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FDC MONTHLY ECONOMIC UPDATE

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In This Issue..

The growing spectre of falling oil prices

Oil prices plunged below $70pb ($69.73) after climbing to a year to date high of $74.57pb in April. The OPEC production cut coupled with the political and economic unrest in Libya, Venezuela and Iran has supported the upward trend in prices. However, prices are pressured by an increase in the US shale inventories and an escalating US/China trade war.

The impact of softer oil prices is a reduction in Nigeria's oil proceeds. But the good news is that domestic oil production is increasing (1.82mbpd) and this could offset revenue loss from lower oil prices. However, the good news may be short-lived if and when Nigeria is compelled to comply with its OPEC quota

The Unending US/China trade war

The US announced its intention of raising tariffs to 25% from 10% on $200 billion worth of Chinese imports effective May 10. The escalated trade war between the two giant countries could hit economic growth and have a negative impact on the demand for oil.

China has responded to US tariffs by raising its tariffs on $60 billion worth of US goods, starting June 1. The affected US goods include peanuts, sugar, wheat, chicken and turkey.

High US inventory weigh on prices

Oil prices declined by 6.30% in a week due to an increase in the US shale inventory. However, economic disruptions in Libya and Venezuela limited the anticipated impacts of the fall in prices. In addition, the removal of US sanction waivers granted to eight Iran oil importers would further reduce global output shortage.

Nigeria at risk?

	Budget	Actual	% change
Price ($'pb)	60	69.73	16 ⬆
Production (mbpd)	2.3	1.82	25 ⬇

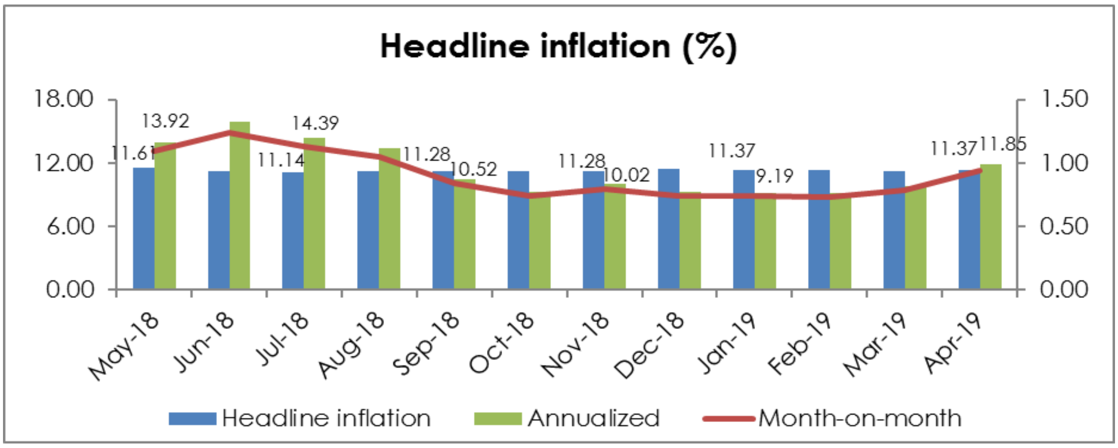
Recently, oil multinationals Shell and Total declared force majeure on Bonny light crude and Amenam respectively. Also, Aiteo did same at Nembe creek. This could result in a decline in the oil production level which is currently at 1.73mbpd. Although Brent price has reversed its downward trend, it is important to pay attention to revenue generating entities to mitigate against any external shock to oil prices.

Will oil prices recover?

We anticipate a further tightness in the global oil supply in the coming months due to expectations of lower crude production in Iran. This is expected to have a positive impact on prices. Thus, we expect oil prices to trade within the range of $71-73pb in the coming weeks. However, with Nigeria's oil production cost per barrel of $23, any fall in oil prices will have a negative impact on the country's oil yield.

Headline inflation bucks its declining trend, climbs 12bps to 11.37% in April

Contrary to our forecast and analysts' general consensus, the headline inflation bucked its 3-month declining trend in April, rising by 0.12% to 11.37%. This was buoyed by an increase in both domestic and imported food prices. In the review period, the price of a basket of tomatoes jumped by over 70%. The commencement of planting season coupled with elevated security threats in the food producing states resulted in a decline in food supply. Notably, all other sub-indices except for the core sub-index moved in tandem with the headline inflation.



[1]

Month-on-month inflation up 0.94%

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Data Breakdown

Food inflation advanced to 13.70%

In April, both the annual and monthly food price indices increased by 0.25% and 0.26% to 13.70% and 1.14% respectively. This was mainly due to an increase in the prices of commodities such as bread and cereals, meat, fish, milk, potatoes, yam and other tubers, oils and fats, vegetables, fruits, cheese and egg.

[1] NBS; FDC Think Tank

Core inflation down to 9.3%

The annual core sub-index (inflation less seasonalities) declined to 9.3% in April from 9.5%in March. However, the month-on-month index rose to 0.70% in April from 0.53% in March. This decline in the core sub-index could be partly attributed to the stability in the exchange rate.

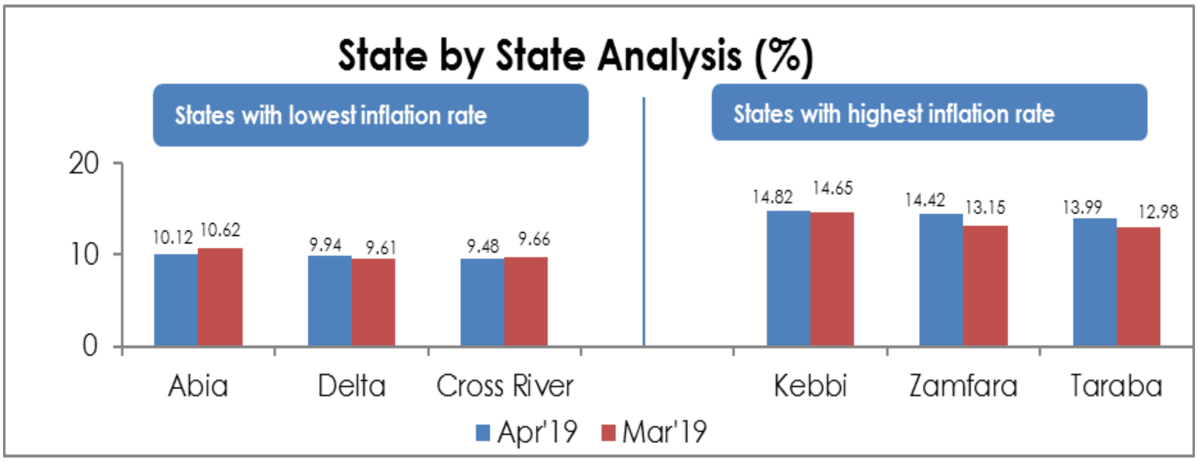
Core inflation is 79bps below the 91-day primary market T/bills rate of 10.15%. This is indicative of a positive rate of return on investment.

Rural &Urban Indices resume upward trends

On an annual basis, the year-on-year urban and rural inflation rose by 0.16% and 0.09% respectively to 11.70% and 11.08% in April. Similarly, the monthly urban and rural inflation indices increased to 1% and 0.90% respectively from 0.81% and 0.77% in March. This reflects the planting season effect.

State by State Analysis

Cross Rivers state recorded the lowest inflation rate (9.48%), followed by Delta (9.94%) and Abia (10.12%), all states that belong to the NDDC. The states with the highest inflation rates were Kebbi (14.82%), Zamfara (14.42%) and Taraba (13.99%). Analysis showed that inflation rates were highest mainly in states with recent spate of insecurity and disruption.



[2]

[2]NBS, FDC Think Tank

Sub-Saharan Africa (SSA) – Inflation trend upwards

Inflationary pressures are mounting in Sub-Sahara Africa (SSA). Four of the SSA countries under our review have released their inflation numbers for the month of April. While Nigeria, Kenya and Uganda recorded an increase, Angola posted a decline.

