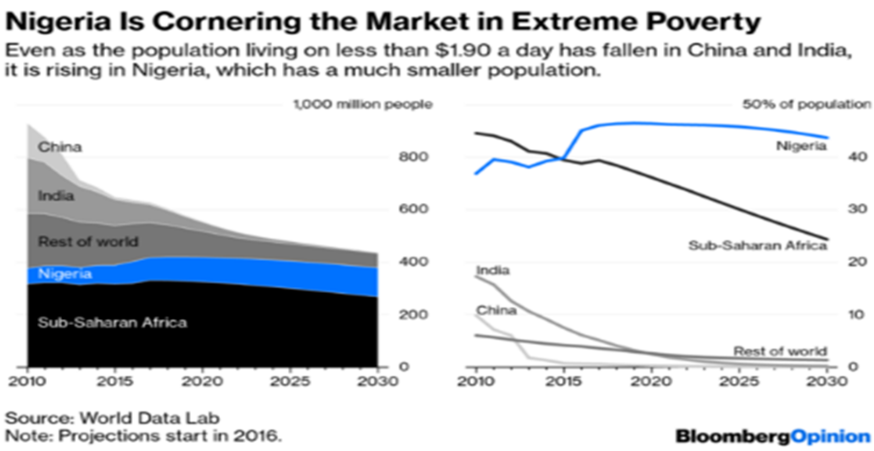
Only Growth Can Defuse Nigeria's Poverty Time Bomb

Global Perspective: Culled from Bloomberg

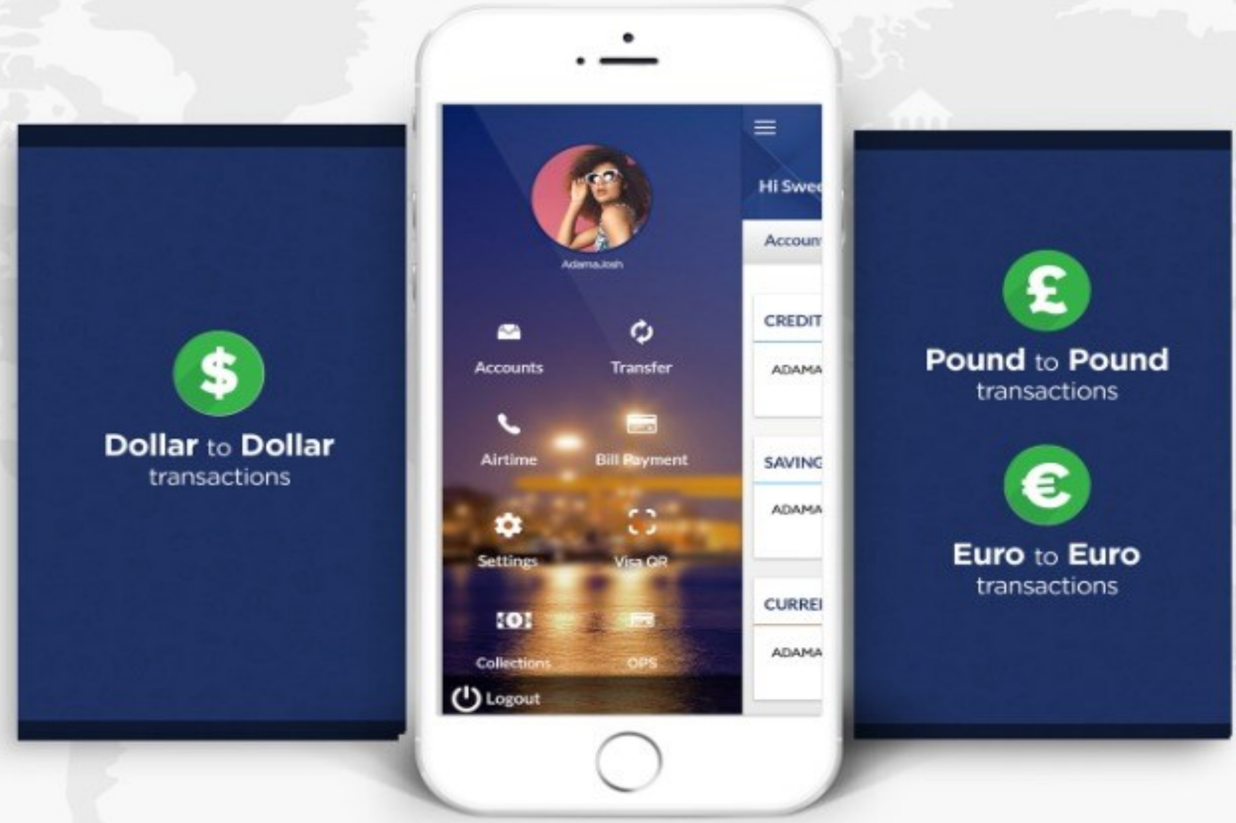
In his first term, President Muhammadu Buhari left too much undone. In his second, he needs to be bold.

One of humanity's most hopeful developments in recent decades has been the dramatic drop in extreme poverty. In 2000, some 1.4 billion people lived at or below the global poverty line of $1.90 a day. Today, the number is about 600 million.

This remarkable change is mainly due to growth in China and India: Much of sub-Saharan Africa, particularly Nigeria, has failed to share in the success. A decade ago, Nigeria had far fewer people in extreme poverty than either China or India; today, according to data compiled by the World Data Lab, it has more than both combined. The count stands at more than 90 million, and has risen both in absolute terms and as a share of the total. Nigeria's young and fast-growing population is projected by the United Nations to double in size by 2050, making it the world's third-biggest. Even assuming that the proportion of Nigerians living in extreme poverty stops rising as quickly as it has in recent years, it's on course to remain extraordinarily high for the foreseeable future.



Nigeria's success or failure in confronting extreme poverty will be pivotal for the rest of Africa, too — partly because of its huge population but also because of its outsize influence over its neighbours. The government led by President Muhammadu Buhari, recently re-elected to a second and final four-year term, bears a grave responsibility. One wonders whether a politician known as "Baba Go Slow" is up to the task.


Dollar to Dollar
transactions
Accounts
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Airtime
Bill Payment
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Pound to Pound
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Euro to Euro
transactions

His record over the last four years is discouraging. Economic growth has barely recovered following the 2014 crash in the price of oil, which remains Nigeria's biggest export and source of government revenue. Per capita gross domestic product is less than it was when he took office. Joblessness has more than tripled. Efforts to spur agriculture and other non-oil parts of the economy have failed. Foreign direct investment has fallen by more than half since 2010.

