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In This Issue …

The need for an accommodative monetary policy and lower interest rates

In a surprise move in March, the Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) cut the monetary policy rate (MPR) by 50 basis points to 13.5% per annum (pa).[1] This is the first interest rate cut since November 2015. Prominent organizations such as the Manufacturing Association of Nigeria and the Lagos Chamber of Commerce and Industry have clamored for lower interest rates prior to the central bank's decision. The shift to an accommodative policy stance is therefore welcomed by economic agents at a time of weak growth and a credit squeeze to the private sector. The CBN made the decision in order to enhance growth, boost employment and support the government's economic diversification efforts. However, peer evidence suggests that a 0.5% rate cut is too small to achieve the intended objectives, particularly to stimulate growth. Other peers such as Ghana and Zambia that have implemented similar policies had to cut interest rates by over 5% in order to significantly boost economic growth. Hence, the CBN should cut interest rates further in 2019 to have the desired impact on economic activity.

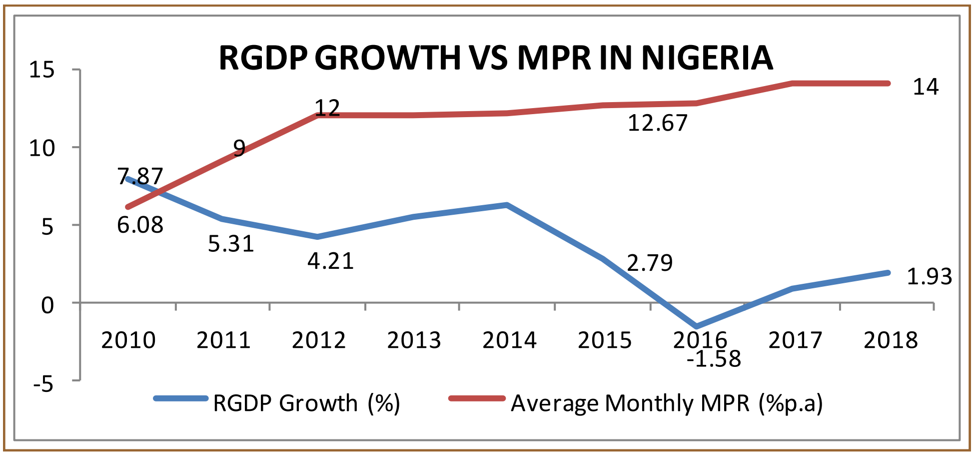
Historical trends of interest rates and GDP growth in Nigeria

Economic theory suggests that lower interest rates have a positive impact on growth, and vice versa. For instance, when interest rates fall, the demand for credit by households and businesses rises. Increased household credit tends to boost consumer spending. Increased consumer spending incentivizes manufacturers to produce more, and this ultimately boosts aggregate output or GDP. Similarly, increased business credit enables businesses to acquire more inputs to expand their output.

[1] Central Bank of Nigeria, 2019. "CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 123 OF THE MONETARY POLICY COMMITTEE MEETING OF MONDAY 25TH AND TUESDAY 26TH MARCH, 2019". https://www.cbn.gov.ng/Out/2019/MPD/Central%20Bank%20of%20Nigeria%20Communique%20No.%20123%20of%20the%20Monetary%20Policy%20Committee%20Meeting%20of%20Monday%2025th%20and%20Tuesday%2026th%20March,%202019.pdf

The interest rate under consideration here is the lending rate, which is the rate at which financial institutions lend to their customers. This rate is largely determined by the amount a central bank sets as its MPR (the rate at which an apex bank lends to financial institutions in the country). In Nigeria, the CBN gives credit to commercial banks in the country at the MPR plus the upper limit of the asymmetric corridor (which stands at 2% currently). Banks thereafter add their risk premiums to this rate before lending. As a result, a reduction in the MPR typically leads to lower lending rates if financial institution premiums remain the same.

As the theory implies, MPR and economic growth in Nigerian have typically moved in opposite directions since 2010.[2,3] Most of the CBN's interest rate policies have been tilted towards monetary contraction. When the average MPR rose to 9% pa in 2011, economic growth fell to 5.31%.[4] In 2016, when the CBN also raised interest rates, economic growth fell to contraction territory.[5] Although crude oil prices declined in 2016, its impact on the economy was compounded by higher interest rates. The negative relationship between MPR and growth in the country highlights the need to cut interest rates in 2019. So far, the CBN's decision to cut the rate in March is a positive step, but the magnitude is insufficient to make an impact.



