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In This Issue ...

The downside of strong US Q1 GDP figures (3.2%)

Surprisingly, the U.S. economy expanded by 1% to 3.2% in the first quarter, surpassing analysts' growth forecasts of 2.3%. The jump in growth came despite the partial government shutdown early this year. However, growth in consumer spending, which accounts for more than 60% of US economic activity was weak, growing by a mere 1.2% compared to 2.5% in the previous quarter. Business investment also slowed sharply, rising by only 0.2%, the slowest pace since the third quarter of 2016. However, Exports rose by 3.7% in the first quarter, while imports decreased by 3.7%. Growth was fuelled by a rebound in consumer confidence after the shutdown ended, and ongoing strength in the labour market.

In January, the US Fed suspended its three-year push to tighten monetary policy, indicating to put interest rate hike on hold in 2019. The Fed increased borrowing costs four times to a range of 2.25 to 2.5%p.a. in 2018, which is higher than the level of base rates for other major economies.

Outlook and implications on emerging economies

The spike in the US GDP growth if sustained could mean that the Fed is more likely to increase its benchmark interest rates (2.25%p.a - 2.5%p.a.) again this year to curb inflation. This means that policy makers in Nigeria and other emerging economies would come under intense pressure because of a possible reversal of capital flows. Investors in emerging markets are likely to be searching for higher yields in the US. Nigeria's external reserves are approximately $45bn of which hot money constitutes an estimated $7bn - $9bn. Nigeria's total external debt is approximately $23bn. Any increase in US interest rates is likely to increase the already excruciating debt burden of the country.

Olam moves to gobble Dangote Flour Mills

Olam International, a leading agro-allied corporation, put forward a shocking bid for Dangote Flour Mills Plc (DFM). The purchase consideration values the vendor company at N130 billion on a debt-free, cash-free basis. This means the impending transaction will discount for the financial impact of DFM's net-debt position, which stood at N27 billion at the end of 2018. Currently, Olam International indirectly holds about 5 million shares of DFM, representing a 0.1% stake in the vendor company. The integration, which is subject to both regulatory and shareholders' approval, would require DFM to delist from the Nigerian Stock Exchange.

Olam to move from leading to dominant player

Over the years, Olam has adopted an acquisition strategy in its capacity and production expansion in Nigeria. Hitherto, Olam acquired Crown Flour Mills and Amber Food Limited (wheat milling and pasta manufacturing arm of BUA Group) to emerge as a leading player in the wheat value chain. The imminent consolidation with DFM will make Olam a dominant player along with Flour Mills Nigeria, jointly controlling about 80% market share (by sales volume).

Industry players' performance bogged down my nefarious activities

Nigeria's population growth of 3% per annum and the increasing sophistication among the populace are key criteria for the business case of the wheat value chain in Nigeria. Despite these remarkable prospects, top players recorded a decline in revenue due to a combination of cross border smuggling and the slowdown in inventory turnover. This weighed on volume sales, as well as profitability in the industry.

The recent approval of the new minimum wage will buoy industry turnover going forward. This will help cushion the adverse impact of smuggling activities, slower throughput from port congestion and the imminent increase in global wheat prices. Currently, the average consumer has had to cut back on consumption due to the squeeze on income (lower purchasing power). The 67% increase over the current minimum wage, as well as other agenda driven policies are expected to improve consumer confidence – further strengthening the revenue base of key players.

Olam better equipped to exploit synergies

In 2013, Tiger Brands (a South African consumer goods company) acquired a majority stake in Dangote Flour, but divested within 3 years, owing to the challenging business environment. On the other hand, Olam has been known to leverage and maximize consolidation synergies from its previous acquisitions. The key success factor from historic assessments has been Olam's strong distribution network. Hence, this expansion will help reduce average costs and deliver value to the final consumer.

Implications and outlook

This development alludes to the fact that the wheat flour industry is consolidating and helps to establish economies of scale, driving down production costs, as well as improving internal efficiencies – higher productivity. It also brings to bear the reality that the industry might be approaching maturity.

However, a possible downside is the shift in power from the buyer to the dominant industry player. These players become the price makers, possibly forming an alliance with industry peers to wield stronger market control.


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Nigeria's Population Projections – More Cons than Pros

The issue of Nigeria's population statistics are highly contentious and the subject of very heated debates. Nobody really knows Nigeria's actual population, and what we work with is – at best – informed guesses. Official estimates put Nigeria's current population at 196 million (2.5% of the world population – approximately one in every 37 people) even though the last official census was conducted in 2006, more than a decade ago. What we do know, however, is that Nigeria's population is large and growing. Among the ten largest countries in the world, Nigeria is growing the fastest – at 2.6%. According to the United Nations Department of Economic and Social Affairs (DESA), Nigeria's population is set to more than double by 2050 to reach 400 million and overtake the United States as the third most populated country in the world. This forecast of seemingly exponential growth in population is not necessarily a dire development. However, a failure to match the high rate of reproduction with a corresponding level of productivity has set the stage for what is a ticking time bomb.

The Poverty, Education & Unemployment Problem

The year 2050 may still be more than 30 years down the road from today but Nigeria will not have to wait till then to be faced with the consequences of its population explosion and the lack of adequate infrastructure and development. Much of it is clear and apparent. Nigeria was recently named the poverty capital of the world – overtaking much larger India. projected to rise sharply as the population boom continues without matching economic growth.

According to United Nations International Children's Emergency Fund (UNICEF), the number of out of school children in Nigeria has risen to over 10 million – the largest in the world - even though primary education is free and officially compulsory. The university system is in dire need of increased capacity as less than 30% of the over 10 million applicants gained admission. For the few that manage to pass through the educational system, rapidly rising unemployment remains a major source of anxiety. The latest data from the National Bureau of Statistics shows the unemployment rate has more than doubled since the end of 2015. It currently stands at 23.1% compared to 10% at the end of 2015. This is likely to worsen in the years to come as population growth currently exceeds GDP growth (1.9% in 2018). This implies that there are more people being born, and in turn, more people joining the labor force than there are jobs being created.

Faced with dire employment prospects, Nigerians are fleeing

Many Nigerians have left and are still fleeing the country in search of proverbial greener pastures. According to the world population review, Nigeria has a net migration per day of -164. This number means that 164 people emigrate more out of Nigeria than immigrate on a daily basis. This works out to one net migrant every 9 minutes. Many are sold on the promise of a better life and brave terrible odds in an attempt to reach Europe via the Sahara desert and the Mediterranean Sea. Sadly, many have ended up in a life of slavery or have become trapped in sex trafficking rings. The number of Nigerian men, women and children being registered at landing points in Italy has risen dramatically in recent years. In 2016, a total of 180,000 illegal migrants arrived Italy by sea.[1] Nigeria accounted for 37,500 (nearly 21%). A considerable number also drown in transit. According to the International Organization for Migration (IOM), the number of Nigerian women who arrived in Italy increased almost ten-fold between 2014 and 2016.

Remittances – a silver lining

Even the highly educated and skilled Nigerians are not left out of the scramble to escape the current economic uncertainty for a better life overseas. Canada is the new destination of choice due to its liberal immigration policies. However, this emigrant demographic does present one of the few bright spots for Nigeria. Remittances by Nigerians in Diaspora have been on the rise for over a decade now. According to PwC, Nigeria has become one of the top five nations with high remittance inflows globally, and the largest remittance-receiving country in Africa.