Going Nowhere Fast

Nigeria's performance on selected indicators and indexes

Category	2014	2018
Foreign direct investment ($B)	5	2
Unemployment rate (%)	6	23
Inflation rate (%)	8	11
GDP growth (%)	6	2
Debt to GDP (%)	12	25
Non-oil revenue to GDP (%)	4	4
Debt service to revenue (%)	27	60
Bloomberg Economics African Performance (rank)	12	25
World Bank Doing Business (rank)	147	145
World Economic Forum Competitiveness (rank)	127	115
Transparency International Corruption Perceptions (rank)	136	144

Sources: International Monetary Fund, World Bank, UNCTAD, Transparency International, Bloomberg.

Islamic extremists such as Boko Haram and Islamic State remain a serious threat, violence persists in the oil-rich Niger Delta, and environmental pressures due to climate change have stoked clashes between herders and farmers. All told, more than 2 million Nigerians have been displaced by conflict. The country also has the world's second largest number of people suffering from HIV/AIDS, and faces huge burdens from tuberculosis, malaria and other diseases. Governance remains weak, corruption and crime rampant.

Despite everything, Buhari retains a reputation for personal integrity and the commitment to fight graft. But he needs to give equal weight to economic revival, without which there will be little progress in quelling conflict and radicalism. This in turn means moving away from the statist mindset that he's displayed since the 1980s, when he became head of state following a military coup.

In particular, he has steadfastly resisted devaluing Nigeria's currency, likening a depreciation of the naira to "murder" because of its impact on the prices of imported fuel and food. Nigeria maintains multiple official exchange rates for different transactions.

This stops the price system from allocating resources to their best uses, and draws the government ever more deeply into managing the anomalies and inefficiencies that ensue. To promote domestic manufacturing and farming, for instance, Buhari has restricted access to hard currency for importers of more than 40 categories of goods, including cement, fertilizer and textiles. The result is predictable: more smuggling, more shortages, and a thriving black market in currency.

In the longer term, Nigeria should aim to float its currency, as proposed by the International Monetary Fund and Atiku Abubakar, Buhari's challenger in February's election. In the short term, unifying the exchange rates and liberalizing access to hard currency would be a big step forward.

Economic reform could also lure more foreign direct investment — which is sorely needed, especially in infrastructure. Nigeria's decrepit refineries force Africa's biggest oil producer to import 90 percent of its petroleum products. Its electricity-generating capacity is less than one-sixth of South Africa's, though its population is three times bigger. Access to power and good roads would be a big help to agriculture, which employs two-thirds of Nigeria's workforce. Lacking cold-storage facilities and efficient transport, Nigeria's tomato farmers, for example, must sell to traders at harvest when prices are low, and can suffer losses of up to half their production. Most recently, gridlocked ports are holding up exports of cashews.

To fund public investments, Buhari's government will need to boost non-oil revenue through better tax compliance and enforcement. Until the tax system is fixed, further reliance on debt would be unwise, even though the country's debt ratio looks modest at roughly 25 percent of GDP. The problem is that Nigeria collects relatively little revenue, so debt service eats up most of the budget. It already accounts for 60 percent of federal revenue, and the figure is expected to rise to more than 80 percent by 2022 — a level the International Monetary Fund calls "unsustainable."

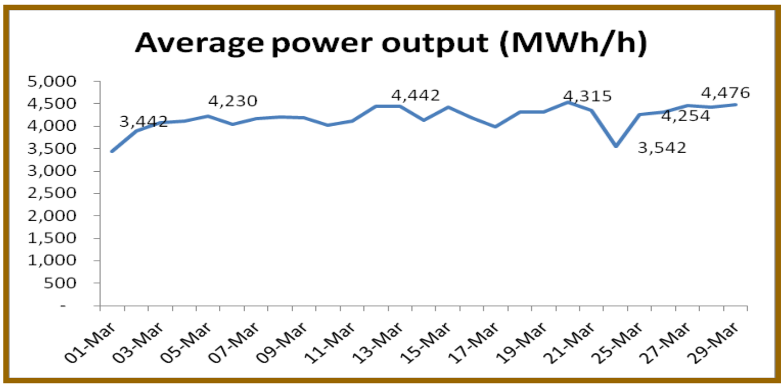
Buhari's priorities are understandable: Fighting Boko Haram, restoring safety and security, and curbing corruption are essential if Nigeria's prospects are to improve. But reviving the economy is no less urgent. Consider that nearly 2 million Nigerians enter the workforce every year, while unemployment stands at more than 20 percent. The country that could be Africa's dynamo is instead its biggest demographic time bomb. Before it's too late, Baba Go Slow needs to hurry up.

Macroeconomic Indicators (1st – 29th March)

Power Sector

The average on-grid power output rose by 1.09% to 4,190MWh/h in March compared to the average of 4,145MWh/h in February. This could be attributed to the continued absence of gas constraints in Kanji power plant.

Gas remains the major constraint to power output. The gas constraint during the period was 69.75% (61,765MWh/h) of total constraints (88,547MWh/h). Revenue loss in March amounted to N42.50bn (N552.50 billion annualized).



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Outlook

We expect the average power output to maintain its current level. The possibility of a shortfall in power output would be moderated by an ease in hydro-power constraints at the commencement of the rainy season.

Impact

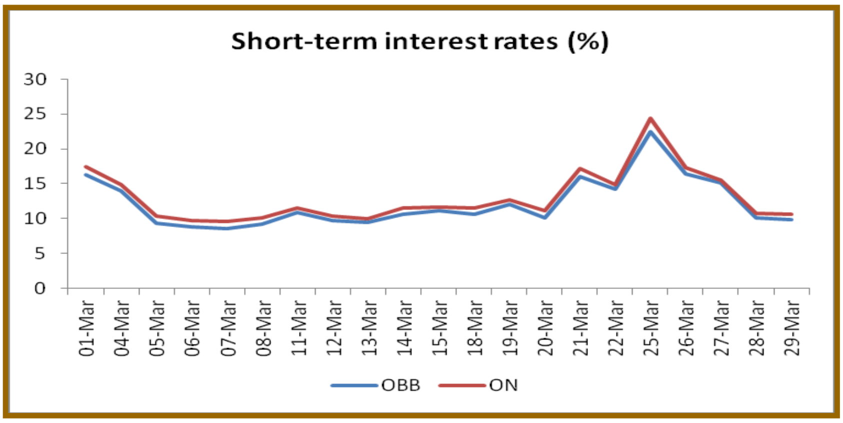
A stable power supply would limit logistics costs and minimize the shifts towards alternative energy sources, such as, diesel. The retail price of diesel has remained stubbornly high at N230-N240/litre.

Money Market

The average opening position of the interbank money market rose to N201.98bn in March from N43.38bn in February. The rise in liquidity prompted an increase in OMO sales in March. OMO bills worth N2.7trnwere sold compared to N2.58trn in February. The OMO bills that matured totaled N659.08bn, which was not sufficient to ease the CBN's liquidity tightening.