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Evidence from peer countries

Peer countries in SSA that have incentivized economic growth through interest rate cuts have had to cut their interest rates significantly. For instance, Ghana cut interest rates by as much as 5.5% in 2017.[7] The country's growth rate quickened to 8.44% that year, from 3.72% in 2016.[8]

[2]Central Bank of Nigeria, 2019. "Money Market Indicators". Federal Government of Nigeria, https://www.cbn.gov.ng/rates/mnymktind.asp
[3]National Bureau of Statistics, 2019. "Nigerian Gross Domestic Product Report (Q4 & Full Year 2018)". Federal Government of Nigeria, http://nigerianstat.gov.ng/elibrary?queries[search]=gdp
[4]Ibid
[5]Ibid
[6]Ibid
[7]Bank of Ghana, 2019. "Monetary Time Series Data". The Government of Ghana, https://www.bog.gov.gh/statistics/time-series-data
[8]Ghana Statistical Service, 2018. "Gross Domestic Product (GDP)". The Government of Ghana, http://www2.statsghana.gov.gh/gdp_bulletin.html

Similarly, Zambia cut interest rates by 5.25% in 2017.[9] The economic growth rose to 4.1% in 2017 compared to 3.4% in the previous year.[10] It is noteworthy that a reduction in interest rates may not be the only contributing factor to growth in these economies. Other factors such as higher commodity prices and expansionary fiscal policies could have also provided support. Interestingly, Botswana cut its MPR marginally by 0.5% in 2017 and it failed to have an impact on its economic growth.[11] Its GDP growth slowed to 2.4% in 2017 from 4.3% in 2016 in spite of the rate cut.[12]

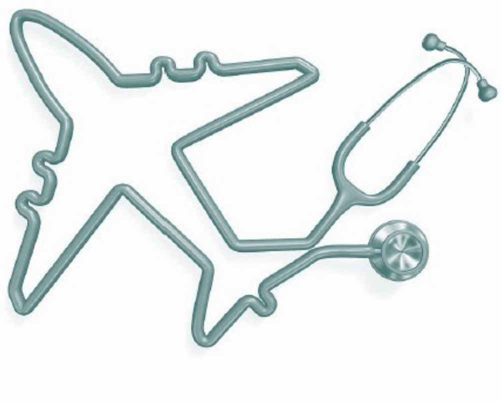
The evidence speaks for itself. Interest rates need to be cut substantially, in addition to a cocktail of other growth driving policies, in order for it to have a positive/significant impact on growth. Like Botswana, the CBN risks undermining its effort to boost growth if it does not cut interest rates further in 2019. It may not need to cut as much as 5% like other economies to boost growth and it will need to balance the inflationary risks of reducing interest rates, especially with the introduction of the new minimum wage. In the long term, a higher rate of expansion in aggregate output, if interest rates are reduced, is also expected to have a positive impact on the general price level in the country.

[9]Bank of Zambia, 2017. "BASIC STATISTICS ABOUT ZAMBIA". Republic of Zambia, http://www.boz.zm/statistics3.htm
[10]Central Statistical Office of Zambia, 2018. "Economic Statistics". Republic of Zambia, https://www.zamstats.gov.zm/index.php/publications
[11]Bank of Botswana, 2018. "Monetary Policy Statement 2018". Republic of Botswana, http://www.bankofbotswana.bw/assets/uploaded/MPS%202018.pdf
[12]Bank of Botswana, 2019. "Monetary Policy Statement 2019". Republic of Botswana, http://www.bankofbotswana.bw/assets/uploaded/MPS_4.pdf

Brain drain and its impact on health care

Brain drain and the health sector

Health is an essential driver for economic growth and human capital development. To ensure economic development in a country, its citizenry must be healthy. However, health is extremely difficult to deliver without a qualified and substantial workforce of health care practitioners. Herein lies the problem in Nigeria. Emigration amongst medical professionals has been a trend since the 1980s. An estimated 2,000 medical doctors and other health care professionals leave Nigeria for greener pastures every year, and over 80% of Nigerian medical doctors are currently seeking work opportunities abroad.[13] The exodus of doctors, primarily to the US and Europe, is due to a range of reasons such as poor salaries and incentives, a lack of health infrastructure, and the constant need to seek a better quality of life. Addressing these challenges that lead to brain drain will go a long way to improving the health sector, the economy, and the lives of Nigerians.