With the exception of Nigeria, all the SSA countries under review maintained status quo on monetary policy parameters at their last monetary policy meetings.

Country	April Inflation (%)	April Policy rate (%)	GDP Growth rate Q4'18 (%)
Nigeria	11.37	13.5	2.38
Angola	17.36	15.75	2.2
Kenya	6.58	9.0**	5.9
South Africa	4.50*	6.75**	1.4
Ghana	9.3*	16	6.8
Uganda	3.5	10	6.6 [3]

Outlook

The rise in inflation is expected to be sustained in May/June. This would be driven by both demand-pull and cost-push inflation factors. The commencement of planting season will result in food supply shortages while the minimum wage implementation and the Ramadan fast would increase consumer demand. All things being equal, the confluence of supply shortages and increased demand would exert pressure on prices.

The re-emergence of inflationary pressures increases the probability of the MPC members adopting a more hawkish monetary policy stance at its May meeting.

[3]Trading Economics, FDC Think Tank, *March figure, **March figure

Economic Recovery and Growth Plan: What has Nigeria achieved?

An economic plan can be defined as a scheme designed to achieve economic objectives within a specified period of time. Nigeria has witnessed several economic development plans including Operation Feed the Nation, Seven Point Agenda, Transformation Agenda amongst others.

The most recent economic framework launched by the Federal government is its three-year Economic Recovery and Growth Plan (ERGP). The objective of the blueprint which was launched in 2017 is to guide Nigeria's exit from recession in the short term as well set out a plan for sustained growth and development in the medium to long term. The federal government identified the need to achieve transformational growth by improving both public and private sector efficiency. The plan outlined three broad objectives and strategies to achieve its targets:

1. **Restoring growth:** At the core of the ERGP framework is the federal government's plan to achieve macroeconomic stability and economic diversification. The average real gross domestic product (GDP) forecast for the three-year period (2017-2020) was estimated at 4.62%. By 2020, the goal was to achieve a transformational growth rate of 7% driven by fiscal stimulus and increased growth in non-oil sectors such as agriculture, manufacturing and services. Alignment of monetary, fiscal and trade policies, privatization of selected public enterprises/assets and fiscal consolidation through cost cutting measures such as rationalization of overheads and recurrent expenditure were some of the strategies set out by the federal government to achieve its growth target.

2 **Investing in the Nigerian people:** The federal government realized that economic growth is only beneficial if it creates opportunities for the vulnerable within the society. It is for this reason the ERGP identified job creation, the empowerment of Nigerian youth and the improvement of human capital as critical milestones of the plan.

3. Building a globally competitive economy: To effectively boost Nigeria's economic growth, the ERGP aimed to tackle challenges of the business environment and improve the competitiveness of Nigerian businesses. To achieve this the federal government planned to invest in infrastructure, improve the business environment and promote technology-driven growth.

To achieve these objectives, the ERGP was built on the efforts of previous plans including the Sustainable Development Goals, the National Industrial Revolution Plan, and the Nigeria Integrated Infrastructure Master Plan among others. However, the framework differs from other plans in its intended synergy between the private and public sectors. The execution strategy was built on a collaborative effort between the government and enterprises in various sectors including agriculture, power, manufacturing and services sectors.

Less than one year to go: What has Nigeria achieved?

The 2020 deadline for the ERGP framework is less than 12 months away. It is imperative to do an assessment of the framework. Which of the objectives have been successfully implemented? Which targets have not been met and what can be done to achieve them?

Table 1: ERGP's 2020 Projections

Indicator	Current State	2020 Target	Gap (%)
Oil production (mbpd)	1.82	2.5	-27.2
Real GDP growth (%)	1.9 (2018)	7	-5.1
Inflation rate (%)	11.37	9.9	-1.47
Unemployment (%)	23.1	11.23	-11.87
GDP per capita ($)	2,367	2,854	-17.06
Tax to GDP ratio (%)	4	15	-11
Total debt stock (N'trillion)	24.39	21.51	-13.39

[4,5]

[4]Ministry of Budget & National Planning. 2017. "Economic Recovery & Growth Plan (2017-2020)," Federal Republic of Nigeria. https://yourbudgit.com/wp-content/uploads/2017/03/Economic-Recovery-Growth-Plan-2017-2020.pdf

[5]OPEC, NBS, DMO, EIU

From the table above, we see that the government is yet to achieve some of its set objectives in the ERGP. For instance the transformational growth rate and a single digit inflation rate objectives are yet to materialize. However, the successful launch of certain programmes and initiatives such as the Anchor Borrowers Programme and the Presidential Enabling Business Environment Council is worthy of commendations. Further analysis shows the following.

Firstly, the objective to restore growth does not appear to have materialized. According to the ERGP blueprint, economic growth in 2017 and 2018 should have been 2.19% and 4.80% respectively. However, in reality Nigeria's economy grew only 0.82% in 2017 and 1.9% in 2018. The inability to meet the targets in the first two years of the framework threatens the federal government's ability to meet its growth targets of 4.5% in 2019 and 7% in 2020. Output constraints, such as herdsmen conflicts, flooding, and high interest rates, have stunted growth at a sub-optimal level of 1.9%, below the population growth rate of 2.6%.

The achievements of ERGP's second objective of investing in the Nigerian people through strategies such as social inclusion, job creation and youth empowerment has been mixed. Social intervention programs, such as Trader Moni and N-Power, have been launched in a bid to empower Nigerian youth and alleviate poverty. However, unemployment increased from 20.4% in 2017 to 23.1% in 2018. Youth unemployment increased from 26.58% in 2017 to 29.72% in 2018. In addition, two years after the inception of the framework, Nigeria has overtaken India as the poorest country in the world with 87 million citizens living below the poverty line of $1.90 per day.

Thirdly, the objective of building a globally competitive economy has achieved some fair progress within the first two years of the plan. While Nigeria's ease of doing business rank dropped one place from 145 in 2017 to 146 in 2018, the launch of the Presidential Enabling Business Environment Council (PEBEC) has impacted positively on the Nigerian business environment. PEBEC has successfully launched business initiatives, such as starting a business, registering property, getting electricity, getting credit and paying taxes. The aim of the government, through this initiative, is to elevate the economy to top 100 in the World Bank's Doing Business Report by 2020. Nigeria is currently 46 places away from this target.

The way forward- *the 2020 deadline looms*

With less than one year to go, the targets set in the ERGP are looking more and more unachievable by the day. It has become highly unlikely that a 7% growth rate (from 1.9% in 2018) will be achieved. Nor does a single-digit inflation rate (from its current level of 11.37%) nor an unemployment rate of 11.23% (from 23.1%) seem likely in less than 12 months. Even if the right tools and policies are deployed, the time frame is unrealistic.

We suggest a review of the time frame for achieving the set targets of the ERGP. An extension of the framework would allow the federal government more time to execute and implement the right policy tools to meeting its objectives. A medium to long-term period (e.g. 5-10 years) would also encourage policy continuation of administrations. Policies established by a ruling administration are often known to be discontinued by the next administration. An extension of the period and policy continuation should be complemented by tough game-changing decisions by the government to achieve transformational growth in the near to long term.

One such choice is to provide incentives for both domestic and international investment to achieve a growth rate of 7% or higher. Currently, Nigeria's gross fixed investment accounts for only 14% ($66.3 billion) of GDP. Increased investment would have a multiplier effect on consumption and aggregate demand.

A second way to achieve the set targets of the ERGP is through increased state cooperation. States across the Federation can emulate the example set by the federal government by formulating laid out objectives and strategies to achieve improved growth and development. For instance, Kaduna state has launched its Infrastructure Master Plan, which is expected to run between 2018-2050. The 32-year framework is aimed at restoring the state to its former glory as the business and industrial hub of the nation through infrastructure development. If all states work towards the common goal of accelerated growth, the targets of the ERGP could be achieved within the new time frame.