There was however a decline in the average interbank rates (OBB/ON) by 615bps to 12.58% in March from 18.73% in February.

[9] FGN, FDC Think Thank



[10]

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 343bps. However, at the secondary market, the yields rose by an average of 139bps across the 91 and 182-day tenors but fell by 80bps for the 364-day bill.

T/bills Tenor	Secondary market rates as at Feb 28th (%pa)	Secondary market rates as at Mar29th (%pa)	Direction	Primary market rates as at Feb 28th (%)	Primary market rates as at Mar21st (%)	Direction
91	9.57	10.65	↑	10.90	10.30	↓
182	12.74	13.05	↑	13.01	12.20	↓
364	13.66	12.86	↓	14.37	12.35	↓

[11]

The Nigerian Inter-Bank Treasury bill True Yield (NITTY) rose by an average of 268bps across the three tenors in March.

NITTY Tenor	Rates on Feb 28th (% pa)	Rate on March 29th (% pa)	Direction
30	9.46	10.77	↑
90	10.64	11.00	↑
180	13.04	14.05	↑

[12]

Outlook

We expect the CBN to sustain its interventionist strategy in April as a strategic move to limit the anticipated impact of increased liquidity from FAAC disbursements and the lowering of the MPR by 50bps.

Impact

The recent reduction in MPR would likely filter through to a decline in borrowing costs, thereby lowering the burden of servicing debts by the government.

[10]FMDQ, FDC Think Thank
[11]FMDQ, FDC Think Thank
[12]FMDQ, FDC Think Thank

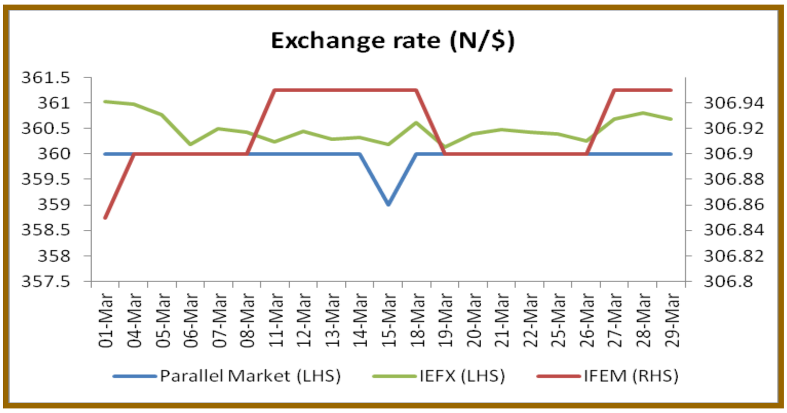
Forex Market

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 naira traded flat at N360/$, except that it appreciated by 0.28% to N359/$ on March 15th. This is despite a 10.80% decline in CBN's forex sales to $862.60mn in March from $967.50mn in February. Likewise, the naira appreciated by 0.74% against the euro to close the month of March at N405/€, while it depreciated by 0.64% against the pound sterling to close at N475/£.

At the interbank market, the naira depreciated by 0.03% to close the month at N306.95/$ while at the IEFX window, the naira appreciated by 0.23% to close at N360.68/$. This could be attributed to an increase of 28.94% in the total turnover at the IEFX window to $8.60bn in March from $6.67bn in February.



[13]

Outlook

We expect the exchange rate to continue trading around N360/$. This is on the backdrop of continuity in the CBN's forex intervention to meet manufacturers' demand in the build-up to the Easter season.

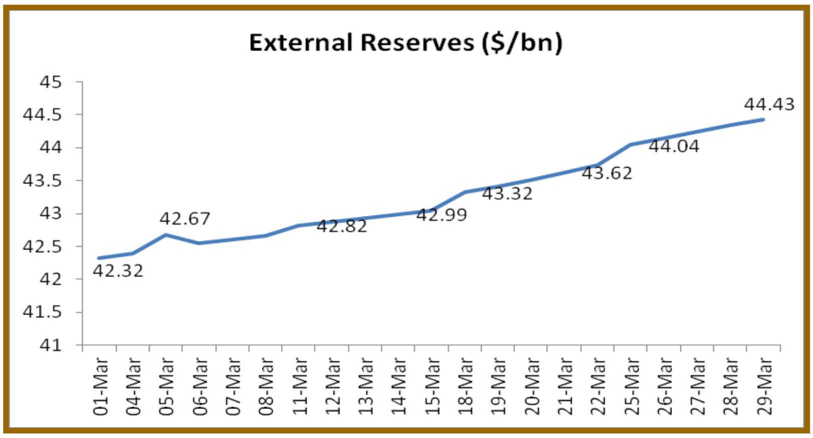
Impact

Exchange rate stability is positive for import-dependent manufacturing firms and filters through to lower operating costs and a decline in imported inflation.

[13]FMDQ, CBN, FDC Think Tank

External Reserves

There was an accretion to external reserves in March. Gross external reserves advanced by 5.06% to close the month at $44.43bn from $42.29bn at the end of February. The increase in external reserves could be attributed to sustained capital inflows into the fixed income market coupled with a reduction in CBN's weekly intervention in the forex market. Consequently, the import cover increased to 11.06 months from 10.53 months in February. Meanwhile, the IMF in its Article IV Review forecast Nigeria's import cover to decline from 7.18 months in 2018 to 6.3 months in 2019.



[14]