[1]https://hrwf.eu/nigeria-italy-number-of-nigerian-women-trafficked-to-italy-for-sex-almost-doubled-in-2016/

Nigeria received $25 billion in 2018 alone.[2] This figure is seven times larger than the net Official Development Assistance received in 2017, of $3.36 billion, and over 12 times the size of the Foreign Direct Investment flows ($2 billion) in the same period last year.[3] Remittances have risen 70% from $14.64 billion in 2005 and represents about 6% of GDP and 86.4% of the proposed 2019 budget of $28.95bn. Remittances could be crucial to expanding access to education. According to research from WorldRemit, a digital money transfer service, "tens of thousands of Nigerian children have access to books and educational supplies and are more likely to study and less likely to work due to Diaspora remittances." [4]

The highlights of the research study are[5]:

- International remittances are responsible for putting approximately 200,000 children in schools in Nigeria
- The chances of a child being out of school is 40% lower if their household receives remittances
- Children spend less time working on non-school activities in remittance-receiving households, which frees up more time for school studies

Education is an economic and social imperative and as a matter of policy, leveraging diaspora remittances should be a crucial part of any current or future effort to improve access to quality education.

[2]https://www.pwc.com/ng/en/assets/pdf/nigeria-economic-outlook-2019.pdf
[3]MBS
[4]https://techeconomy.ng/2019/01/07/diaspora-remittances-help-nigerian-families-send-200000-children-to-school-study/
[5]https://www.thisdaylive.com/index.php/2019/01/16/worldremit-diaspora-remittances-helped-to-send-200000-children-to-school/

Social media fast becoming a vital tool for African politicians

The use of social media platforms on the African continent has increased rapidly partly owing to the proliferation of mobile phones, widespread connectivity and cheap data. Across the continent, social media is widely viewed as a tool that sheds focus on political and social issues, which would otherwise go unnoticed. From police brutality in Nigeria to corruption scandals in Cameroon and South Africa, numerous examples abound. Social media provides a space where users can have conversations about issues that might be perturbing to the government. Users can form groups and challenge the authorities' version of events. Social media is also used to organize and mobilize people at break-neck speed. However, the use of social media in Africa, just like in any other region, is not always positive. The most notable drawback is the spread of misinformation and even more disconcerting, hate speech. As George Ogola notes in Quartz Africa, "social media has emboldened, and even provided sanctuary, to racist bigots, ethnic jingoists, bullies, and political anarchists. In some countries it has inflamed conflict precisely because of the anonymity it provides."[6] Consequently, Ogola argues, "Social media is becoming the frontier for state clampdown on free speech as governments exercise control over digital platforms."[7]

Nonetheless, the use of social media in the democratic process on the continent should be seen as a net positive as it ultimately increases transparency between politicians and the electorate. As citizens become more politically engaged via the use of social media, democracy on the continent should only become stronger.

African leaders gradually establishing a presence on social media platforms

Sub-Saharan African leaders have gradually established a presence on social media platforms such as Twitter and Facebook, with the aim of improving their electability. Many African politicians, both in office and in opposition, have become aware of the power of the medium to communicate directly with voters, cheaply. In the past, administrations (including democratic ones) may have counted on voter apathy to avoid tackling sensitive issues. In today's political climate, they must now confront these issues head-on because their citizens are more politically engaged and are voicing their discontent online.

[6]Ogola, George. 2018. "The threats to media freedom are getting more sophisticated in Africa's digital age". Quartz Africa. pp 12 https://qz.com/africa/1412973/african-governments-are-blocking-social-media-or-taxing-it/
[7]Ibid pp 3

This has led some leaders to increase their social media presence, perhaps in an attempt to demonstrate their public influence, by displaying a large social media following.

Kenya's president, Uhuru Kenyatta, Nigeria's president, Muhammadu Buhari, and Rwanda's president, Paul Kagame are three leaders that boast of strong social media followings. President Kenyatta is sub-Saharan Africa's most followed president, with almost 3.5 million followers on Twitter. President Buhari and President Kagame both have followings of over one million supporters. Past leaders are also maintaining their relevance through social media. Despite having left power in controversial circumstances in February 2018, the former South African president, Jacob Zuma, may soon have more social media followers (on Twitter at least) than his successor and incumbent, Cyril Ramaphosa. In power, Mr. Zuma had seemed more comfortable addressing rallies of supporters in rural South Africa. But since his debut on Twitter in December 2018, the former president has used the platform to air his views on controversial issues, such as South Africa's land reform question, and to keep himself in the public eye as he fights corruption charges related to his time in office.

However, not all sitting heads of state and their governments have embraced social media. The early adoption of social media (and the broader use of the internet) by many opposition groups has led many leaders to view the technology with suspicion. Instead of adopting social media to compete with opposition politicians, many established government leaders have tried to use it for their own benefit, while suppressing the opposition's use of these platforms. This was seen most recently in the Democratic Republic of Congo where, during a disputed election in December 2018, the government switched off internet and SMS access across the vast country for more than a week.[8] In Chad, citizens have been denied access to social media platforms for over a year, owing to a nationwide blockade.[9] It followed mass protests after President Idris Deby posited amending the constitution that would see him governing the country until 2033. Deby has been in power since 1990. In Zimbabwe, the government is now discussing new laws to control the role of social media, accusing diaspora dissidents of using the medium to stir up social tensions.[10] Although there is some truth to such claims, few would expect such laws to be enforced evenly between pro-government and pro-opposition accounts in countries with authoritarian or flawed democratic regimes.

[8]Quartz Africa. January 2019. Internet shutdown is the latest frustration hitting voters in the DRC. https://qz.com/africa/1513023/drc-shuts-down-internet-sms-ahead-of-election-results

[9]Quart Africa. January 2019. Chad Republic has kept social media shut for 300 days and counting. https://qz.com/africa/1530071/chad-republic-blocks-social-media-for-300-days-sparking-campaign/

[10]All Africa. February 2018. Zimbabwe moves to control social media. https://allafrica.com/view/group/main/main/id/00032299.html

Use of social media ultimately improves transparency

In spite of government clampdowns, the use of social media ultimately improves transparency, which leads to healthier political systems. The Economist Intelligence Unit's 2018 Democracy Index found that an overall improvement in the democratic situation took place in Sub-Saharan Africa in 2018, mostly reflecting higher scores for political participation.[11] The index also recorded a rise in political engagement in Sub-Saharan Africa. This suggests that political leaders will potentially face waves of social media-generated protests, irrespective of the political system within which they operate. Mauritius is the only full democracy in Sub-Saharan Africa, according to the Democracy Index (there are also seven flawed democracies, 14 hybrid regimes and 22 authoritarian states). The use of social media for political discourse and participation has tended to take place in countries where political activism normally generates a swift and hostile response from the state. This was evident in Algeria and Sudan, where social media was an important tool used in ousting their respective despots.

Social media's biggest impact may be the opening-up of internal debates within ruling parties, particularly between former leaders and their successors. In Nigeria, former president Olusegun Obasanjo used Twitter to express his disenchantment with President Buhari's administration and endorse his main challenger, Atiku Abubakar. In many democratic African countries today, it is much harder to silence or ignore a former president or prominent opposition politician than it is an ordinary citizen, especially on social media. This suggests that social media could increase

[12]Economist Intelligence Unit. March 2019. Democracy Index 2018

Global Perspective: *Widespread Testing Begins on Malaria Vaccine That Is Only Partly Effective*

culled from The New York Times

Despite the vaccine's drawbacks, the W.H.O. endorsed testing on 360,000 children, in an effort to lower death rates in Africa.

With malaria deaths rebounding worldwide, a pilot program testing a new and fiercely debated malaria vaccine began on Tuesday in Malawi.

Dr. Katherine O'Brien, the World Health Organization's director of immunization, called the rollout "a historic moment in the fight against malaria," and said the testing will soon expand to malarious regions of Ghana and Kenya.

But the vaccine, known as RTS,S, or Mosquirix, has been in development by GSK, the former GlaxoSmithKline, for more than 30 years, and it has serious drawbacks that have led some experts to argue that it does not work well enough to spend millions of dollars pursuing.