The federal government should also consider setting up a monitoring and evaluation committee for the ERGP initiative. The function of the committee would be to perform regular and thorough observations of the targets and the progress of each stakeholder in achieving said objectives and to report the results.

Conclusion

While the ERGP objectives appear challenging, if deliberately implemented and measured, the benefits to the economy will be substantial. For a long-term impact on the Nigerian economy, the efforts and policies to achieving the set objectives in the framework must outlive the Buhari administration. Commitment by both federal and state governments is also necessary to achieving a transformational growth rate.

Offer-Circular

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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

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Offers for Subscription by Auction

and is authorized to receive applications for

₦35,000,000,000 - 12.75% FGN APR 2023 (5-Yr Re-opening)*
₦35,000,000,000 – 14.55% FGN APR 2029 (10-Yr Re-opening)*
₦30,000,000,000 – 14.80% FGN APR 2049 (30-Yr Re-opening)*

Auction Date:	**May 22, 2019**
Settlement Date:	**May 24, 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:
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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.

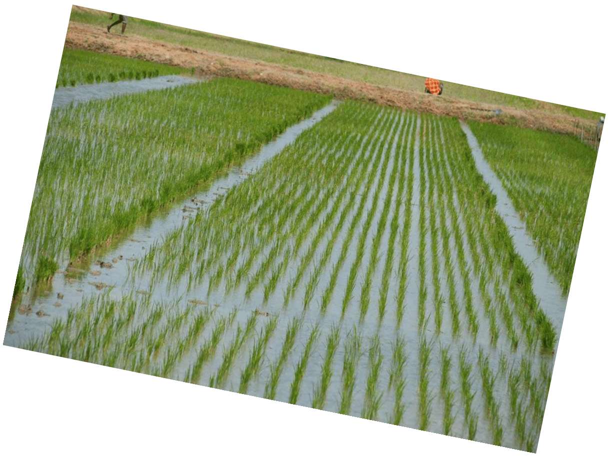
INTERESTED INVESTORS SHOULD CONTACT OFFICES OF ANY OF THE FOLLOWING PRIMARY DEALER MARKET MAKERS (PDMMs):

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.

Rice production in Nigeria

Journey to self-sufficiency and a smuggler's paradise



Rice, one of the most consumed staples in Nigeria, has become a hot topic in the past few years. Significant focus and investment, by the past two administrations, on trade policies and marketing systems has made Nigeria the largest producer of rice in Africa. Specific actions have included tariffs, quantitative restrictions on imports, and an outright ban on imported rice. It was also included in the forex restriction list. Yet, Nigeria still has a demand gap of three million metric tons, costing the country $1.83 billion a year.[6]

The key barrier to closing the demand gap is poor mechanization of rice production. Low income, limited access to affordable financing and a lack of technical skills have limited the adoption of mechanized farming across the rice value chain. As Nigeria's population continues to grow, alongside rural to urban migration, ensuring food security in key staples such as rice becomes critical. To close this gap Nigeria should look to veteran rice producers, like India, for policy guidance on increased mechanization.

[6] USDA

Using mechanization to boost rice production: The custom hiring approach - Lessons from India

Currently, Nigeria's mechanization rate per hectare is 0.27 horsepower per hectare (hp/ha) relative to India's of 1.96hp/ha. Engineering and technological inputs in agriculture have made a significant contribution in India's yields, increasing production and productivity through timely farm operations such as proper irrigation and harvest, and better placements of inputs such as fertilizers. Conserving soil and water resources and increasing irrigation potential and efficiencies have also been a major focus for India, as has reducing losses of produce by providing improved storage structures and technologies. However, it's most compelling investment has been in the agricultural services centers and the commitment to renting machinery to farmers as a way of overcoming the steep costs of mechanization.

India is not only the second largest producer of rice in the world but also a net exporter of rice. As of 1961, rice farming was mainly dependent on human and animal power and production stood at 53.49 million metric tons.[7] However, due to the increasing cost of animal upkeep and growing scarcity of human labor, India gradually and steadily shifted from primitive to mechanized farming techniques. Improved yields followed suit with India producing 168.5 million metric tons by 2017.[8]

Mechanization was introduced to rice production in the mid-1960s when Agro Industries Corporations (AICs) were established.[9] The AICs are private owned organizations, set up as machinery service centers, to provide custom hiring and servicing facilities to the farmers in order to boost production, and improve quality, timeliness and efficiency. Custom hiring made tools and equipment – such as tractors, tippers, seeders, threshers, dryers, separators and other important tools – available to farmers. This service was supported by farm machinery banks to provide rental financing. Combined, these two components were critical players in overcoming the financial barrier to mechanization. These centers were run on a no profit or loss basis.

[7]Food and Agricultural Organization. 1961. "FAOSTAT". United Nations. http://www.fao.org/faostat/en/#data/QC
[8]Ibid
[9]Food and Agri Strategic Advisory and Research (FASAR), YES BANK German Agribusiness Alliance at OAV - German Asia-Pacific Business Association (GAA). 2016. "Farm Mechanization in India: The Custom Hiring Perspective." Government of India, Ministry of Agriculture and Farmers Welfare. https://www.yesbank.in/beyond-banking/knowledge-reports/food-and-agriculture/farm-mechanization-in-india-the-custom-hiring-perspective

In 1971, the government of India supported the AICs by launching a scheme to set up agro-service centers all over the country. The scheme was launched to enhance and support the efficiency and effectiveness of the AICs. The scheme which was adopted by the government in 1971 was not implemented until 1990 when production stood at 111.52 million metric tons under the National Agriculture Technology Project (NATP) and the National Agricultural Innovation Project (NAIP).[10]

Subsequently, India's rice production increased to 168.50 million metric tons and is now the second highest producer of rice in the world.

In addition, India's government supported farmers through the provision of input subsidies such as low-cost seeds and fertilizers, subsidized electricity and interest-free credit to farmers. The input subsidy was introduced in 2008 when production was 148 million metric tons. This supported the improved mechanized farming already in the system and as a result, rice production increased to 168.50 million metric tons annually. There has been consistency in the subsidies provided over the years. The seed-disbursement subsidy grew by 7.6% from 2010 to 2015. Over the same period, fertilizer subsidies increased by approximately 16% and the government-sponsored credit increased by 96%.[11]

Conclusion

Nigeria has a good climate for rice production and it has a favorable market to absorb the production. However, it is necessary to improve the quality of indigenous rice to compete with imported rice through the selection and adaptation of modern rice technologies. The government has a role to play in forming strong policies that will favor mechanized production of local rice as it is being practiced in advanced world.

[10] Ibid

[11] Riya Sinha, 2019. "The Political Economy of Rice-Back to the Roots". asiafoundation.org/2019/02/27/the-political-economy-of-rice-back-to-the-roots/

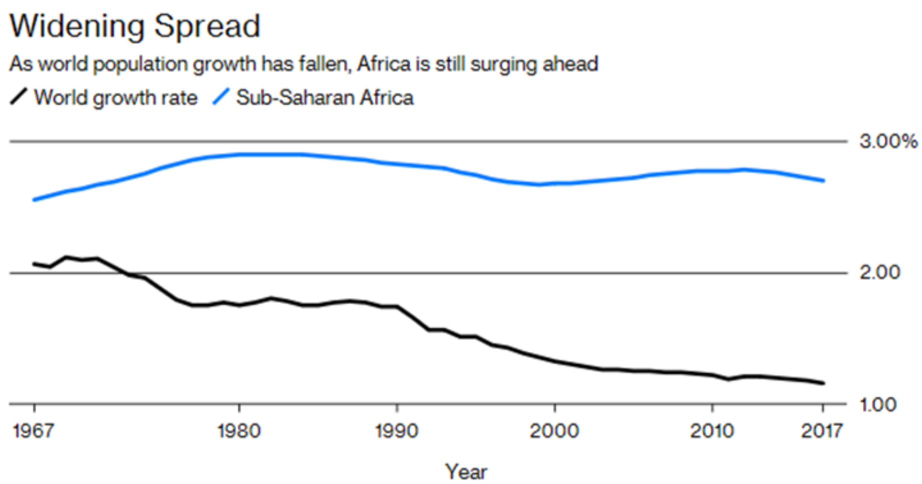
How booming population is challenging Africa

Global Perspective: Culled from Bloomberg Businessweek

The world's developed economies are facing a decline in fertility so pronounced that some will see their populations and economies shrink in years ahead. Sub-Saharan Africa faces the opposite situation: Its population has more than doubled in the past three decades and is expected to triple again by the end of this century. While the growing number of young, working-age people creates economic opportunities, it's not clear how governments will manage the boom and whether the path to prosperity followed by other developing regions -- shifting into manufacturing -- is still available. Will the benefits of a more crowded Africa outweigh the drawbacks, or are its problems too dire and its governance too weak?