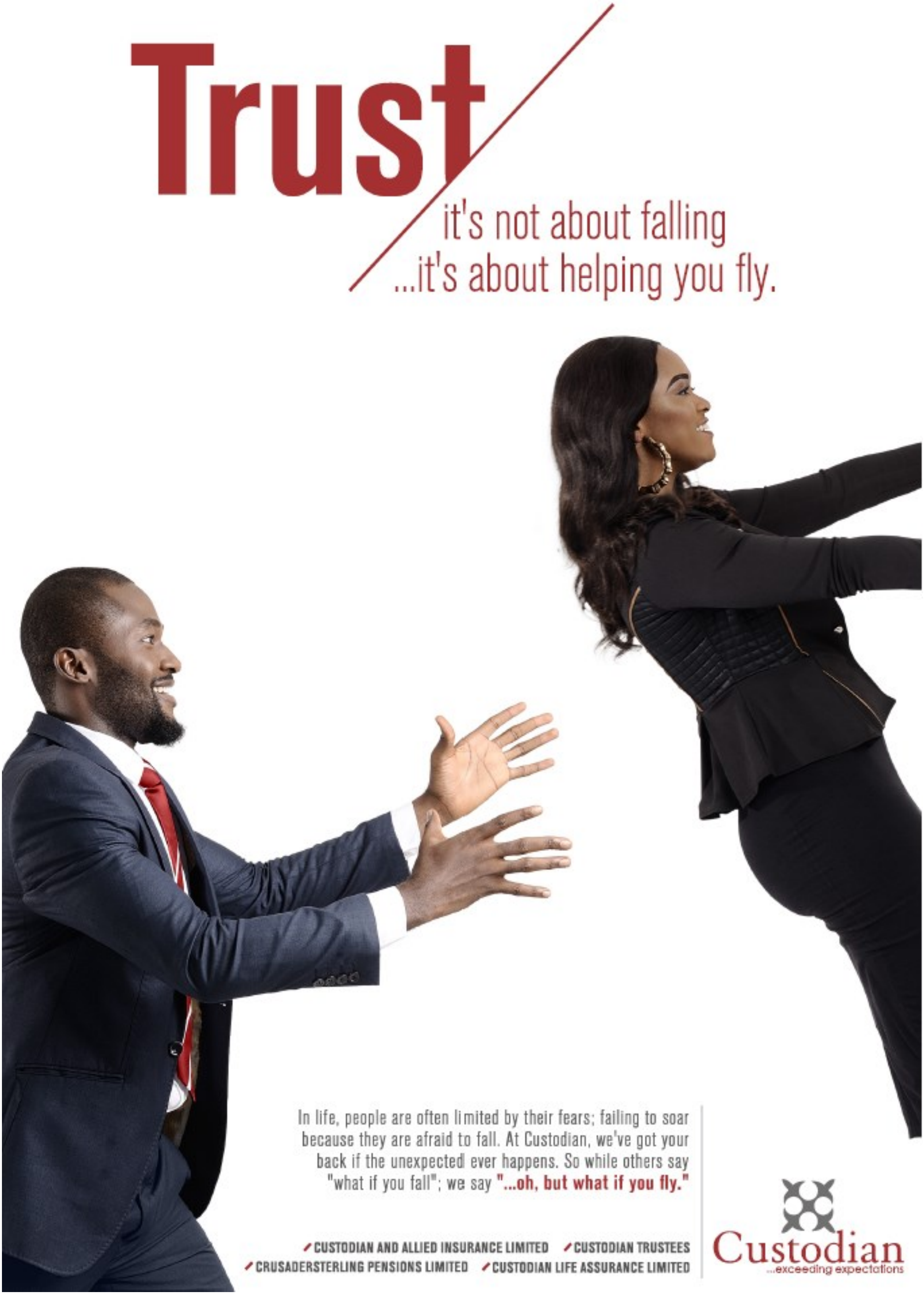
Outlook

Given that the attractiveness of yields on fixed income assets is sustained, we expect increased capital inflows. This coupled with continued rally in crude oil prices would keep external reserves at high levels. However, Nigeria's improved compliance towards the new production quota of 1.685mbpd would moderate gains.

Impact

The sustained increase in external reserves would support CBN's forex intervention when needed and expand the country's buffers against negative external shocks.

[14] CBN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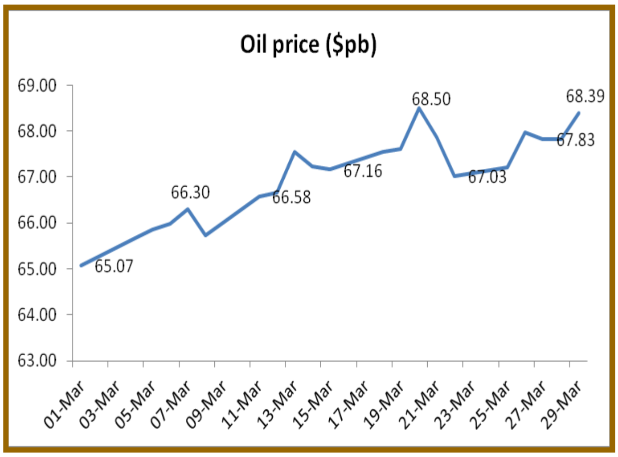
Commodities Market - Exports

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

Oil Prices

In March, Brent prices averaged $66.97pb, 4.07% higher than the average of $64.39pb in February. The gains in oil prices could be attributed to the decline in US crude oil inventories. The commitment of OPEC and its allies towards their production cuts was also supportive of crude oil prices.



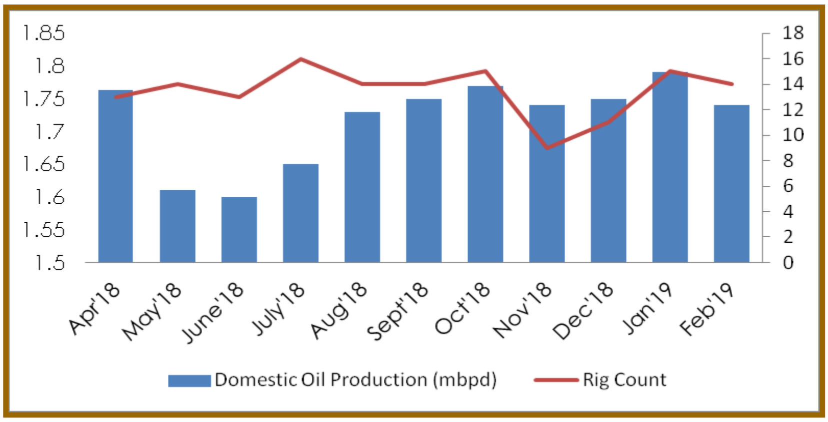
[15]

Outlook

We expect crude oil prices to average between $65pb and $68pb in April due to the commitment of OPEC and its allies towards their production cut agreement. The gains in crude oil prices may however be moderated by surprise increases in US shale oil production.

Oil Production

According to OPEC's latest monthly report, Nigeria was among the eight OPEC members that exceeded their respective production quotas. Domestic crude oil production rose by 0.58% to 1.74mbpd in February. However, 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.[16]



[17]

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

Outlook

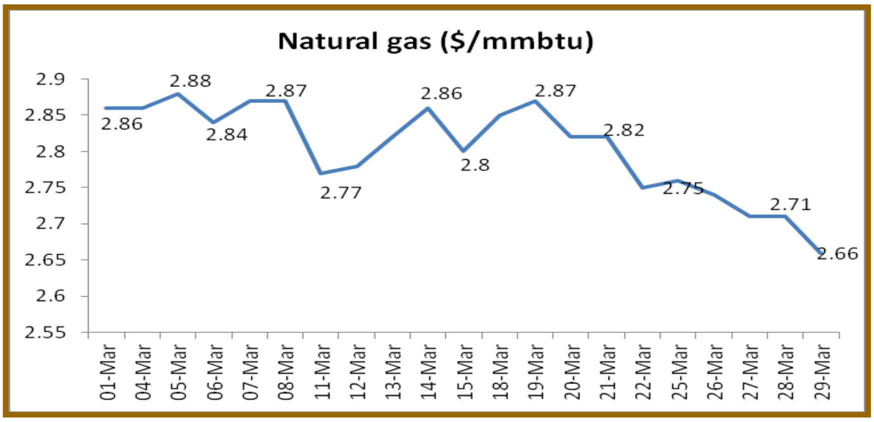
We expect lower crude oil production in the coming months. This would be supported by improved compliance of the Nigerian government to its new production quota of 1.685mbpd.