Salaries are easily one of the largest factors leading to brain drain. Hardly a year passes without a major national strike by health practitioners, typically focused on wages. This is evident in the salary structure. According to a survey, a doctor who works in a private hospital in Nigeria earns an average of N100,000 a month ($280 a month), while a doctor who works for the government earns an average of N175,000 a month ($486 a month). This is meager when compared to a healthcare practitioner in the US that earns an average of $14,904.67 a month.[14] Thus, we see doctors moving to countries where they can be better paid for their services.

According to the Medical and Dental Council of Nigeria, Nigeria has about 72,000 registered medical doctors. However, only approximately 35,000 of them are practicing in Nigeria.

[13] Al Jazeera news. April 2019.Nigeria's medical brain drain: Healthcare woes as doctors flee. https://www.aljazeera.com/indepth/features/nigeria-medical-brain-drain-healthcare-woes-doctors-flee-190407210251424.html

[14] https://www.glassdoor.com/Salaries/us-medical-doctor-salary-SRCH_IL.0,2_IN1_KO3,17.htm

The UK has over 3,000 Nigerian-trained doctors, the US has more than 5,000, and Canada continues to attract medical professionals from Nigeria, reflecting an on-going trend of Nigerian-qualified doctors choosing to practice elsewhere.[15] The impact is a poor doctor to patient ratio. There is only one doctor for every 2,500 Nigerians, which falls far short of the World Health Organization's (WHO) recommendation of 1:600.[16]

The lack of health infrastructure, specifically research facilities and advanced medical equipment, is a second major factor fueling brain drain. Most health practitioners must travel abroad to get exposure to modern medical equipment, as do many patients if they can afford it. The high rate of healthcare tourism is a clear indicator that the state of Nigeria's medical system is insufficient. Nigerians spend about $1 billion annually on medical tourism, which is about 20% of the annual government spending on the public health sector.[17]

The lack of infrastructure is a result of the federal government's low annual budget for the health sector. The allocation for the Ministry of Health was N340.46 billion in 2018, 4.17% of the total national budget. This is below the African Union's (AU) 15% minimum target to improve the health sectors of AU countries.[18] To put this in perspective, Nigeria spends only $67 per person on health care, whereas South Africa allocates seven times as much and Angola three times as much.[19] It is clear that the health expenditure in Nigeria needs to be raised, this will help boost infrastructural developments.

Solutions to the exodus of health practitioners

While various reforms, such as the National Health Insurance Scheme and the National Immunization Coverage Scheme, have been implemented by the federal government to address the wide-ranging issues in the sector. The impact is yet to be felt at the state and local government levels.

The first step is to increase the federal government's budgetary allocation for health care. For example, an 11% increase in allocation to reach the 15% AU benchmark could improve salaries, aid healthcare programs like malaria and AIDS, and also cover some capital and operating costs for health facilities in Nigeria. An increase would have a positive impact on health infrastructure and economic development.