Malaria kills about 450,000 people a year, most of them young African children. Over the last 15 years, the death rate has been reduced by more than half through extensive, donor-funded efforts to hand out free mosquito nets, spray homes with insecticide and treat people with a new generation of medicines. But deaths have increased again as money has run short, populations have grown, resistance to some new drugs has emerged and mosquitoes have expanded their ranges.

Finding new weapons is crucial, experts agree, but making a malaria vaccine has proved challenging in the extreme. Surviving the disease does not provide lasting immunity. People who suffer numerous bouts in childhood become able to tolerate new infections, but if they leave the area for even a few years, their immunity wanes and a later infection can kill them.

The new vaccine has many weaknesses. It is inconvenient: A child must receive four injections before age 2, sometimes at intervals that do not match the routine vaccine schedules for most other diseases. And it is only partly effective. Testing in more than 10,000 African children from 2009 to 2014 showed that, even after four doses, the vaccine prevented only about 40 percent of detectable malaria infections.

The vaccine reduced the occurrence of severe malaria by about 30 percent, and the occurrence of severe anemia — a complication that often kills children — by about 60 percent. It did not protect well against parasite strains that were poor genetic matches, raising a concern that, over time, parasites could evolve resistance to the vaccine as they have to drugs.

Moreover, it is unclear how long even those relatively low levels of protection last; previous trials followed vaccinated children for four years. Experts also worry that parents whose children are vaccinated will become less vigilant about using mosquito nets, and less likely to seek medical care when their children develop fevers.

In 2015, Doctors Without Borders said it would not join any pilot projects such as those announced this week, arguing that its money and time would be better spent on proven malaria-fighting measures.

Nonetheless, the W.H.O.'s vaccine advisory group recommended that testing be expanded to 360,000 children to see how well the vaccine works in real-world situations, as part of routine immunization programs run by African health ministries, rather than within the careful confines of clinical trials.

The health organization's Strategic Advisory Group of Experts will assess the results of each high-transmission season for at least three years, watching to see in particular whether parents bring in their children for all four doses and whether any rare but threatening side effects appear.

During earlier trials, some children developed high fevers and seizures soon after being immunized, but they recovered. A few children later developed life-threatening meningitis, but it was not clear that the vaccine was to blame.

The most important outcome will be overall survival rates, Dr. O'Brien said. If those rates increase substantially among vaccinated children, the W.H.O. may recommend rolling out the vaccine in more locations.

Very few children died in the 2009-2014 clinical trials, because they could be diagnosed and treated quickly, and hospital care with blood transfusions for severe anemia was readily available.

The current rollout will cost about $50 million. It is being paid for by the Global Fund to Fight AIDS, Tuberculosis and Malaria; Gavi, the Vaccine Alliance; Unitaid, and the countries involved.

The W.H.O. and Path, a nonprofit group in Seattle that has collaborated with GSK on the vaccine since 2001, will contribute expertise. Glaxo will donate 10 million doses of vaccine. Early next year, a clinical trial of another malaria vaccine, PfSPZ, is scheduled to begin on Bioko Island, just off the western coast of central Africa.

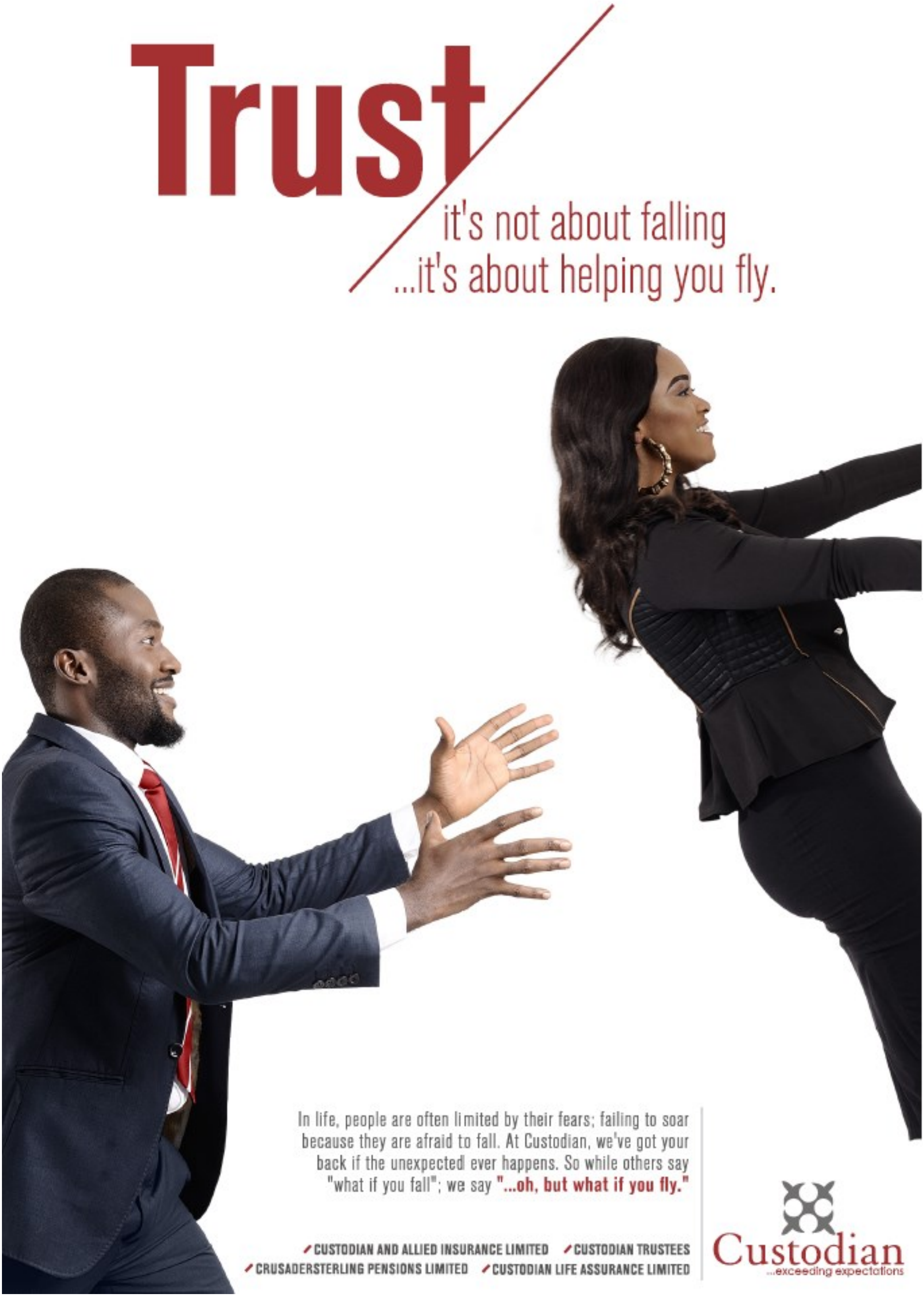
That vaccine, made by Sanaria, a biotech company in Rockville, Md., uses whole malaria parasites that are irradiated and then removed from the mosquitoes' salivary glands.

This vaccine, too, has limitations. It must be delivered by intravenous injection, must be stored in liquid nitrogen and requires very high doses of parasites.

Its efficacy rate has fluctuated significantly during its development. Early testing on a handful of volunteers suggested it could be 100 percent effective. But later tests showed overall efficacy rates of 55 percent, in 2016, and of 64 percent, in 2017, when used on small numbers of subjects who were "challenged" by intentional bites from infected mosquitoes.

In a 2017 trial in about 100 adults in Mali, the efficacy rate was 29 percent.