1. Why the surge?

Population growth in sub-Saharan Africa owes primarily to better medical care, which has slashed infant and child mortality and raised average life expectancy from 50 to 61 since 2000. The population has soared to about 1.1 billion and it could hit 4 billion by 2100, says the United Nations. Nigeria alone is predicted to double to 400 million people by the middle of the century, making it the world's third-most populous country after China and India. Sub-Saharan Africa's per-capita gross domestic product has climbed 40% since the start of the century to $1,652, compared with $1,987 in India. However, oil and mineral riches mean a handful of nations are 10 or more times wealthier than a score of others that remain desperately poor.



[12]

[12] World Bank, Bloomberg Quick Take

2. How could Africa benefit?

Almost 60% of sub-Saharan Africans are younger than 25, compared with one-third in the U.S. This "youth bulge" could translate into an ample and energetic workforce. But the benefits accrue only when greater prosperity reduces fertility rates. If the next generation has fewer babies than their parents, the proportion of working age people would rise relative to the number of their dependents -- mainly children and the elderly -- creating a so-called "demographic dividend." Smaller families allow more women to secure paid work, and parents and governments are able to invest greater resources in each child. That's what happened as Asia and Latin America developed, but Africa's fertility drop-off is forecast to take much longer due to deep-seated cultural attitudes and pervasive poverty.

3. What's the biggest challenge?

Jobs. The African Development Bank estimates that more than 10 million new jobs must be created each year just to absorb the number of young people entering the workforce. Increased automation in manufacturing might squeeze off a traditional source of employment growth, so some countries are pinning their hopes instead on services. Call centers and other kinds of outsourcing operations have opened in South Africa and cities such as Lagos, Nigeria and Kinshasa, Democratic Republic of Congo. Tourism has overtaken coffee and tea exports as the top foreign currency earner in Rwanda.

4. What needs to change?

Education. Almost a third of children in sub-Saharan Africa don't attend school, and on average just 4% of the population completes university. The region also struggles to feed its population, with one in four classified by the UN as malnourished. To move beyond subsistence agriculture, politicians must invest billions in public services and infrastructure such as water and electricity to serve a rapidly urbanizing citizenry. Mali and Uganda have improved roads and transport links to boost exports of mangoes and fish, while Ethiopia is building Africa's largest hydroelectric plant, on the Blue Nile, to control flooding and generate power. Governments also must tackle environmental degradation, including worsening pollution and deforestation.

5. Can Africa's population growth be slowed?

Yes, though progress has been slow compared with other regions. Women have 4.8 live births on average, down from 6.8 in the late 1970s but still nearly three times the number in Europe and North America. Rwanda encouraged family planning and made contraceptives available at clinics, driving its fertility rate down by more than half, to 3.8 over the past 20 years. But many other countries still fall short: on average, sub-Saharan African women have two more children than they want to, and in 14 countries, they average five or more children.

6. What if Africa can't absorb all those people?

Overcrowded countries such as the Philippines, India, Bangladesh and Indonesia have seen waves of workers move abroad to fill jobs in more developed places and send earnings back home. While Africans are starting to follow suit, the outflows come as doors that were open for others may already be closing. In Italy, populist leaders are responding to rising anti-immigration sentiment by turning away the boatloads of Africans trying to reach Europe illegally across the Mediterranean.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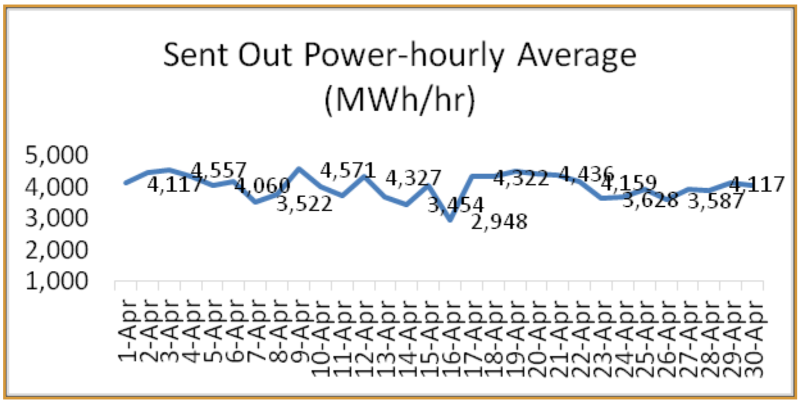
Macro-economic indicators (April 1st-30th)

During the review period, the average power output stood at 4,008MWh/h, 3.52% lower than the average output in March (4,172MWh/h). On April 16th, the national power output dropped to a 9-month low of 2,948MWh/h due to a cut on the Egbin – Benin 330KV line. A breakdown of constraints to power generation is as follows:

Constraint (MWh/hour; total)	March	April
Gas	69,867.76	58,028.16
Grid	26,731.60	35,574.40
Water	2,250	2,850

[13]

Gas constraints during the period resulted in an aggregate revenue loss of N49.14bn (N589.68bn annualized).



[14]

Outlook

We expect an improvement in the power output in the near term on the back of the forthcoming rainy season, which would result in lower water constraint and boost Nigeria's hydropower output. Hence, average output is expected to oscillate within the range of 4,200-4,300MWh/hour in the coming weeks.

Impact

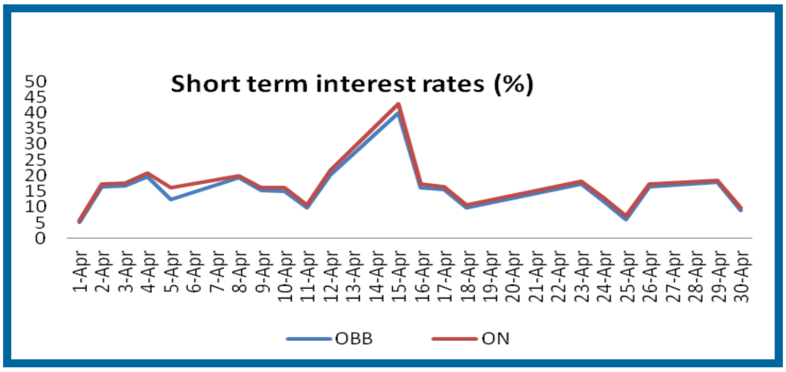
An increase in power supply is expected to result in a lower demand for alternative energy sources. This would lead to a fall in the operating expenses of firms.

[13]FG, FDC Think Tank
[14]FG, FDC Think Tank

Money Market

The average liquidity was negative for four days in April. This led to a decline in the average liquidity position to N139.71bn, 30.83% lower than the position of N201.98bn in the previous month. The NIBOR (OBB/ON) rates spiked to a two-month high of 40% pa and 42.93% pa respectively on April 16th, before retreating to close the period at 8.96% pa and 9.82% pa respectively.

Total OMO sales during the period was N526.47bn relative to maturities of N118.65bn. This resulted in a net outflow of N443.82bn.