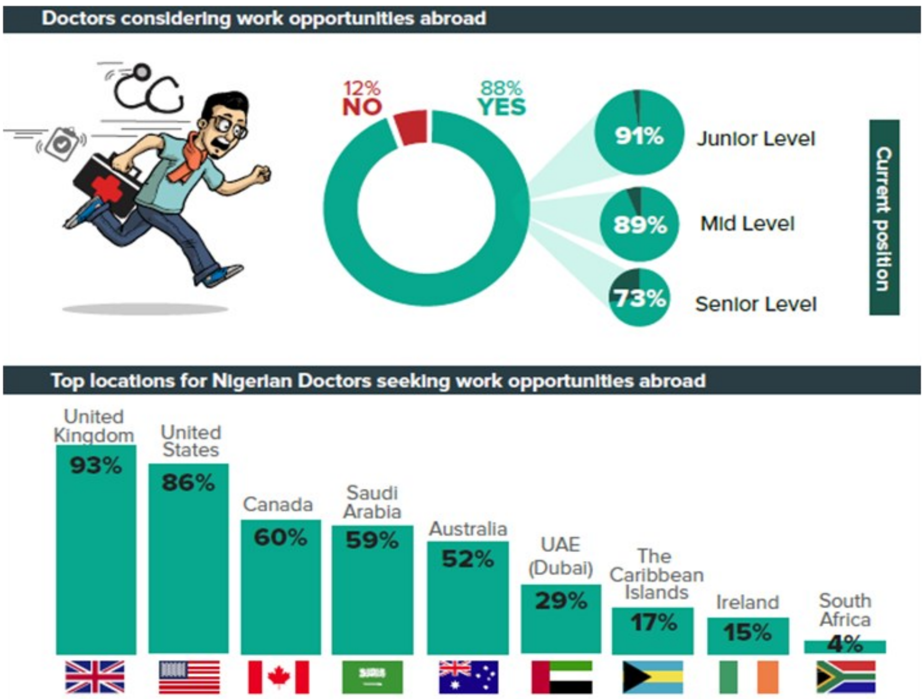
[15] Oxford Business Group. 2016. "Nigeria set to reform health care system." https://oxfordbusinessgroup.com/news/nigeria-set-reform-health-care-system
[16] Global Health Workforce Alliance. 2015. "Nigeria". World Health Organization. https://www.who.int/workforce alliance/countries/nag/en/
[17] Price Waterhouse Coopers. 2016. Restoring Trust to Nigeria's Healthcare System. https://www.pwc.com/ng/en/assets/pdf/restoring-trust-to-nigeria-healthcare-system.pdf
[18] Nigeria: Health Budget Analysis. 2018. yourbudgit.com/wp-content/uploads/2018/04/Nigeria-Health-Budget-Analysis
[19] Ibid

The government should also work to attract investors that provide health care services, research facilities and equipment by demonstrating transparency and accountability in the allocation of the healthcare budget. This would present the challenges and a wide range of opportunities to foreign investors and Nigerians in the diaspora. Better research facilities and equipment could limit the migration of health practitioners who seek exposure to modern medical facilities.

It is also imperative that Nigeria explores public-private partnerships (PPP) to bridge infrastructural and operational gaps. The UK is the leading proponent of health facility PPP projects, which focuses on the development and rehabilitation of facilities as well as facility management. As a result of PPP, about 100 National Health Service buildings were constructed in the UK in 12 years.[20] If this model was incorporated in Nigeria, the infrastructure deficit could be bridged, which could in turn limit Nigerian health tourism.

The need for doctors is on the rise

If Nigeria is to reduce brain drain, and the rising capital flight from medical tourism, then it needs to improve the state of its healthcare facilities, earn patients' confidence and retain some of its brilliant medical experts. With Nigeria's population of about 190 million and a population growth rate of 2.6%, we need about 303,333 medical doctors now, and at least 10,605 new doctors annually to join the workforce. Only at this level can we expect good quality patient care that is not undermined by mistakes, occasioned by fatigued and exhausted medical doctors.



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[20]PwC. December 2010. Build and Beyond: The (r)evolution of healthcare PPPs. https://www.pwc.se/sv/halso-sjukvard/assets/build-and-beyond-the-revolution-of-healthcare-ppps.pdf
[21]NOIPolls. 2017. "Emigration of Medical Doctors Survey Report".
https://www.researchgate.net/publication/319546512_Emigration_of_Nigerian_Medical_Doctors_Survey_Report

New wave of middle-class emigration deepens Nigeria's skill shortage

GLOBAL PERSPECTIVE: culled from Bloomberg

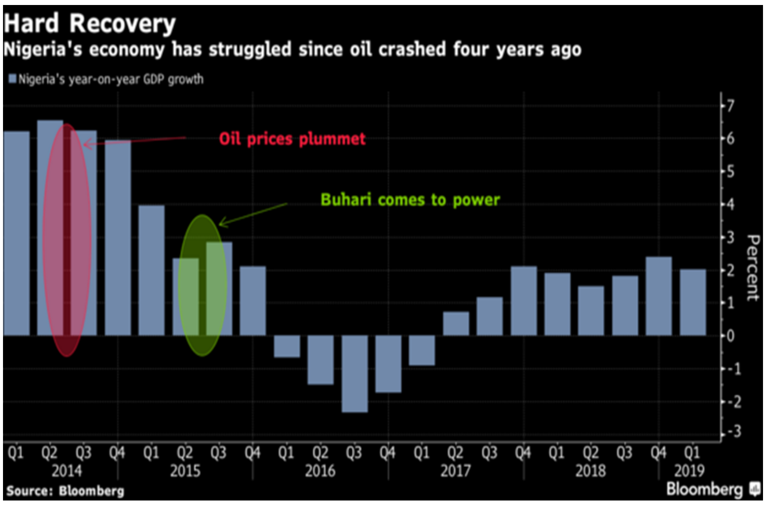
Canada is an increasingly preferred destination of emigrants

Number of Nigerians overstaying U.S. visitor visas quadruples

A new wave of emigration among Nigeria's middle class is robbing the oil-rich West African nation of skills and putting local recruitment under pressure.