The new trial, initially in about 2,000 people, will be paid for by the government of Equatorial Guinea and three oil companies whose employees work in high-malaria areas.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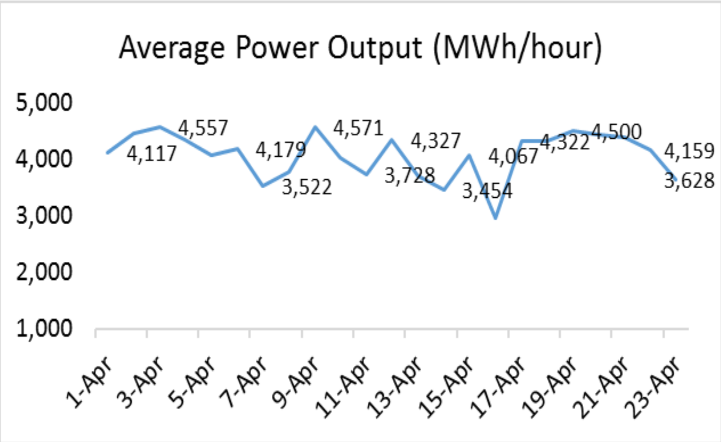
Macroeconomic indicators

Power Sector

The average on-grid power output during the review period decreased by 2.75% to 4,030MWh/hour relative to 4,144MWh/hour in the corresponding period in March. Similarly, the average power output touched a six-month low at 2,948MWh/hour on April 16th due to total system collapse.

Gas challenges remain a major constraint to power output. Gas constraints during the period accounted for 56% of the total constraints. This led to an aggregate revenue loss of N37.83bn (N453.96bn annualized).



[12]

Outlook

We expect power supply to remain dependent on the availability of gas. Meanwhile, higher rainfall will result in high water levels at the hydro power stations. Hence, average on-grid power to increase within the range of 4,200-4,30000MWh/hour in the coming weeks.

Impact

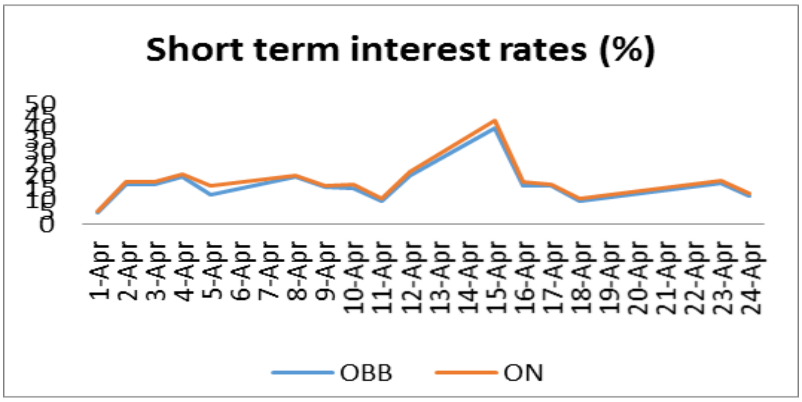
An increase in power supply is expected to result in a lower demand for alternative energy sources. This would lead to a fall in the operating expenses of firms.

Money Market

During the review period, the average liquidity within the banking system stood at N112.17bn, 48.92% lower than the position of N219.63bn in the corresponding period in March. Due to the low liquidity within the system, the NIBOR (OBB/ON) rates spiked to a two-month high of 40% pa and 42.93% pa respectively on April 15th, before retreating to close the period at 11.86% pa and 12.86% pa respectively.

Total OMO sales during the period was N820.15bn relative to maturities of N225.65bn. This resulted in a net outflow of N594.5bn.

[12] FGN, FDC Think Tank



[13]

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 91-day T/Bill tenor and 182-day decreased by an average of 16bps while the 364-day T/Bill tenor yield increased by 5bps.

T/bills Tenor	Secondary market rates as at April 1st (%pa)	Secondary market rates as at April 24th (%pa)	Direction	Primary market rates as at April 3rd (%)	Primary market rates as at April 17th (%)	Direction
91	10.68	10.63	⬇	10.29	10.15	⬇
182	12.97	12.7	⬇	12.6	12.5	⬇
364	12.67	12.72	⬆	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 90-day tenors increased by an average of 13bps while the 180-day tenors declined by 39bps.

NITTY Tenor	Rates on April 1st (%pa)	Rate on April 23rd (%pa)	Direction
30	11.15	11.19	⬆
90	10.87	11.09	⬆
180	13.86	13.47	⬇

[14]

[13] FMDQ, CBN, FDC Think Tank
[14] FMDQ, FDC Think Tank

Outlook

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

Impact

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

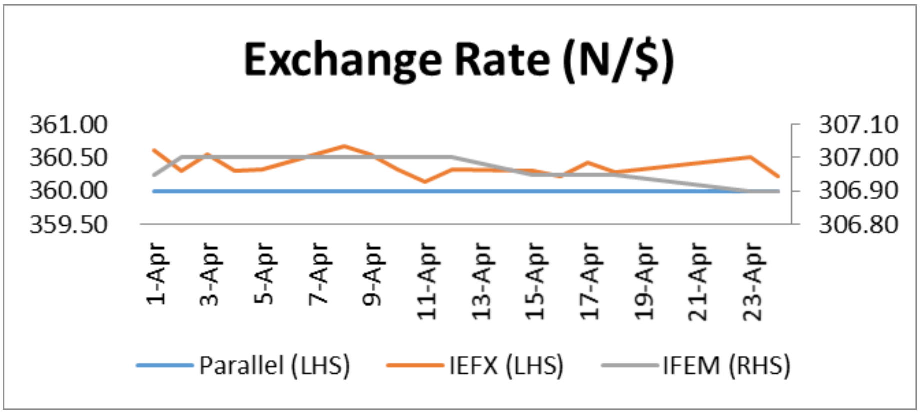
Forex Market

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

Exchange Rate

At the parallel market, the currency traded flat against the dollar at N360/$. The stability in the exchange rate could be attributed to an increase in CBN's intervention in the forex market. A total of $1.13bn was injected into the market by the apex bank, 200% ($567mn) higher than $565.6mn in March. The naira appreciated against the euro and pound at 0.49% and 0.42% respectively to close the period at N404/€ and N474/£.

At the interbank market, the naira appreciated by 0.02% to N306.90/$ at the end of the review period. Similarly, the currency appreciated at the IEFX window from N360.62/$ on April 1st to N360.23/$ on April 24th. Total forex traded in the IEFX window decreased by 46.27% to $4.11bn.



[15]

Outlook

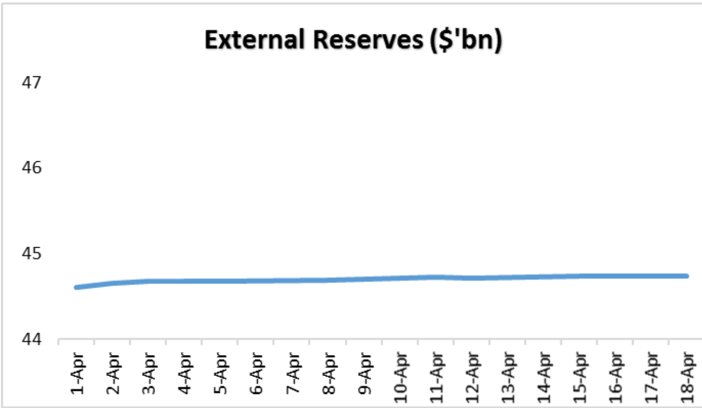
We expect the naira to trade within the range of N359-361/$ in the coming weeks due to continuous CBN's intervention in the forex market.

Impact

Given Nigeria's high level of Marginal Propensity to Import (MPI), naira stability is positive for the country's import bill. Sectors such as manufacturing that depend mainly on imported inputs would also benefit from a stable exchange rate.

External Reserves

Nigeria's gross external reserves increased by 0.38% to $44.78bn on April 24th despite an increase in CBN's intervention by 200% to $1.13bn. Subsequently, Nigeria's import cover increased to 11.15 months from 11.11 months on April 1st.



[16]

Outlook

The recent rally in Brent prices (now trading above $72pb) is positive for Nigeria's dollar accretion and could push reserves closer to the $50bn target.