Impact

The expected decline in crude oil production would weigh on oil revenue. The negative impact could likely be moderated by a steady rise in crude oil prices.

Natural Gas

In March, the average natural gas prices stood at $2.80/mmbtu, which is 4.48% higher than the average price of 2.68/mmbtu in February. This could be attributed to reports of a drawdown in US natural gas inventories.



[18]

Outlook

We expect a decline in natural gas prices in the near term. Expectations of a build-up in US natural gas inventories coupled with reports projecting higher Iranian exports would boost global supply and depress prices.

Impact

Nigeria is a small player in the production of natural gas globally. Nonetheless, a decline in prices would be negative for non-oil export revenue and filter through to lower FAAC disbursements. LNG accounts for about 12.6% of Nigeria's total export revenue.[19]

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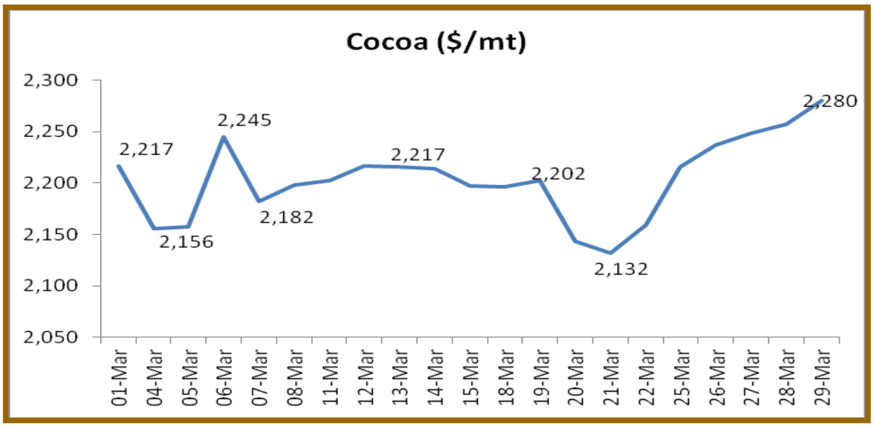
[18]Bloomberg
[19]EIU

Cocoa

The average price of cocoa stood at $2,203/mt in March. This is 3.08% lower than the average price of $2,273/mt in February. This was despite the decline in cocoa production due to adverse weather condition in Ivory Coast.



[20]

Outlook

The commencement of cocoa farming in Kenya would help correct production shortfalls in major cocoa producing countries (Ivory Coast and Ghana). The resultingincrease in global supply is expected to depress prices in the near term.

Impact

Nigeria is among the top six producers of cocoa in the world.[21] A decline in cocoa prices is negative for accretion in non-oil export earnings and fiscal buffers.

[20]Bloomberg
[21]The Economist Pocket World in Figures (2019 Edition)

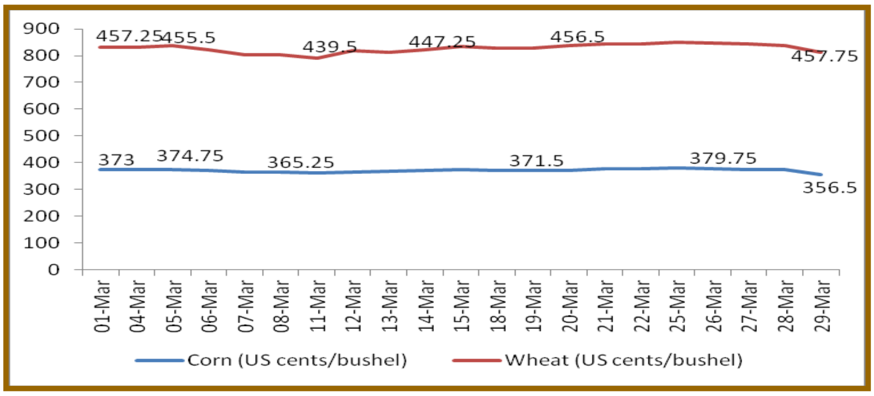
Commodities Market - Imports

Wheat

Average wheat prices declined by 8.96% to $4.57/bushel in March from $5.02/bushel in February. This was largely driven by expectations of a bumper harvest in India and the US.

Corn

In March, corn prices fell by 2.11% to $3.71/bushel from $3.79/bushel in February. This was in spite of the delay in corn planting due to the incidence of flood in the US.



[22]

Grains- Outlook

There are reports of improved patronage of North American wheat supplies. Strong demand for US wheat supplies following the expected positive outcome from the on-going trade talks would support wheat prices. Similarly, prolonged delay in corn planting would limit global supply and push up prices in the near term.

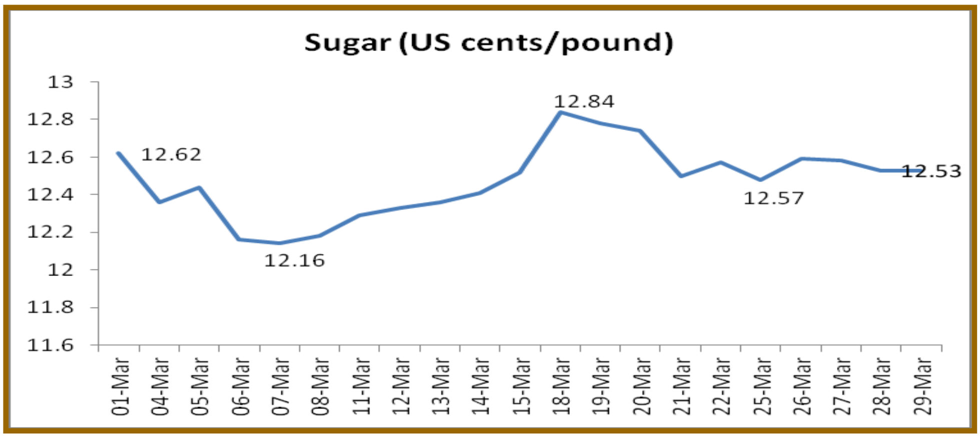
Impact

Nigeria's manufacturing firms depend largely on imported grains to augment lower domestic production. An increase in global grain prices would translate to higher production costs and increased prices of grain-dependent products.

Sugar

In March, Sugar prices averaged $0.1247/pound, which was 2.88% lower than February's average of $0.1284/pound. This could be partly explained by an increase in sugar exports from India and Uganda.