An anemic economy that contracted for the first time in two decades in 2016, poor health facilities and schools, a worsening insecurity marked by a decade-old Islamist insurgency in the northeast, kidnapping and herdsmen attacks in other parts of the country are driving the exodus. It comes at a time when Nigeria has become the nation with the largest number of poor people.

Per capital income dipped by 37% since its 2014 peak and is projected to continue declining in the next four years, according to the International Monetary Fund. The exodus in the nation of almost 200 million people is hitting the IT, finance, consumer and health industries particularly hard.



"Those who emigrate can time-travel," said Charles Robertson, chief economist at Renaissance Capital. "They jump forward decades of economic development to work in countries which are usually more stable, wealthier, with better education for their children and better health care."

President Muhammadu Buhari, 76, who was sworn in Wednesday for a second term, has promised to tackle insecurity and boost economic growth in the continent's biggest oil-producing country. His spokesman, Garba Shehu, declined a request to comment.

Canada's liberal immigration policy is a strong pull for Nigeria's top talent that faces rising living costs and stagnant incomes. Inflation has been at double digits since 2015, while the unemployment rate has hit its highest level since 2010.

Applications for permanent residency in Canada have risen threefold since 2015, data from Immigration, Refugees and Citizenship Canada show, while those for temporary residency has almost doubled over the same period.

Over 4,200 Nigerians were approved for permanent residency in Canada in 2017, which is almost double the number from the year prior. Nigerians in Canada make important contributions to both countries.

— Canada in Nigeria (@CanHCNigeria) April 16, 2019

Increasing Overstay

Almost 30,000 Nigerians admitted with business and tourist visas are overstaying in the U.S as of 2018

The number of Nigerians suspected overstaying in the U.S. with visitor visas has more than quadrupled from 2015 to last year, according to data from the U.S. department of Homeland Security. The overstay rate of Nigerian students studying in the U.S soared to 22% last year from 4% in 2015.

Of about 155 countries that have citizens overstaying in the U.S. as non-immigrants with business and pleasure visas, Nigeria ranks among the top 10 sharing places with countries such as Djibouti, Eritrea, Yemen, South Sudan, Syria, Chad and Burundi.

The health-care industry is one of the most affected by the exit of professionals. About 9 out of 10 medical doctors in practice are exploring work opportunities abroad, a 2017 survey by polling company NOI Polls shows.

In Britain there are currently 6,312 medical doctors of Nigerian origin, according to data on the U.K. General Medical Council website, a 44% increase on 2015 figures. That's worsened health care in a country that has one doctor to serve 5,000 people, according to the Nigeria Medical Association.

"All professional firms and major corporations in Nigeria are affected by the brain drain," said Andrew S. Nevin, advisory partner and chief economist at PwC Nigeria. "The Nigerian government needs to create an economic and social environment sufficiently attractive to keep our educated young people."

The failure taboo:

Entrepreneurs admit what happens when it all goes wrong

GLOBAL PERSPECTIVE: culled from The Financial Times

The reality and stresses of start-up life are often overlooked

Tristan Watson found that running his start-up Larderbox became a burden. Falling asleep is never the problem, says Tristan Watson. The exhaustion makes that easy. The problem is waking up — usually at around 3am. "Then you're just lying there thinking about all the shit that is wrong and the difficult conversations you're going to have to have. The people you might have to let go or whatever, thinking about how you will say it over and over: 'I'm sorry, you have all put so much into this.'"

The life of the entrepreneur has never been so celebrated — or so commonplace. But rarely does the daily reality that most entrepreneurs battle with receive much attention: the work, the intense stress — and the inevitable failures.

Driven by the digital and e-commerce revolution, entrepreneurialism has boomed over the past decade. Whereas the average start-up in the US cost $5mn to launch in 1999, it now costs just $50,000, recent research from Santa Monica-based Upfront Ventures found. The picture is similar in Europe, where London leads the way as a centre for entrepreneurship, according to European Commission data. The shift has been cultural as much as economic: entrepreneurs are now as feted on social media as they are by investors and governments. Instagram is awash with accounts and hashtags glamorising the venture lifestyle.