Impact

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

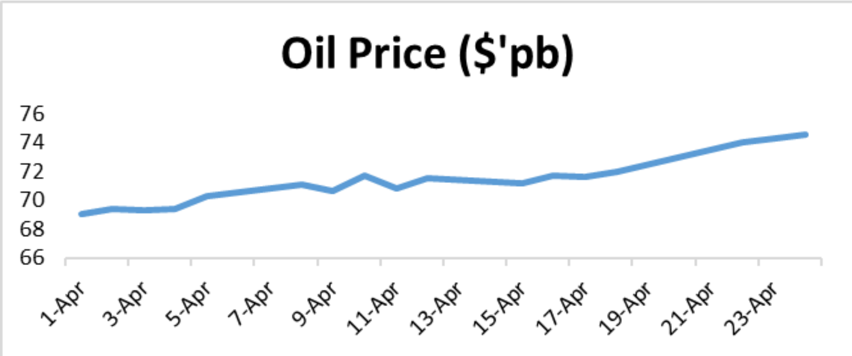
[15]FMDQ, CBN, FDC Think Tank
[16]CBN

COMMODITIES MARKET - EXPORTS

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

Oil Prices

Brent price averaged $71.33pb during the review period, 6.86% higher than the average of $66.75pb in the corresponding period in March. The rally in oil prices was mainly driven by Saudi Arabia's production cut and the supply disruptions in OPEC nations: Iran, Venezuela and Libya.



[17]

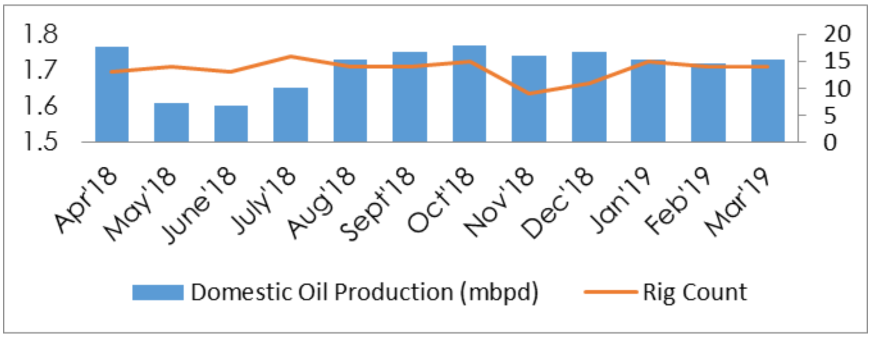
Outlook

The bullish trend recorded in crude prices is likely to be sustained in the near term on US removal of waivers on Iranian oil. Hence, prices are expected to trade within the range of $74-$76pb.

Oil Production

According to OPEC's latest monthly report, Nigeria's oil production increased slightly by 0.58% to 1.73mbd 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. In addition, Nigeria's oil rig count was flat at 14 in March.

[17]Bloomberg



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Outlook

Aiteo Eastern Exploration and Production announcement of 'force majeure' on Nembe Creek Trunk line due to a fire outbreak might push Nigeria's level of oil production downwards. This would bring the country closer to achieving its output quota of 1.68mbpd.

Impact

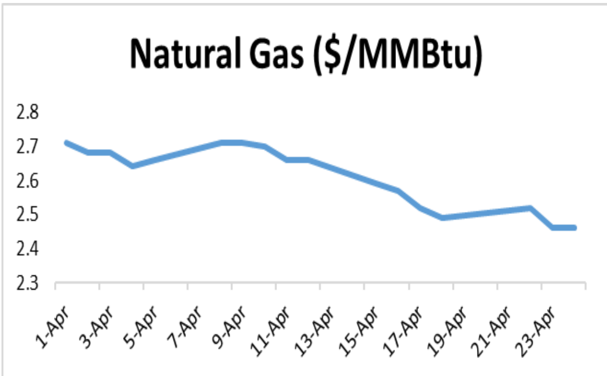
Crude oil accounts for approximately 90% of Nigeria's export revenue. A reduction in production is negative for government's fiscal consolidation efforts. However, the continuous increase in prices would curtail the loss.

Natural Gas

Natural gas prices declined by 9.23% to close the review period at $2.46/mmbtu from $2.71/mmbtu at the beginning of the review period. The bearish trend is attributed to a decline in global demand.

Outlook

Prices are expected to maintain its downward trend in the near term due to supply glut in Russia and US.



19

Impact

LNG is Nigeria's second major export. The projected decrease in the price of the commodity is negative for fiscal and external reserves accretion.

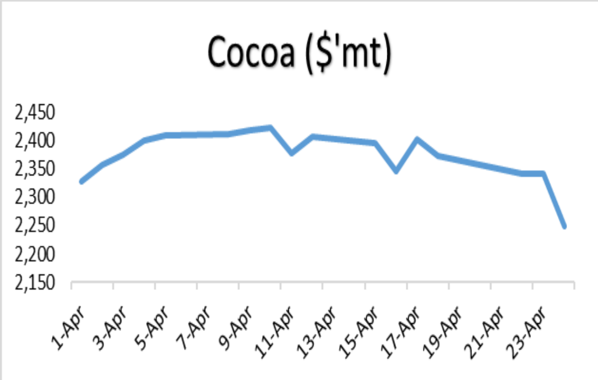
[18]OPEC and Baker Hughes
[19]Bloomberg

Cocoa

Cocoa prices averaged $2,374/mt, 8.40% higher than $2,190/mt in the corresponding period in March due to higher global demand for chocolate.

Outlook

We expect cocoa prices to trend downwards in the near term due to a pick up in the April-to-September harvest. Prices are thus expected to remain around $2,200/mt-$2,400/mt.



[20]

Impact

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

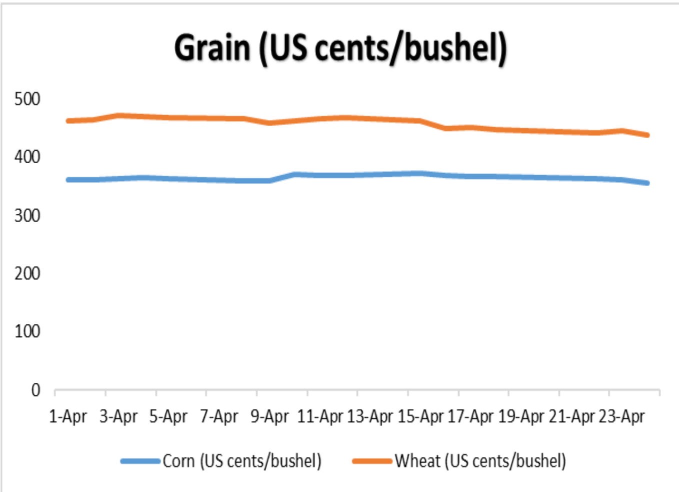
IMPORTS

Wheat

Wheat prices declined by 5.18% to $4.39/bushel on April 24th, from $4.63/bushel on April 1st due to higher stockpiles and a bumper harvest in India.

Corn

The average price of corn decreased by 2.14% to $3.65/bushel from $3.73/bushel in the corresponding period in March despite a projection of an increase in China's corn imports.



[21]

Grains- Outlook

We expect grain prices to continue its downward trend in the next few weeks due to ample global supply.