[15]

At the primary market, the 91-day, 182-day and 364-day T/Bills tenors fell by an average of 12bps. On the other hand, at the secondary market, the yield on the three tenors increased by an average of 72bps.

T/bills Tenor	Secondary market rates as at April 1st (%pa)	Secondary market rates as at April 30th (%pa)	Direction	Primary market rates as at April 3rd (%)	Primary market rates as at April 17th (%)	Direction
91	10.68	11.25	↑	10.29	10.15	↓
182	12.97	13.72	↑	12.6	12.5	↓
364	12.67	13.52	↑	12.85	12.74	↓

The Nigerian Inter-Bank Treasury bill True Yield (NITTY) rates moved in opposite directions during the review period. The 30-day and 180-day tenors decreased by an average of 35bps while the 90-day tenors increased by 32bps.

[15]FMDQ, CBN

NITTY Tenor	Rates on April 1st (%pa)	Rate on April 30th (%pa)	Direction
30	11.15	10.75	⬇
90	10.87	11.19	⬆
180	13.86	13.56	⬇

[16]

Outlook

Movement of interest rates in the coming weeks would remain a function of market liquidity. Injections from OMO maturities and the implementation of the 2019 budget would increase naira liquidity. However, we expect the CBN to manage excess liquidity using measures such as the sale of OMO and Treasury Bills, and forex interventions.

Impact

Higher liquidity within the banking system would result in lower cost of borrowing (NIBOR (OBB/ON) rates).

Forex Market

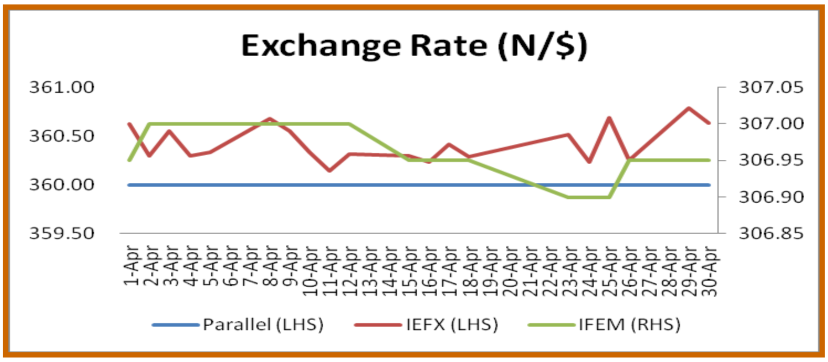
The Nigerian forex market is segmented with multiple exchange rates. The most important rate being the Investors and Exporters window (IEFX). No less than 55%-60% of Nigerian forex transactions are traded at this window. The CBN and most exporters and investors use this window. It serves not only as 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

The naira traded flat against the dollar at N360/$ at the parallel market in the month of April. The stability in the exchange rate could be attributed to an increase in CBN's intervention in the forex market which totaled $1.13bn, 100.25% ($567mn) higher than $565.6mn in March. The naira appreciated against the euro and pound at 0.74% and 0.63% respectively to close the period at N403/€ and N473/£.

At the interbank market, the naira traded within the range of N360.90-307/$ in April. At the IEFX window it was relatively flat between N360.62/$ to N360.63/$. Total forex traded in the IEFX window decreased by 40.86% to $5.24bn.

[16]FMDQ



[17]

Outlook

We expect the CBN to remain committed to defending the naira either through its regular intervention in the forex market or its aggressive OMO intervention strategy. Hence, naira to trade within the range of N359-361/$ in the coming weeks.

Impact

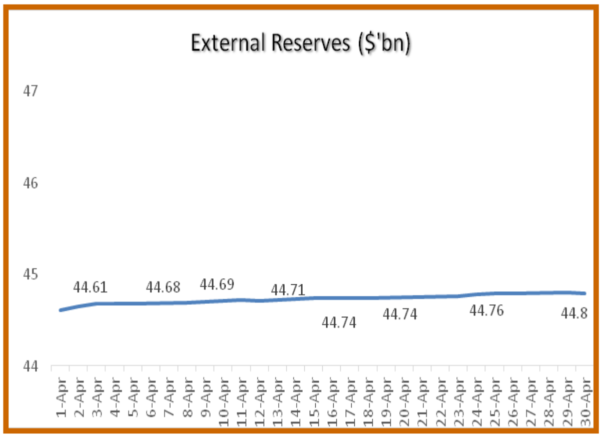
A stable exchange rate is positive for sectors such as manufacturing that depend mainly on imported inputs.

External Reserves

Nigeria's gross external reserves increased by 0.43% to $44.79bn on April 30th from $44.61bn on April 1st despite an increase in CBN's intervention by 100.25% to $1.13bn. Subsequently, Nigeria's import cover increased to 11.15 months from 11.11 months on April 1st.

Outlook

The expectation of an increase in liquidity to result in forex demand pressures. However, we expect the CBN to increase its intervention in the foreign exchange market. This could have a negative impact on the level of external reserves.



[18]

Impact

A decrease in the level of external reserves would threaten CBN's forex intervention when needed and reduce the country's buffers against negative external shocks.

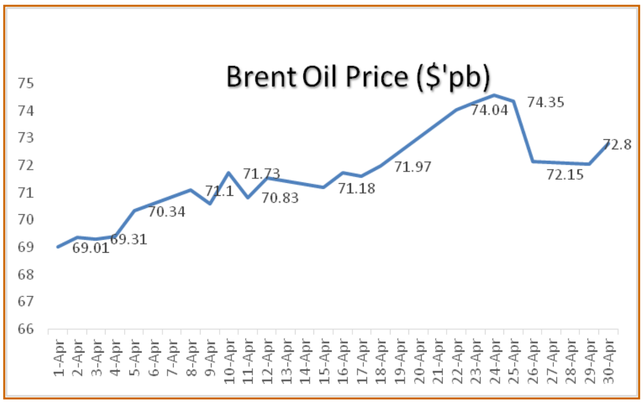
[17]FMDQ, CBN, FDC Think Tank
[18]CBN

Commodities Market - Exports

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

Oil Prices

Brent price averaged $71.62pb in the month of April, 6.88% higher than the average of $67.01pb in the corresponding period in March. The rally in oil prices was mainly driven by supply disruptions in OPEC nations (Iran, Venezuela and Libya) and Saudi Arabia's production cut.



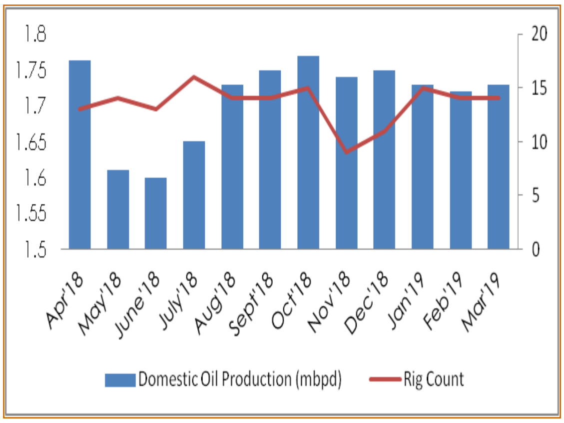
[19]

Outlook

The US removal of waivers on Iranian oil to drive prices up in the near term. However, increase in the US stockpiles to moderate gains. Hence, prices are expected to trade within the range of $71-$73pb.

Oil Production

According to OPEC's latest monthly report, Nigeria's oil production increased slightly by 0.58% to 1.73mbd in March. This was in spite of the flat lining in the number of operational rigs in Nigeria at 14 in March. Meanwhile, OPEC crude oil production averaged 30.02mbpd, 534,000 bpd lower than the previous month. This was supported by lower output in Saudi Arabia, Venezuela, Iraq and Iran.



[20]

Outlook

Declaration of force majueres on exports of Nigeria's Bonny Light crude by Royal Dutch Shell and Amenam by Total would push Nigeria's level of oil production downwards. Meanwhile, the renewal of some Oil Mining Leases (OMLs) in 2020 would reverse the expected decline in the long term. A case in point is the Malabu oil bloc that has an untapped oil reserves of 9 million barrels.