Externally, Watson's business, Larderbox, a home delivery service for artisanal food products, was a model example of the new entrepreneurial wave. It featured in the New York Times Magazine, Vogue and Wired. It had big aspirations to change the way niche and luxury food products were sold. It had a large and loyal subscriber base.

"But internally," says Watson, "I knew it wasn't going to work out as I'd hoped." Too much equity had been given away to investors, Watson said, and the business no longer held the promise for him it once had. Running it had become a burden rather than an opportunity.

Watson sold Larderbox to a competitor in 2012. "It hit me really hard. You've poured yourself into your business and you've told everyone that you were going to build this company. You tell everyone this is going to happen and you have to believe it. When it doesn't come out as you imagined it's a real blow."

Now Watson runs one of the largest start-up accelerator programmes in Europe, Ignite. Since it was established, Ignite has invested in more than 200 companies. A core part of Ignite's programme is built around helping entrepreneurs to handle the very real psychological stresses that they will face when things start to go wrong. More than half of new ventures can be expected to fail, says Watson. Those that do not are built on toil.

"Building a business isn't a three-year sprint where then Google comes along and buys you for $5mn," he says. "It really takes 10 years to build anything of value and that's a long time — a really long time when you [the founder] are basically the punch bag for everything that goes wrong."

The paradox at the heart of the entrepreneurial boom is that while its risk-hungry culture is still heroised, the logical flipside of that risk-taking, the high failure rate, is still taboo. Much like relationships, few entrepreneurs want to talk about the businesses in their past that did not go well. The focus on, belief in and self-identification that most successful entrepreneurs need to have with their current business is, of course, part of the explanation as to why. But increasingly, those in the industry are keen to open up more about failures, large or small, and to encourage a more honest conversation among entrepreneurs around the reality of the work they do and the stresses they face.

"I was scared, uncertain, worried — I just didn't want to say it out loud," says James Routledge, who dropped out of university to start MatchChat, an online commenting platform for football lovers. "I was pretty clueless about life and business. I'd watched [the film] The Social Network and read a few articles on TechCrunch and thought, 'I'll have a bit of that'. I was totally out of my depth."

MatchChat lasted for three and a half years before Routledge wound it up in 2016. "At that point all these feelings I'd quashed really started to surface. I was anxious, getting panic attacks. It was pretty debilitating. I'd not been honest with myself for years. I was really struggling with my mental health."

The entrepreneurial community needs to have a more honest conversation about what failing means, he says. “People feel they have to put on a façade and a front. I can remember seeing pictures of entrepreneurs working from their laptops on a beach in Bali — things like that are actually really demotivating and toxic. The disconnect [with reality] is damaging.”

Routledge’s own deeply personal experience of failing in the industry has now become a powerful driver behind his new business. Sanctus provides counselling and mental health support to people in start-ups and in business. It now counts blue-chip organisations including Aviva, BGC Partners and the BBC as its clients. There is a huge appetite for the work it does. Routledge says the business is on course to double its reach this year, as more in the start-up industry seek to get a firmer grip on their own well-being.