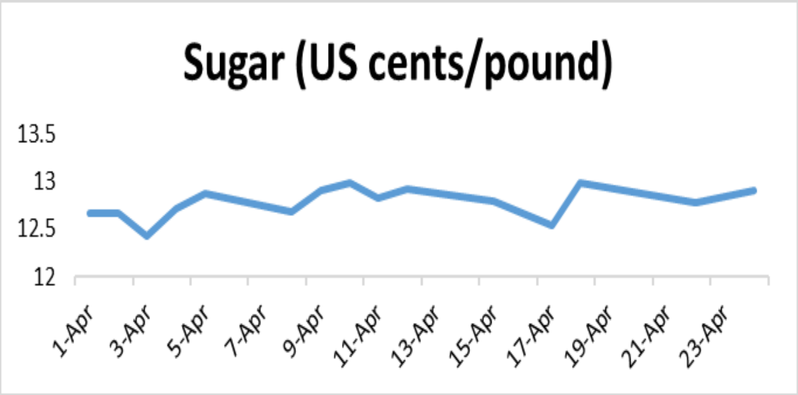
[20]Bloomberg
[21]Bloomberg

Impact

A decrease in prices of wheat 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 rose by 1.82% to $12.9/pound at the end of the review period from $12.67/pound at the start of the review period. This was despite a surge in India's sugar production.



[22]

Outlook

The price of sugar is expected to trend upwards in the near term due to an anticipation of lower sugar production in Ukraine.

Impact

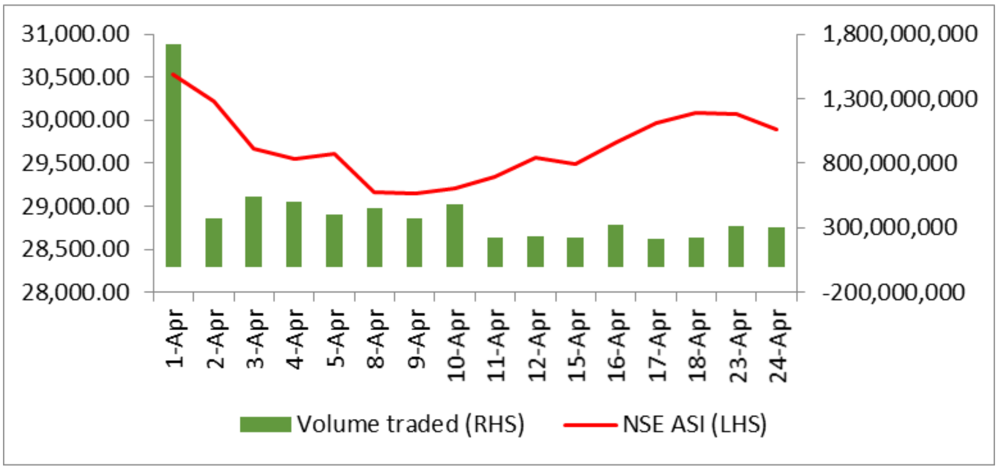
Sugar is an important ingredient in most consumable goods. Nigeria imports 1.87mn metric tonnes of this commodity annually, emerging as the world's 9th largest importer. An increase in the global price of sugar signals a possible increase in the country's import bill.

[22]Bloomberg

Stock Market Review

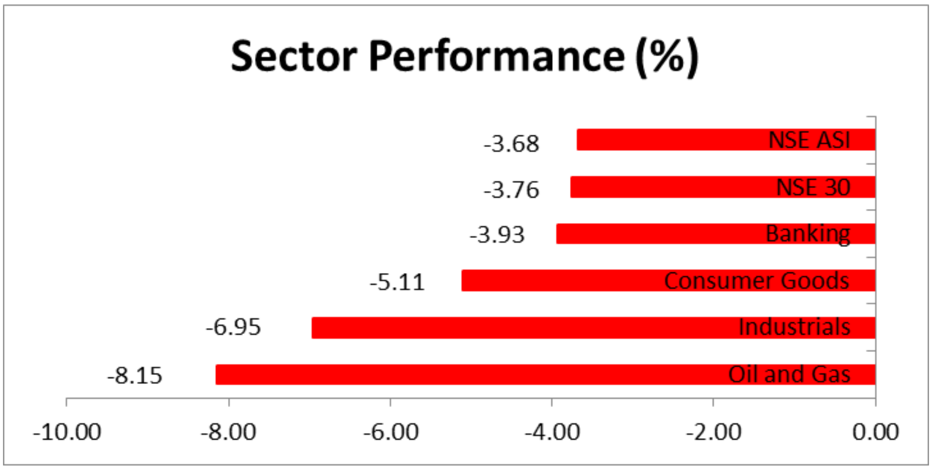
There was mixed performance on the Nigeria's Bourse in the first 24 days in April despite the release of additional corporate earnings. Over this period, the market recorded 9 negative trading days and 7 positive trading days. The NSE ASI lost 3.68% to close at 29,898.31 points on April 24, 2019 compared to the end of March (31,041.42 points). At the same time, market capitalization fell by 3.68% to N11.24 trillion.

Currently, the NSE is trading at a price to earnings (P/E) ratio of 7.40x which is 4.39% lower than the close on March 29 (7.74x). The market breadth was negative at 0.42x, as 26 stocks gained, 79 stocks remained unchanged, while 62 lost. This is 35.48% higher than the market breadth at the end of March (0.31x).



[23]

Meanwhile, the market recorded an increase in activity level. Average volume traded rose by 38.34% to 433 million units and average value of trades advanced by 24.72% to N3.33 billion.



[24]

[23]NSE, FDC Think-Tank

[24]NSE, FDC Think-Tank

All indices lost during the review period with oil & gas sector being the highest decliner (8.15%). The downward trend in these indices was on account of frequent sell-offs in large cap stocks, such as Forte Oil Plc, Dangote Cement Plc, Nestle Nigeria Plc and Zenith Bank Plc, among others.

Julius Berger Nigeria Plc led the gainers' list with a 95% increase in its share price, followed by First Aluminum Nigeria Plc (56.67%), Dangote Flour Mills Plc (26.47%), Sovereign Trust Insurance Plc (25%) and Japaul Oil & Maritime Services Plc (20%).

Company	Mar 29'19	Apr 24'19	Absolute Change	% Change
CHAMS	0.20	0.39	0.19	95.00
FIRSTALUM	0.30	0.47	0.17	56.67
DANGFLOUR	10.20	12.90	2.70	26.47
SOVRENINS	0.20	0.25	0.05	25.00
JAPAULOIL	0.20	0.24	0.04	20.00

[25]

The laggards were led by Associated Bus Company Plc (-37.74%), followed by Beta Glass Plc (-22.17%), Unilever Nigeria Plc (-20.51%), GlaxoSmithKline Consumer Nigeria Plc (-19.44%) and International Breweries Plc (-19.23%).

Company	Mar 29'19	Apr 24'19	Absolute Change	% Change
ABCTRANS	0.53	0.33	-0.20	-37.74
BETAGLAS	71.95	56.00	-15.95	-22.17
UNILEVER	39.00	31.00	-8.00	-20.51
GLAXOSMITH	10.80	8.70	-2.10	-19.44
INTBREW	26.00	21.00	-5.00	-19.23

[26]

Corporate Disclosure

Banking

Sterling's topline rose by 13.99% to N152.16 billion in 2018. The company's profit before tax and profit after tax advanced by 17.02% and 14.96% to N9.49 billion and N9.22 billion respectively, partly due to an 18.09% increase in net fee and commission income to N15.21 billion.

Access Bank's gross earnings increased by 15.89% y/y to N110.78 billion in Q1'19. The company's profit before tax and profit after tax spiked by 64.36% and 86.03% to N45.10 billion and N41.15 billion respectively, partly due to a foreign exchange transaction gain of N6.21 billion.

[25] NSE, FDC Think-Tank

[26] NSE, FDC Think-Tank

Zenith Bank's topline declined by 6.55% y/y to N158.11 billion in Q1'19. However, the bank's profit before tax and profit after tax rose by 6.09% and 6.69% to N57.29 billion and N50.23 billion respectively, partly due to a 14.38% increase in net fee and commission income to N21.32 billion.

GTB's gross earnings fell by 8.76% y/y to N72.92 billion in Q1'19. However, the bank's profit before tax and profit after tax advanced by 8.29% and 10.36% to N56.98 billion and N49.30 billion, partly attributed to a 66.75% spike in the bank's other income to N21.32 billion.