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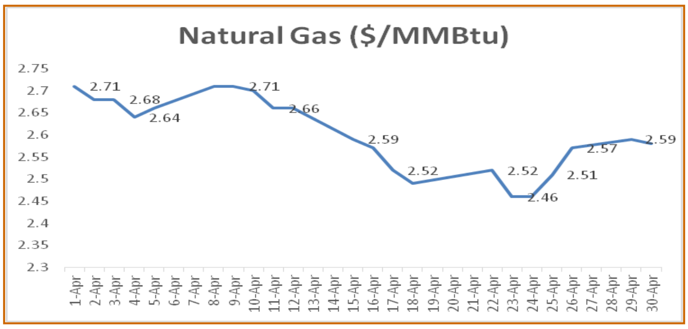
[19] Bloomberg
[20] OPEC and Baker Hughes

Impact

Crude oil accounts for approximately 90% of Nigeria's export revenue. A reduction in production is negative for government's fiscal consolidation efforts. However, the continuous increase in prices would curtail the loss.

Natural Gas

The average price of Natural gas prices declined by 7.47% to $2.60/mmbtu from the average of $2.81/mmbtu in March despite low global inventories.



[21]

Outlook

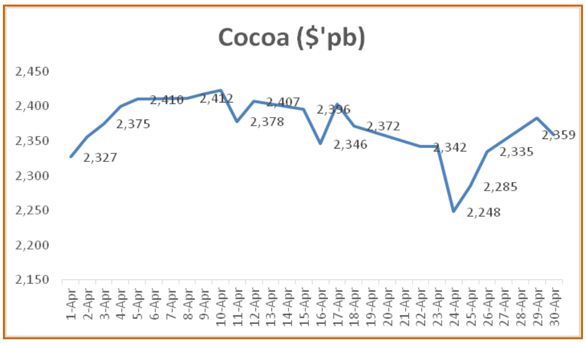
We expect an increase in global supply of natural gas following the commissioning of new LNG projects in Mozambique. This would further depress prices in the near term.

Impact

LNG accounts for approximately 12%[22] of export revenue. A continuous decline in the price of this commodity is negative for fiscal and external reserves accretion.

Cocoa

Cocoa prices averaged $2,365/mt in April, 7.35% higher than $2,203/mt in the previous month due to lower cocoa production in Ghana.



[23]

Outlook

Expectations of lower production in Ivory Coast to support prices in the near term. Thus, prices are expected to remain around $2,200/mt-$2,400/mt.

Impact

Nigeria, the world's fourth largest exporter of cocoa, produces 205,000 tonnes annually, 59% lower than FGN's target of 500,000 tonnes by 2021. An increase in global prices will result in higher export revenue.

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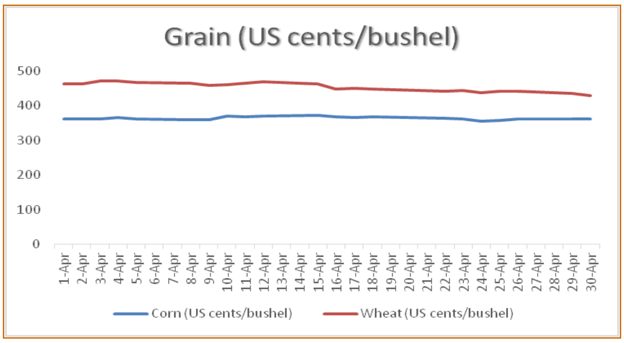
[21]Bloomberg
[22]EIU
[23]Bloomberg

Commodities Market - Imports

Wheat

The average price of wheat declined by 0.47% to $454.29/bushel in April, from $456.45/bushel in March due to ample global supply .



[24]

Corn

The price of corn averaged $363.81/bushel in April, 1.96% lower than the average of $371.10/bushel recorded in March despite a delayed planting in the US.

Grains- Outlook

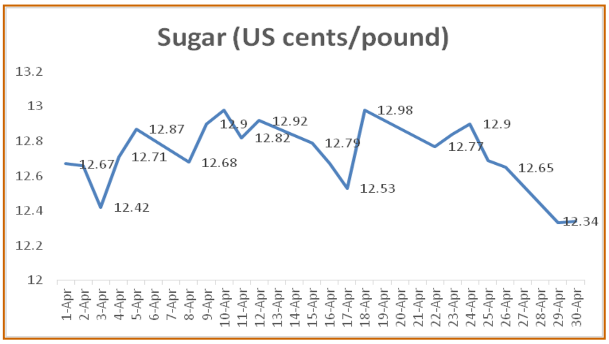
We expect wheat prices to continue its downward trend in the next few weeks due to favourable weather condition in Russia and Ukraine.

Impact

A decrease in wheat prices will have a positive impact on the operating expenses of wheat-dependent companies such as Flour Mills of Nigeria Plc and De United foods industries limited. This would result in higher bottom line.

Sugar

Sugar prices averaged $0.1272/pound in the month of April, 2% higher than the average of $0.1247/pound recorded in March. This was despite a slow global demand.



[25]

Outlook

Prices of sugar to be bearish in the coming weeks due to an anticipation of increased sugar production in Mexico.

Impact

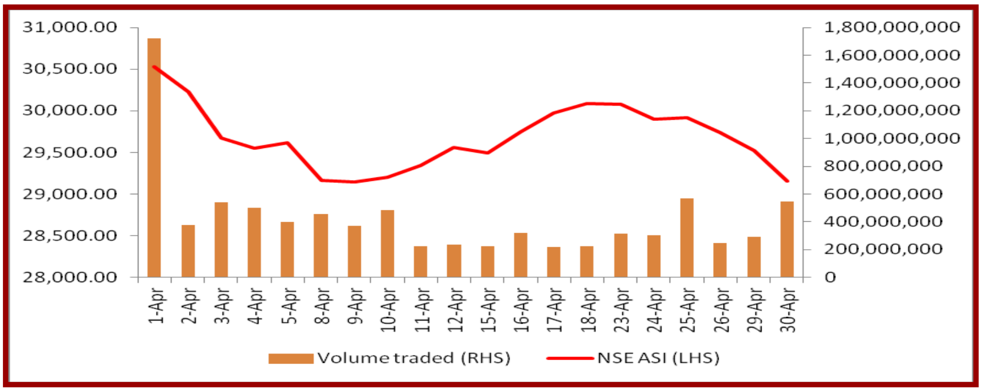
Sugar is an important ingredient in most consumable goods. Nigeria imports 1.87mn metric tonnes of this commodity annually, emerging as the world's 9th largest importer. A decrease in the global price of sugar signals a possible decline in the country's import bill.

[24] Bloomberg
[25] Bloomberg

Stock Market Review

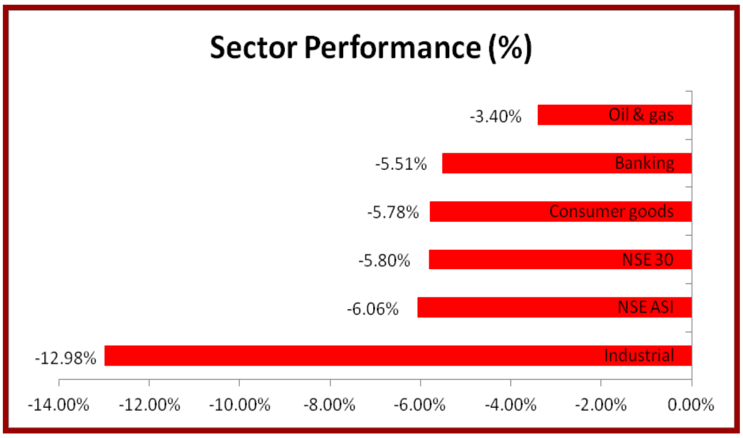
The performance of the Nigerian Stock Market was largely bearish in April, partly due to some relatively poor corporate results released for Q1'19. There were 12 negative and 8 positive trading days. The NSE ASI lost 6.06% to close at 29,159.74 points in April compared to March's close of 31,041.42 points. Likewise, market capitalization declined by 6.08% to N10.96 trillion.