[22] Bloomberg



[23]

Outlook

The expectations of increased sugar production in India are likely to reverse the anticipated sugar supply deficit in the 2019/20 season. We therefore expect a further decline in sugar prices in

Impact

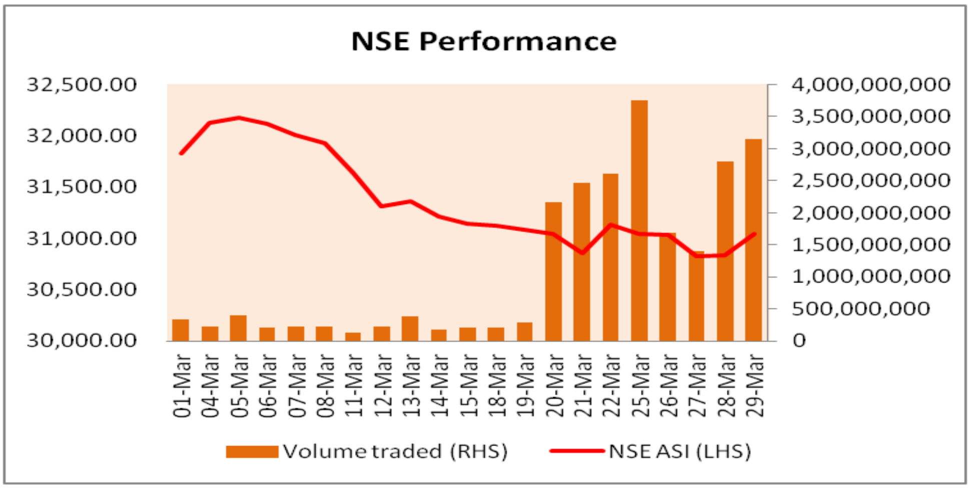
Nigeria is the tenth importer of sugar in the world. A decline in sugar prices is expected to filter through to lower prices of sugar-based products.

[23]Bloomberg

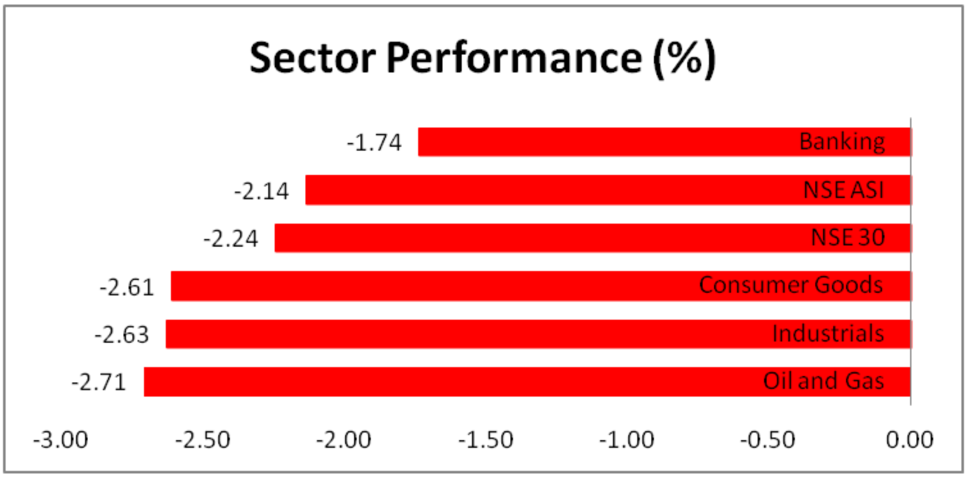
Stock Market Update

The Nigerian Stock Market traded mostly in the negative in March despite the release of several 2018 corporate earnings results and the announcement of dividends by leading companies. The NSE ASI lost 2.14% to close the month at 31,041.42 points relative to 31,721.76 points in February. Similarly, the market capitalization declined by 1.35% to N11.67 trillion. Market breadth was negative at 0.31x relative to3x in February as 68 stocks lost, 79 remained unchanged and 21 stocks gained.

The NSE traded at a price to earnings (P/E) ratio of 7.74x as at March29th, 0.26% lower than February's close (7.76x).



The market also saw a slowdown in activity level. Average volume traded declined by 35.17% to 266.89 million units while the average value of trades fell by 40.23% to N3.15 billion.



All sector indices compressed within the review period due to slowdown in economic activities. Oil & Gas sub-sector led the laggards (2.71%), followed by the industrial sub-sector (2.63%),while the banking indexrecorded the least loss of 1.74%.

McNichols Consolidated Plc topped the gainers' list with a 37.25% increase in its share price; closely followed by C&I Leasing Plc (20.88%), Eterna Plc (20.45%), Access Bank Plc (13.16%) and Chemical and Allied Products Plc (10%).

TOP 5 GAINERS (N)				
Company	**Feb 28'19**	**Mar 29'19**	**Absolute Change**	**% Change**
McNichols Consolidated Plc	0.51	0.7	0.19	37.25
C&I Leasing Plc	6.61	7.99	1.38	20.88
Eterna Plc	4.4	5.3	0.9	20.45
Access Bank Plc	5.7	6.45	0.75	13.16
Chemical and Allied Products Plc	34	37.4	3.4	10.00

On the flip side, Presco fell by -16.33%, followed by Nigeria Breweries Plc (-16.04%), Skye Shelter Fund (-10.00%), Beta Glass Plc (-8.92%) and SEPLAT Petroleum Development Company Plc (-4.68%).

Company	Feb 28'19	Mar 29'19	Absolute Change	% Change
Presco Plc	75	62.75	-12.25	-16.33
Nigerian Breweries Plc	79.5	66.75	-12.75	-16.04
Skye Shelter Fund	95	85.5	-9.5	-10.00
Beta Glass Plc	79	71.95	-7.05	-8.92
SEPLAT Petroleum Development Company Plc	619	590	-29	-4.68

Corporate Disclosure

The under listed companies released FY'18 financial statements in the month of March.

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
Cadbury	FMCG	35.97 8.745	0.82 174.36%	0.25	2.38
Julius Berger Nigeria Plc	Construction	194.62 37.16%	6.10 142.06%	2	7.27
11 Plc	Oil & Gas	164.61 31.41%	9.33 6.14%	8.50	5
Fidelity Bank Plc	Bank	188.87 4.79%	22.93 29.04%	0.11	5.85
Custodian Investment Plc	Financial Services	50.21 16.63%	7.11 2.87%	0.45	7.32
Unity Bank Plc		37.33 58.49%	1.27 108.51%	-	-

Outlook

We expect the market to witness a partial rebound in the near term as the market remains largely attractive for equity investors. Likewise, the slowdown in quantitative tightening in advanced economies may sway foreign investors back to the Nigerian equities market.