Oil & Gas

Total's topline rose by 6.92% to N307.99 billion in 2018. The company's profit before tax increased by 2.54% to N12.09 billion. However, the profit after tax declined by 0.75% to N7.96 billion.

Consumer Goods

Dangote Flour's topline fell by 9.90% to N112.34 billion in 2018. The company's profit before tax and profit after tax moved to negative territory at N1.19 billion and N1.16 billion respectively.

Unilever's topline fell by 20.79% y/y to N19.24 billion in Q1'19. The bank's profit before tax and profit after tax declined sharply by 45.14% and 44.53% to N2.03 billion and N1.52 billion respectively, partly attributed to an impairment loss on trade receivables of N200.41 million.

Others

Okomu's gross revenue fell by 0.05% to N20.25 billion in 2018. The company's profit before tax and profit after tax declined by 7.18% and 8.7% to N10.34 billion and N8.50 billion respectively.

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

Company	Sector	Top line (N'billion)	Profit After Tax (N'billion)
First City Monument Bank Plc	Banking	N177.25 4.34% ↑	N14.97 73.87% ↑
Ecobank Transnational Incorporated Plc	Banking	N773.34 1.27% ↑	N102.17 45.98% ↑
Total Nigeria Plc	Oil & Gas	N307.99 6.92% ↑	N7.96 0.75 ↓
Wema Bank Plc	Banking	N57.63 8.59% ↑	N3.33 47.35% ↓
Sterling Bank Plc	Banking	N152.16 13.99% ↑	N9.22 14.96% ↑
Jaiz Bank Plc	Banking	N8.74 11.19% ↑	N834.37 55.34% ↑
Dangote Flour Mills Plc	Industrial	N112.34 9.9% ↓	- N1.16 -111.75% ↓
Forte Oil Plc	Oil & Gas	N134.7 56.32% ↑	N361.47 72.52% ↓
Union Bank Plc	Banking	N145.52 11.18% ↓	N18.05 38.74% ↑
Okomu Oil Palm Plc	Industrial	N20.25 0.05 ↓	N8.5 8.7% ↓
Zenith Bank Plc	Banking	158.11 6.55% ↓	50.23 6.69% ↑
Access Bank Plc	Banking	110.78 15.89% ↑	41.15 86.03% ↑
Guaranty Trust Bank Plc	Banking	72.92 8.76% ↓	49.30 10.36% ↑
United Bank for Africa Plc	Banking	98.56 9.11% ↑	28.67 20.77% ↑
Unilever Nigeria Plc	Consumer goods	19.24 20.79% ↓	1.52 44.53% ↓

[27]

[27]NSE, FDC Think-Tank

Olam acquires Dangote Flour Mills Plc

Olam international, a Singaporean-based agro-allied company, has offered to acquire Dangote Flour Mills Plc at a purchase price of N130 billion. A pre-condition for full acquisition is the formal delisting of Dangote Flour Mills Plc from the NSE. The share price of Dangote Flour Mills Plc has increased by 9.79% since the announcement on April 23rd.

MTN prepares to list on the NSE

MTN Nigeria Limited has taken a bold step by converting to a public company, now called MTN Nigeria Communications Plc. The conversion to "Plc" is a legal requirement for MTN's listing by introduction on the NSE. This process is expected to be completed in H1'19. Both the NSE and the Securities and Exchange Commission (SEC) are yet to receive application for the proposed listing from the South African-based company.

Outlook

We expect the NSE's performance to continue its negative trend in the near term as speculators engage in profit taking activities on the market. Meanwhile, investor sentiment would be further influenced by the release of more corporate earnings for Q1'19.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Equity Report: CONOIL PLC

ANALYST NOTE

Analyst Recommendation: Hold

Market Capitalization: N15.96bn

Recommendation Period: 365 days

Current Price: N23.00

Industry: Petroleum and Petroleum Products

Target Price: N25.30

Circa 8% revenue growth

Conoil Plc posted revenue of N75.84 billion in 9M'18, an 8% increase compared to N70.23 billion in 9M'17. This was generated from the sale of its petroleum products. The White products segment (premium motor spirits, aviation turbine kerosene, dual purpose kerosene, low-pour fuel oil and automotive gasoline/grease oil) remained the largest contributor. Approximately 95% (N71.9 billion) of revenue in 9M'18 and 9M'17 was from White products.

In comparison with other major oil marketers, Conoil made the least revenue. Total Nigeria remains the market leader with revenue of N226.9 billion in 9M'18.

Profitability pressured by rising costs

The company recorded a 9.54% increase in its cost of sales to N65.35 billion from N59.66 billion in 9M'17. This was driven by a 9.98% increase in the cost of sales of White products. White products accounted for 96% (N62.62 billion) of cost of sales. In the same vein, the company posted a 23.19% increase in its distribution expenses to N1.67 billion in 9M'18 from N1.35 billion in 9M'17. This was primarily due to higher freight fare.

Nonetheless, Conoil recorded an increase in its profit before tax (PBT) of 11.82% to N2.27billion. Its profit after tax (PAT) increased by 16.91% to N1.59billion. These results were supported by a 21.24% decline in its finance cost to N1.48 billion in 9M'18 from N1.88 billion in 9M'17. Administrative expenses also declined by 4.92% to N5.22 billion.

Taking into account its business segments, growth, cost management, and relative valuation, Conoil's current price is trading around its intrinsic valuation. Accordingly, we place a **HOLD** rating on Conoil Plc.

Industry and company overview

The Nigerian oil and gas industry is the largest in Africa with an oil reserve of over 37.2billion barrels and a 197 trillion cubic feet gas reserve, the largest natural gas reserves on the continent. The industry is divided into three categories: the upstream, downstream, and services sector. The upstream sector involves searching for potential underground or underwater crude oil and natural gas fields. It includes drilling exploratory wells, and drilling and operating the wells that bring crude oil or raw natural gas to the surface. It is the most important sector in the economy as it accounts for over 83% of the country's exports. However, the upstream sector is vulnerable to asset vandalism. The last spike in vandalism was experienced in 2016. As a result, Nigeria's production declined to an all-time-low of 1.3million barrels per day (mbpd).

The downstream sector deals mainly with the marketing and distribution of refined petroleum products from the refineries through pipelines, road trucks etc. The Petroleum Product Marketing Company (PPMC) supplies petroleum products in Nigeria to oil marketers through a pipeline system that links the refineries to regional storage/sale depots.

Conoil Plc is the largest independent oil and gas company in Nigeria. It commenced operations in 1927 under the name Shell Trading Company. The company was incorporated in1960 as a private limited liability company under the name National Oil and Chemical Marketing Plc. In August 1991, it became a public limited liability company. The federal government held 40% of Shell Trading Company's shares until the privatization of the company, which led to the acquisition of 60% of the shares by Conpetro Ltd. Conpetro Ltd currently holds 74.4% of Conoil Plc while the remaining 25.6% is held by the general public.

Conoil Producing Ltd, the upstream arm, is the first indigenous company in Nigeria to explore, discover and produce oil in large commercial quantities. Its principal activities include the exploration, production and sale of crude oil.

Table 1: Conoil Producing Ltd Operations

Petroleum Exploration	Petroleum Production
• Over 26 years exploration and production experience • Operates six highly prospective oil blocs located in the Niger Delta region.	• Searches for new reserves in deeper formations of over 320 feet of net hydrocarbon sands in the Oil Prospecting Lease (OPL) • Its mobile offshore production unit has a daily capacity of 80,000bpd. • Its oil seeps, natural gas seeps and pockmarks provide evidence of hydrocarbon generation.

Conoil Plc, the downstream arm, is a major petroleum marketing company involved in the sale of regulated kerosene and gasoline, diesel, aviation fuel and low pour fuel. It also manufactures and markets lubricants, chemicals and liquefied petroleum gas (LPG) for domestic and industrial use. The company operates through three business categories: white products, lubricants, and LPG. Table 2 shows an overview of the company's different business units.