The price to earnings (P/E) ratio stood at 7.41x, 4.26% lower than the close on March 29 (7.74x). The market breadth was negative at 0.39x, as 27 stocks gained, 71 stocks remained unchanged, while 69 stocks lost. This is 25.81% higher than the market breadth at the end of March (0.31x).



[26]

Meanwhile, there was an increase in activity level on the NSE in April. Average volume traded rose by 36.91% to 428.46 million units and average value of trades advanced by 35.58% to N3.62 billion.



[27]

All indices lost during the review period with the industrial sector being the highest decliner (12.98%). The downward trend in these indices was on account of profit taking activities on the market across various stocks.

Chams Plc led the gainers' list with a 150% increase in its share price, followed by Dangote Flour Mills Plc (84.31%), Japaul Oil & Maritime Services Plc (65%), First Aluminum Nigeria Plc (56.67%) and Forte Oil Plc (27.44%).

[26] NSE, FDC Think-Tank
[27] NSE, FDC Think-Tank

Company	Mar 29'19	Apr 30'19	Absolute Change	% Change
Chams Plc	0.20	0.50	0.30	150.00
Dangote Flour Mills Plc	10.20	18.80	8.60	84.31
Japaul Oil & Maritime Services Plc	0.20	0.33	0.13	65.00
First Aluminium Nigeria Plc	0.30	0.47	0.17	56.67
Forte Oil Plc	27.70	35.30	7.60	27.44

[28]

The laggards were led by Associated Bus Company Plc (-43.40%), followed by Cement Companyof Northern Nigeria Plc (-29.65%), Union Diagnostic & Clinical Services Plc (-23.33%), International Breweries Plc (-23.08%) and Guinness Nigeria Plc (-22.18%).

Company	Mar 29'19	Apr 30'19	Absolute Change	% Change
Associated Bus Company Plc	0.53	0.30	-0.23	-43.40
CCNN	19.90	14.00	-5.90	-29.65
UNIONDAC	0.30	0.23	-0.07	-23.33
INTBREW	26.00	20.00	-6.00	-23.08
GUINNESS	62.45	48.60	-13.85	-22.18

[29]

Corporate Disclosures

A number of companies have released their corporate earnings for Q1'19. The corporate results were mixed across the different sectors. The majority of companies, mainly banks, recorded impressive performance due to spikes in their respective net fee and commission incomes. Meanwhile, most companies in the FMCG and oil & gas sectors suffered a decline in at least one of their financial metrics (gross earnings, profit before tax and profit after tax). This was driven by higher administrative and operating costs, despite the subdued inflationary pressures in Q1'19. The relatively poor financial performance of some large cap stocks, such as Dangote Cement Plc, resulted in sell-offs on the NSE.

[28] NSE, FDC Think-Tank
[29] NSE, FDC Think-Tank

Below is a summary of some of the companies' financial performances

Company	Sector	Top line (N'billion)	Profit After Tax (N'billion)
Ecobank Transnational Incorporated Plc	Banking	N199.45 0.42%	N30.59 9.79%
Sterling Bank Plc	Banking	N36.49 8.22%	N3.24 4.52%
Fidelity Bank Plc	Banking	N38.67 2.63%	N5.94 28.29%
FBN Holdings Plc	Banking	N112.05 1.05%	N15.79 6.91%
Unity Bank Plc	Banking	N10.05 14.33%	N0.464 4.09%
Wema Bank Plc	Banking	N16.08 27.22%	N1.14 50%
Union Bank Plc	Banking	N37.68 4.54%	N5.27 0%
Seplat Petroleum Development Plc	Oil & gas	N48.94 11.4%	N10.02 59.3%
Nestlé Nigeria Plc	Consumer goods	N70.97 5.2%	N12.85 49.25%
Dangote Flour Mills Plc	Consumer goods	N22.96 13.39%	N50.23 -282.91%
Guinness Nigeria Plc	Consumer goods	N101.4 3.87%	N41.15 16.5%
Cadbury Nigeria Plc	Consumer goods	N9.28 12.62%	N0.506 2,200%
Dangote Cement Plc	Industrial	N240.16 0.81%	N78.96 16.46%

[30]

Outlook

We expect the NSE to reverse its bearish streak in the near term as investors take advantage of low stock prices on the market. Investor sentiment would also be influenced by policy expectations of the current administration's second term dispensation.

[30] NSE, FDC Think-Tank

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Equity Report: Presco Plc

Analyst Recommendation: HOLD

Market Capitalization: N58 billion

Recommendation Period: 365 days

Current Price: N58

Industry: Agriculture

Target Price: N68.05

Analyst's note

Presco Plc (Presco) recorded a marginal decline in the first nine months of 2018 (9M'18). The company's revenue dropped by 4% to N16.24 billion during the period. The decline in global palm oil prices, by 16.4% to $598 per metric ton, adversely impacted Presco in 2018. The decline was due to increased global stock, which was up by 19.1% from 2017.[31] This was exacerbated by smuggling activities in Nigeria, further dampening the financial performance of Presco.

Overseas sales turn the corner

Presco exports helped cushion the impact of the slowdown in domestic demand. Foreign sales surged 183.9% to N909 million in 9M'18. Conversely, domestic sales dropped by 7.7% to N15.33 billion during the same period. Presco continued to strengthen its geographical revenue spread. However, its international market is limited to Europe.

Cost items move in mixed directions

The company's cost of sales declined at a much faster pace relative to its revenue. Raw materials and other production cost items declined by 20% to N3.94 billion in 9M'18. Improvements in inventory management helped suppress these costs. Presco also continued to benefit from the low-cost maintenance of maturing farmland.

Operating expenses moved in the opposite direction during the period. Selling, general and administrative expenses, which account for 93.9% of Presco's operating expenses, increased by 37% to N4.3 billion in 9M'18. Likewise, distribution expenses also rose by 20% to N279.8 million.

[31] The Economist Intelligence Unit. 2019. "World Commodity Forecasts: Food, Feedstuffs and Beverages". The Economist. https://store.eiu.com/product/world-commodity-forecasts/food-feedstuffs-and-beverages

Finance costs also increased, rising 46% to N928.5 million. The unimpressive performance of the Nigerian Stock Exchange (NSE) made debt capital the preferred funding option in the capital market. The interest rate environment remained relatively unchanged, although more companies embraced alternative funding arrangements in 2018.

Gain on biological assets maintained

In 9M'18, Presco moved from a loss position of N275.5million to a gain of N369.8 million on biological assets revaluation. The company managed to keep its head above water despite weaker prices in 2018. This development can be largely attributed to a higher yield on current production capacity.

Palm oil plantations typically maintain a 25-year cycle. The gain in biological assets despite lower output prices alludes to the fact that the value of Presco's oil palm plantation is yet to approach its maturity stage.

The capacity of the company to leverage the most productive phases of the product's life cycle will be a key success factor going forward. However, issues with the valuation of biological assets resulted in an extended delay in the release of Presco's full-year 2018 financials with the stock losing 23% of its value in less than two months. Consequently, we recommend a HOLD on the stock pending resolution on valuation of its biological assets.

The Nigerian palm oil industry has been a major beneficiary of the government's protectionist policy, particularly as it is featured among the list of items banned from accessing foreign exchange. This is consistent with the declaration of the government to discourage the importation of products that can be produced locally. In addition, strong palm oil prices in 2016/2017 helped improve the attractiveness of the industry, evident from the high gain on the revaluation of biological assets and double-digit growth in both top line and bottom line during the period.