Equity Report : C&I Leasing Plc

Analyst's note

C & I Leasing (C&I) benefited from the recovery of the Nigerian operating environment, recording a 15.6 percent improvement in its gross revenue in the first nine months of 2018 (9M'18) compared to 9M'17. Since Nigeria's exit from recession, shamrock organizations (with leaner organizational structure) continued to gain traction because of increased outsourcing activities, especially for tasks outside respective core functions or areas of specialization. This has improved the business case and opportunities for outsourcing firms such as C&I.

Expansion of fleet and marine divisions buoyed earnings

Increasing synergies and notable growth in C&I's flagship fleet unit and its marine business helped deliver a stellar performance in the 9M'18 financial result. The group's lease rental income rose by 17.5 percent to N13.9 billion, accounting for 70 percent of gross revenue. The improvement in capacity utilization of its marine assets continued to support its strides, as the marine business recorded a 27.6 percent increase in revenue to N8.9 billion during the period.

High debt stock weighed on capital adequacy

In 9M'18, C&I's capital adequacy ratio (8.9 percent) was below the regulatory requirement of 12.5 percent. This can be largely attributed to the high level of maturing debts. The huge capital requirement of the marine business exerted pressure on the net debt position of C&I.

Analyst Recommendation: HOLD

Market Capitalization: N15.04 billion

Recommendation Period: 365 days

Current Price: N7.99

Industry: Services

Target Price: N9.65

The increase in maturing debts remains a key concern – about 55 percent of total debts (N16.5 billion) are expected to be due for repayment in its full year result (2018). This will likely have an adverse impact on the group's debt service cost, as well as its capacity to raise additional debt. This has pushed talks for some of these debts to be converted into equity, as the equity fund - Abraaj Group- intends to convert its $10 million loan facility to equity in 2019. Accordingly, we place a **HOLD** rating on the company's stock, as the successful conversion of some of its loan stock will enable the company to improve its capital position and consolidate its market position.

Industry and company overview

Trailblazer in the leasing and rental services

C&I was incorporated in December 1990, but began operation in June 1991. The group is licensed by the Central Bank of Nigeria (CBN) to embark on both finance and operating lease agreements, as well as other ancillary services. In 1997, C&I listed on the Nigerian Stock Exchange (NSE), as the only leasing and rental company to achieve this feat at the time.

Over the last 28 years, C&I has expanded its reach in the Nigerian business space and beyond. The group operates three subsidiaries – C & I Motors Limited, Leasafric Ghana Limited (Ghana) and Epic International FZE (United Arab Emirates). Its services and product offerings span across marine, telecommunication, oil and gas, equipment rental, manpower outsourcing and transportation.

The group's principal activities revolve around fleet management, marine services, personnel outsourcing and Citracks telematics (specialized tracking and fuel monitoring solution and other fleet management solutions).

Subsidiaries of the Group

C&I Leasing	Leasafric Ghana	Epic International FZE
C&I Leasing (company) (100% owned) Diversified leasing, rental and ancillary service company authorized by the CBN	**Leasafric Ghana** (70.89%) Leasing company authorized by the Bank of Ghana, as well as the Hertz franchise in Ghana	**Epic International FZE** (100%) Wholly owned company trading in ships and boats in the free trade zone of UAE

C&I Leasing also operates three business divisions:

* C & I Fleet Management, includes Hertz car rental franchise, as well as an owned service centre and Cititraks telematics solutions service;

* C & I Outsourcing, specializes in human resource outsourcing for large corporations, as well as focusing on human capacity development; and,

* C & I Marine, a licensed operator in the maritime sub-sector of the oil and gas industry, providing both onshore and offshore services to clients.

C&I's track record has helped the group secure some long-term contracts with multinationals and other blue chip companies. As the only diversified leasing company listed on the NSE, C&I has invested extensively in fixed assets, representing 64 percent of balance sheet footing. Some of the group's key clients include oil and gas companies: Shell Petroleum Development Corporation, ExxonMobil, Chevron, Nigerian Liquefied Natural Gas, as well as other multinationals, such as British American Tobacco and General Electric.

Income Statement for C&I Leasing Plc (FY Dec 2017)

N'000	2014	2015	2016	2017
Gross earnings	13,883,942	14,577,657	17,015,799	21,371,697
Lease income	7,680,762	8,177,053	9,110,756	13,972,951
Lease expense	(1,761,871)	(2,193,854)	(2,741,266)	(4,861,802)
Net lease income	**5,918,891**	**5,983,199**	**6,369,490**	**9,111,149**
Outsourcing income	4,987,412	5,509,121	5,897,682	6,230,228
Outsourcing expense	(4,353,276)	(4,821,896)	(5,179,863)	(5,525,571)
Net outsourcing income	**634,136**	**687,225**	**717,819**	**704,657**
Vehicle sales and repairs	495,626	259,185	386,584	-
Cost of sales and repair	(390,535)	(210,888)	(345,959)	-
Net income from vehicle sales	**105,091**	**48,297**	**40,625**	**-**
Tracking income	50,389	130,594	388,880	195,660
Tracking expense	(16,724)	(31,361)	(287,233)	(72,591)
Net tracking income	**33,665**	**99,233**	**101,647**	**123,069**
Interest income	270,467	20,391	8,927	60,285
Other operating income	399,286	481,313	1,222,970	876,748
Finance cost	(3,271,417)	(2,681,670)	(2,750,118)	(3,500,610)
	4,090,119	**4,637,988**	**5,711,360**	**7,375,298**
Impairment charge	52,985	(130,020)	(604,798)	(235,325)
Depreciation expenses	(1,606,265)	(1,968,852)	(2,147,560)	(3,037,925)
Personnel expenses	(713,699)	(762,388)	(788,638)	(1,227,219)
Distribution expenses	(58,596)	(13,479)	(20,663)	(42,183)
Other operating expenses	(1,352,738)	(1,297,610)	(1,113,477)	(1,591,105)
share of gain from joint venture			-	20,531
Profit on continuing operation before taxation	**411,806**	**465,639**	**1,036,224**	**1,262,072**
Income tax expense	(233,739)	(316,871)	(115,357)	(162,783)
Profit after tax (PAT)	**178,067**	**148,768**	**920,867**	**1,099,289**

Balance Sheet for C&I Leasing Plc (FY Dec 2017)