Table 1: Conoil Plc Business Operations

S/N	Business Segment	Overview
1.	White Product	• Involved in the sale of premium motor spirit (PMS), automotive gasoline/grease oil (AGO), dual purpose kerosene (DPK),aviation turbine kerosene (ATK) and low-pour fuel oil (LPFO) to retail and industrial customers. • It has over 1,200 retail outlets across Nigeria. • Conoil is the leader of development in modern retail outlets such as mega stations and non-space pumps.
2.	Lubricants	• Responsible for the sale of lubricants for transport and industrial use, greases, process oil and bitumen. • Key product brands include Quatro and Golden Super Motor Oil.
3.	LPG	• Manufactures and sells LPG through cylinders and valves.

The company's retail has grown an expansive distribution network throughout the country to ensure its customers get value and satisfaction through its quality products. Its distribution is done through its own network of branches, dealers and distribution spread.

The dominant players in the upstream sector include Oando and Seplat, while the dominant players in the downstream arm include Total, Forte Oil, 11Plc and Chevron.

Income Statement for Conoil Oil Plc (FY Dec 2017)

N'000	2013	2014	2015	2016	2017
Revenue	159,537,133	128,352,674	82,919,220	85,023,546	115,513,246
Cost of Sales	(142,498,615)	(114,563,202)	(71,381,463)	(70,882,997)	(102,463,874)
Gross Profit	17,038,518	13,789,472	11,537,757	14,140,549	13,049,372
Other Operating Income	2,758,537	173,437	2,718,438	2,280,235	2,522,765
Distribution Expenses	(4,529,495)	(2,728,155)	(2,697,837)	(2,534,598)	(1,995,504)
Administrative Expenses	(8,391,204)	(8,155,991)	(6,885,734)	(7,995,977)	(11,195,005)
Other Gains/Losses	(48,706)	761,178	2,533,281	155,237	2,060,169
Finance Cost	(2,251,826)	(2,307,767)	(3,757,508)	(1,764,897)	(2,137,170)
Profit Before Tax	4,575,824	1,532,174	3,448,397	4,280,549	2,304,627
Income Tax Expense	(1,505,733)	(697,753)	(1,140,840)	(1,442,665)	(726,120)
Profit for the Year (PAT)	3,070,091	834,421	2,307,557	2,837,884	1,578,507

Balance Sheet for Conoil Oil Plc (FY Dec 2017)

N'000	2013	2014	2015	2016	2017
Property, Plant & Equipment	4,833,632	3,927,386	3,169,460	2,438,467	2,519,941
Investment Property	496,500	446,850	397,200	347,550	297,900
Intangible Assets	95,522	84,908	74,294	63,680	53,066
Other Financial Assets	10	10	10	10	10
Prepayments	245,566	100,359	97,104	163,045	199,485
Deferred Tax Assets	-	1,599,035	1,994,988	2,749,942	2,412,680
Non-current Assets	5,671,230	6,158,548	5,733,056	5,762,694	5,483,082
Inventories	10,635,426	5,516,195	5,550,287	5,255,596	5,661,155
Prepayments	160,889	246,004	189,116	135,890	69,230
Trade and Other Receivables	38,117,934	44,447,855	28,024,348	16,383,929	25,866,860
Cash and Cash Equivalent	27,786,547	31,158,085	29,890,557	42,295,355	25,774,757
Current Assets	76,700,796	81,368,139	63,654,308	64,070,770	57,372,002
Total Assets	82,372,026	87,526,687	69,387,364	69,833,464	62,855,084
Share Capital	346,976	346,976	346,976	346,976	346,976
Share Premium	3,824,770	3,824,770	3,824,770	3,824,770	3,824,770
Retained Earnings	13,865,688	11,924,301	13,537,907	14,293,935	13,721,190
Total Equity	18,037,434	16,096,047	17,709,653	18,465,681	17,892,936
Deferred Tax Liabilities	352,910	933,230	693,515	428,693	365,773
Distributor's Deposits	496,397	498,347	501,697	502,859	496,610
Decommissioning Liability	27,669	32,511	38,200	52,141	54,616
Non-current Liabilities	876,976	1,464,088	1,233,412	983,693	916,999
Borrowings	11,828,937	22,655,108	18,235,913	8,990,872	5,178,802
Bank Overdrafts	-	-	-	-	-
Current Income Tax Liabilities	2,826,206	3,770,483	3,348,544	4,034,453	2,293,116
Trade and Other Payables	48,802,473	43,540,961	28,859,842	37,358,765	36,573,231
Current Liabilities	63,457,616	69,966,552	50,444,299	50,384,090	44,045,149
Total Liabilities	64,334,592	71,430,640	51,677,711	51,367,783	44,962,148
Total Equity and Liabilities	82,372,026	87,526,687	69,387,364	69,833,464	62,855,084

[28]

[28] Conoil Plc Financial Statements

Management:

Management capable of extracting value in challenging operating environment

Conoil Nigeria's growth over the years can be attributed to its management team with its wide range of experience in the petroleum industry. Mr Mike Adeniyi Adenuga is the Chairman of the Board of Directors. He founded and nurtured many energy, oil and gas, banking (Devcom Bank and Equatorial Trust Bank - now Sterling Bank), telecommunication (Glo) and real estate businesses into profitable companies. He was awarded the Grand Commander of the Order of the Niger and the Companion of the Star of Ghana.

Mr Pandey Ajay is the acting Managing Director since 2017. He is a seasoned management professional with over 24-years experience. He has an enviable record of steering new initiatives and impacting organizations across their top and bottom-line, their corporate strategic planning, and their process, performance, profit and loss, and acquisition management. He has expertise in new product launches such as lubricants (Elf, Total, Relstar, Conoil Plc, Masters Lubricants) and LPG (Congas and Masters Gas, Diamond Petro Lubes), distribution network appointment/development, supply and distribution, product pricing and multi-channel management, leadership and decision making as well as monitoring and evaluating performances.

Downstream operators in Nigeria were affected by the fall in global oil prices since 2014, the advancement in shale oil production techniques as well as the weak global economic growth. Despite these major headwinds, Conoil Plc has continued to make significant investments, demonstrating its long-term strategy and commitment to the downstream oil sector. The company's growth is sustainable due to steady improvements in its shareholders' fund.

MD

Chairman

Bulls and Bears Say

Bulls say:

- Leading indigenous brand in the oil and gas industry
- Reputable brand in the Nigerian downstream sector
- Talented and well experienced management
- Wide range of top quality products and services
- Extensive distribution network

Bears say:

- Intense competition from other leading petroleum marketers such as 11 Plc, Oando and Forte Oil Plc
- Persistent foreign exchange challenges
- Delay in the passage of the Petroleum Industry Bill (PIB)
- Volatility in the price of petroleum products can threaten its revenue stream

Risks and Outlook:

Conoil Plc is exposed to risks such as market (currency and interest rate risks), credit and liquidity amid corporate governance risk. These risks could prevent Conoil from expanding in the down-stream space to improve market leadership. The company assigns risk management roles at three levels: Board through the Board Risk and Management Committee; Executive Committee through the Executive Management Committee; and Line Managers who manage risk exposures that occur from daily operations.

The company's foreign transactions are predominantly in US dollars. This makes the country susceptible to exchange rate volatility. Meanwhile, increased pressure on the naira could affect product supply and increase its finance costs, which will adversely affect bottom-line earnings. Conoil currently controls this risk by managing exchange rate exposures through forward foreign exchange contracts.

The company is exposed to liquidity risks, which implies that suitable sources of funding for business activities may not be available. As a result, the company has a liquidity risk management framework that manages its short, medium and long term funding. Conoil mitigates this risk by maintaining reserves, banking facilities and reserve borrowing facilities.