Despite these developments, Nigeria still depends on imports. Nigeria's demand is roughly 2.8 million metric tons. Only one million of that is met through domestic supply, meaning 1.8million metric tons are imported. This demand for imports paired with a supply glut in the international market and the crash in prices have encouraged smuggling activities. This somewhat limited the gains of key players in the palm oil industry. In addition, the long gestation period has constrained investment flows into the sector. The major players in the industry include Presco, Okomu, PZ Wilmar and Olam.

Presco began in 1991 as Presco Industrial Limited. The company listed on the NSE in 2002, expanding its reach. The company currently engages in the cultivation and processing of oil palm and palm kernel, through four major oil palm plantations – Obaretin, Sakponba and Ologbo (in Edo State), while the fourth, Cowan, is in Delta State. They have a combined capacity in excess of 20,000 hectares with mature palm trees accounting for 75%.

Siat SA, the parent company, controls 60% of the company. Siat SA is a Belgian agro-industrial group with core competences in the setup and operation of oil palm and rubber plantations and processing. Some of its major customers include Nestle Nigeria, Wamco Nigeria, PZ Wilmar, and Promasidor among other household consumer goods brands.

Income Statement for Presco Plc (FY Dec 2017)				
N'000	**2014**	**2015**	**2016**	**2017**
Revenue	8,485,144	15,716,198	22,365,372	21,648,457
Cost of Sales	(3,199,422)	(3,813,137)	(4,404,785)	(5,941,308)
Gross Profit	5,285,722	11,903,061	17,960,587	15,707,149
Gain/(loss) on biological assets revaluation	5,772,898	1,062,230	24,879,287	2,789,304
Distribution expenses	(169,110)	(198,608)	(223,945)	(317,248)
Selling, General & Administrative expenses	(3,300,732)	(2,940,936)	(4,378,794)	(7,184,418)
Other operating income	22,004	364,639	323,146	213,358
Operating profit	7,610,782	10,190,386	38,560,281	11,208,145
Net finance cost	(362,562)	(707,800)	(684,655)	(973,479)
Exchange gains/(losses)				
Profit Before Tax	7,248,220	9,482,586	37,875,626	10,234,666
Income tax expense	(2,706,736)	(1,721,146)	(9,490,987)	14,452,033
Profit for the year	**4,541,484**	**7,761,440**	**28,384,639**	**24,686,699**

Balance Sheet for Presco Plc (FY Dec 2017)				
N'000	**2014**	**2015**	**2016**	**2017**
Intangible assets	147,933	183,581	192,566	370,234
Biological Assets	34,343,913	29,291,216	44,920,219	49,274,503
Property, Plant & Equipment	10,946,470	19,990,011	22,444,657	28,122,101
Other non current assets	110	110	110	-
Non-current assets	45,438,426	49,464,918	67,557,552	77,766,838
Inventories	1,363,929	1,105,632	1,420,597	4,704,706
Trade and other receivables	1,768,774	2,777,782	1,095,901	3,607,661
Other current assets (includes bio as	1,184,273	1,252,376	10,502,660	8,937,680
Cash and cash equivalent	63,088	877,291	2,585,128	3,307,211
Current assets	4,380,064	6,013,081	15,604,286	20,557,258
Total assets	**49,818,490**	**55,477,999**	**83,161,838**	**98,324,096**
Share capital	500,000	500,000	500,000	500,000
Share premium	1,173,528	1,173,528	1,173,528	1,173,528
Retained earnings	27,342,427	29,622,561	50,358,026	74,261,641
Other reserves	43,000	58,724	87,448	45,003
Equity attributable to equity holders	29,058,955	31,354,813	52,119,002	75,980,172
Non controlling interests	-	-	-	-
Total equity	29,058,955	31,354,813	52,119,002	75,980,172
Provisions	-	-	-	-
Provisions for employee benefits	234,897	271,481	313,445	409,751
Financial Liabilities	3,415,994	4,787,517	4,781,433	4,557,822
Deferred tax liabilities	12,589,436	12,638,125	20,340,405	4,401,851
Non-current liabilities	16,240,327	17,697,123	25,435,283	9,369,424
Financial liabilities	687,031	2,069,896	1,917,514	4,575,635
Trade and other payables	3,397,025	3,356,707	1,699,761	7,428,137
Current tax liabilities	399,453	905,058	1,792,041	860,163
Other Current liabilites	35,700	94,401	198,235	110,565
Current liabilities	4,519,209	6,426,062	5,607,551	12,974,500
Total liabilities	20,759,536	24,123,185	31,042,834	22,343,924
Total equity and liabilities	**49,818,491**	**55,477,998**	**83,161,836**	**98,324,096**

Management

Presco's management team is led by Felix Onwuchekwa Nwabuko, a chartered accountant with extensive cross-border experience in project management and consulting. He became the Managing Director of Presco in 2015, having also served in various leadership roles within the group. He was part of the team responsible for the successful listing on the NSE. He is accompanied by a team of versatile and experienced executives, who have built a company with strong fundamentals. However, Presco needs to replicate its successful management of it production costs with its operating costs. The management of Presco has continued to reduce the company's cost of sales-to-revenue over the last half decade. This ratio improved by 10.7% between 2014 to 2018, improving gross profit margins considerably.

Achieving this could be pivotal in both Presco's domestic and international competitiveness. The global supply glut of palm oil and the dip in prices that followed emphasize the need for internal efficiency.

Presco's board has been led by Mr. Pierre Vandebeeck since 2010. Vandebeeck has been instrumental to Presco's successes. He was the pioneer Managing Director, building the agro-processing company from infancy to date and was responsible for the setup of Presco's oil palm plantations in Nigeria. He remains an invaluable asset to the company and has proven to be the vital link between Presco and Siat SA.

Managing Director

Felix Onwuchekwa Nwabuko

Chairman

Mr. Pierre Vandebeeck

Bulls and Bears say

Bulls say:

- Key player in the oil palm industry
- Alignment between Presco Plc and parent company
- Consistent clampdown on production cost over the years
- Favorable government policies
- Gradual diversification into rubber production
- Experienced and talented management

Bears say:

- Declining commodity prices
- Rising operating and finance costs
- Highly dependent on one commodity
- Highly dependent on government protection to thrive
- Competitive rivalry among the leading players

Risk and Outlook

The major risks that could dampen the attainment of Presco's key objectives and priorities include interest rate risks, regulatory policy risks, currency risks and other systemic risks.

The high risk premium of the Nigerian economy has adversely impacted the business expansions and operations of companies such as Presco. Similarly, Presco's large funding needs and the susceptibility of agriculture farm-products, especially to weather, pest and storage, have weighed on the debt servicing costs. So, the management of Presco needs to evaluate the adoption of other funding options and other complex financing mechanics.

Given the generally unstable nature of Nigerian export policy, Presco could be exposed to regulatory changes in foreign exchange restrictions on palm oil. The removal of this domestic incentive and the entry barriers that would follow could be detrimental to the consolidation efforts of Presco. However, the Nigerian government has shown commitment to promote and protect more domestic companies.

Presco is also exposed to currency volatility. This consideration is a double edge sword as an appreciation of the naira reduces the raw material and equipment import bills of Presco. Conversely, the depreciation of the naira increases the purchase price of palm oil, improving the earning value of Presco, as imports become much more expensive.

Other systemic risks, such as the persistent lull in the global commodity market, will threaten the earning capacity of Presco in the near future. This will encourage importation and intensify smuggling activities of palm oil. Presco's earnings will take a tumble if this situation worsens. The foreign exchange restrictions on palm oil will not be able to overturn the adverse effect of a supply glut.

Our valuation

Using the discounted cash flow methodology, we estimated a stock price of N68.05, which is a 17.33% upside on the current price of N58 as of May 17, 2019. The discount rate (weighted average cost of capital) of 15.1% was derived using a 15.25% risk free rate (FGN 5-year bond as of December 2018), a beta of 0.2790, an after-tax cost of debt of 13.5%, and a market risk premium of 6.3%. The long-term cash flow growth rate to perpetuity calculated is 7.5%.

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