N'000	2014	2015	2016	2017
Assets				
Cash and cash equivalent	1,470,072	1,417,825	983,183	1,239,836
Loans and receivables	743,985	471,528	226,512	351,957
Trade and other receivables	3,970,054	6,542,523	6,056,406	6,584,292
Finance lease receivables	2,492,275	2,433,283	1,728,632	1,515,030
Available for sale assets	15,729	15,379	20,044	26,180
Investment in joint ventures	-	-	-	52,634
Other assets	83,827	160,990	3,745,527	5,021,348
Inventories	573,709	431,200	704,737	512,379
Operating lease assets	11,730,045	15,475,375	22,521,767	27,167,387
Property, plant & equipment	1,231,117	1,418,287	1,479,740	1,584,522
Intangible assets	145,365	34,321	27,631	15,955
Current income tax assets	12,897	22,699	26,556	55,178
Deferred income tax assets	864,951	854,607	850,965	854,607
Total assets	23,334,026	29,278,017	38,371,700	44,981,305
Liabilities				
Balance due to banks	579,861	718,804	910,963	1,120,306
Commercial notes	4,926,881	5,598,090	7,060,371	9,672,506
Trade and other payables	2,004,314	3,261,843	5,300,648	6,621,125
Current income tax liabilities	212,216	464,216	102,392	139,275
Borrowings	9,663,465	13,356,957	16,699,543	18,125,421
Retirement benefits obligation	35,238	47,989	37,024	33,899
Deferred income tax liabilities	107,409	141,125	167,732	168,082
Total liabilities	17,529,384	23,589,024	30,278,673	35,880,614
Equity				
Share capital	808,505	808,505	808,505	808,505
Share premium	679,526	679,526	679,526	679,526
Deposit for shares	2,091,430	2,453,528	2,466,012	2,283,312
Statutory reserve	722,521	829,325	1,039,228	1,121,580
Statutory credit reserve	262,799	613,725	626,343	160,600
Retained earnings	388,405	(54,767)	511,859	1,960,108
Foreign currency translation reserve	204,342	(393,369)	1,097,318	1,126,805
AFS fair value reserve	(5,163)	(5,513)	(848)	5,288
Revaluation reserves	484,903	581,094	643,246	683,400
	5,637,268	5,512,054	7,871,189	8,829,124
Non controlling interests	167,374	176,939	221,838	271,567
Total equity	5,804,642	5,688,993	8,093,027	9,100,691
Total equity and liabilities	23,334,026	29,278,017	38,371,700	44,981,305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Management Overview

C&I has embarked on rapid expansion especially in its marine division. This has been largely financed by debt. The management adopted a diverse portfolio of debt options – bonds, commercial papers, term loans finance lease and bank facilities. Likewise, these debts cut across banks, sovereign institutions and individuals – helping it to better manage its debt profile.

The management of C&I has also implemented some cost optimization strategies, especially among indirect operating expense items. In 9M'18, personnel, distribution and other maintenance costs relative to revenue declined by 160 basis points to 9.1 percent, compared to 10.7 percent in 9M'17. This affirms that management initiatives, in terms of its development of human capital and capacity, buoyed service delivery.

The board of C&I is under the stewardship of Chief Chukwumah Okolo, a chartered accountant. He is the former Chief Executive Officer of Dorman Long Engineering Limited, a leading engineering firm in the construction and supply in the heavy industry materials.

Mr. Andrew Otike-Odibi, the Managing Director, has been on the board of C&I since 2007. He has been pivotal to the double digit growth recorded in the last three years. Since his appointment as MD/CEO in 2016, the group has also intensified efforts to be a leading Nigerian player in the marine business.

Chairman

Chief Chukwumah Okolo

Managing Director

Mr. Andrew Otike-Odibi

Bulls and Bears say

Bulls Say:

* Strong franchise value and goodwill – from international alliances
* Cost optimization by leveraging technology
* Indigenous brand equity in leasing business
* Relatively diversified income stream – servicing key sectors in the Nigerian economy
* Strategic business unit (SBU) optimization – portfolio of both internal and external customers
* Synergy between SBUs – resulting in both economies of scale and scope

Bears Say:

* Relatively high debt-to-equity position
* Operates in a highly capital intensive industry – strain on financial resources
* Demand for services could have an indirect relationship with economic affluence
* Reverse stock split was not well received by investor sentiments

Risks and Outlook

The most potent risk to C&I's current business model revolves around strategic, operational and financial risks. C&I is approaching three decades in leasing, rental and ancillary business segments, providing bespoke product offerings to an array of internal and external clients. The company has maintained a relatively stable ownership structure – leveraging debt finance for business expansion. This has increased the group's net-debt position over the years. However, C&I has consistently and adequately maintained a good credit rating, servicing its obligation or opting for a restructuring.

The possibility of Abraaj Group converting some of its $10million (convertible) debt obligations to equity may help improve the group's net debt position, as well as dilute the ownership structure of the group. This might result in a possible change in business approach (strategy). However, Abraaj has been a long standing business partner, posing no significant threat to the current business philosophy.

Similarly, the group's robust governance framework and zeal to deliver value to clients have been a critical success factors over the years. Most sectors in the Nigerian economy experienced pivotal changes in line with new realities. This necessitated the need to cut costs, optimize operations and review contract agreements. This development adversely impacted the contract terms of C&I with most clientele. However, the austerity measures also sprung up new opportunities for C&I, as more organizations outsourced respective support services, providing a broader income base for the group.

The 2016 economic recession was an opportune moment for the group to provide an array of services to a wider spread of customer. However, to hedge the volatility in its income stream and deliver superior value to shareholders, the group adopted a more deliberate value-based strategy. This has seen the group cross-sell some of its products and services, providing value to clients and relatively reducing customer acquisition cost.

Our valuation

Using the Discounted Cash Flow (DCF) methodology, we estimated a stock price of N9.65, which is a 20.78 percent upside on the current price of N7.99 as of April 17, 2019. The discount rate (Weighted Average Cost of Capital (WACC)) of 13.8 percent was derived using a 15.25 percent risk free rate (FGN 5-year Bond as at December 2018), a Beta of -0.0566, an after-tax cost of debt of 13.5 percent, and a market risk premium of 6.34 percent. The long-term cash flow growth rate to perpetuity calculated is 4.5 percent.

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

DCF Valuation

N'000	2018E	2019E	2020E
EBIT	7,837,356	8,418,129	9,176,779
Less: Taxes	(1,410,724)	(1,515,263)	(1,651,820)
EBIAT	6,426,632	6,902,866	7,524,959
Plus: D&A Expense	3,240,854	3,326,420	3,428,420
Less: CAPEX	(5,172,462)	(4,378,836)	(4,565,421)
Less: Change in working capital	(2,538,166)	(3,070,441)	(2,893,697)
Free Cash Flow (FCF)	1,956,858	2,780,009	3,494,261
WACC	13.8%	13.8%	13.8%
Present Value (PV) of FCF	1,718,828	2,144,828	2,367,963

	2018	2019	2020
Terminal value			39,060,295
Present value of terminal value	26,470,065		

DCF Calculation	Valuation
PV of explicit period	6,231,619
PV of terminal value	26,470,065
Enterprise Value	32,701,684
+ Cash	119,530
- Borrowings	(28,918,233)
Equity Value	3,902,981
Share price	***9.65***