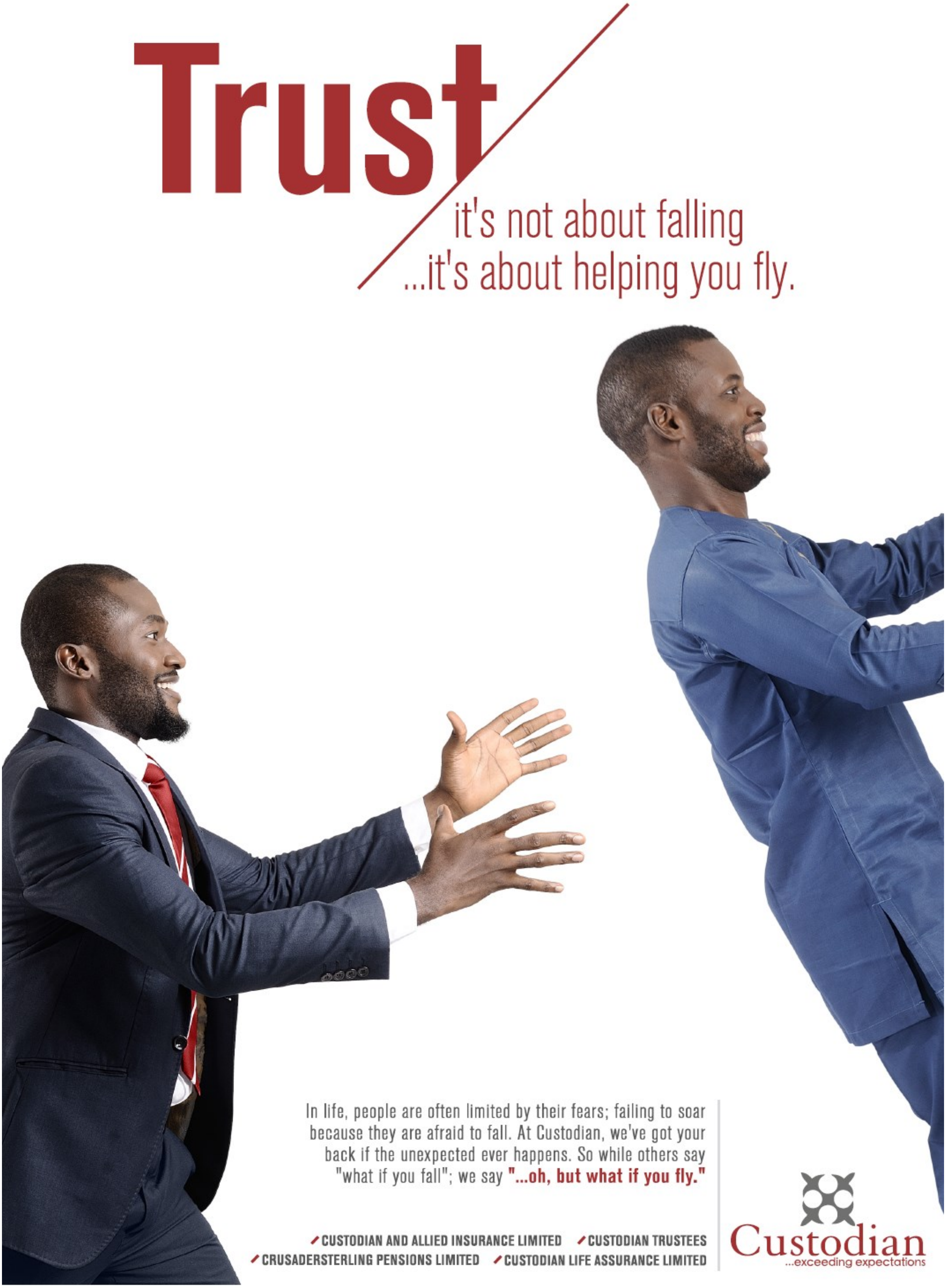
Investors, in particular, want to know that their business partners can cope. “For me it is crucial to look the founder in the eye and know they are going to get through those months of crisis,” says Brett Akker. He founded Streetcar, the UK’s largest car sharing company, in 2004. Now Akker invests in start-ups himself, drawing on his own experiences.

“There is no way any success story has had a smooth ride. They are going to go through that journey of big ups and big downs. When things go wrong, which they will, you need to want to get up and put things right. It takes over your life. It is all consuming.”

Streetcar started out with just eight vehicles in Clapham, growing to a fleet of more than 1,500 before being bought by the US company, Zipcar, in 2010. It was a 24-hour business, recalls Akker. “We would get up at 6am, do some work, then go out and hand out fliers at stations, then we’d have more meetings and then we’d go out and do some more flyering to get the commuter rush. Then more work. Then after, if you manage to get to sleep, you’d dream about the business. And at 2am you got woken up by someone who has come out of a nightclub and found a flier on the floor and given you a ring.”

For most start-ups, there are never quiet moments. “If we had a great result and we were celebrating,” says Akker, “there was always a disaster guaranteed around the corner.”

The rapid growth that most start-up ventures need to sustain in order to justify investment means that, more so than regular small businesses, existential crises present themselves with regularity.


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

"The decisions that enable that growth — hiring, expanding in new markets, securing additional funding — each of those decisions will potentially make you go bust," says Martin Piatkowski, founder of JIVR, an electric bike company. "Every six months, you are making a critical strategic decision." Piatkowski set up JIVR in 2014. It has been a long road to getting the business established, he says, fraught with a lot of serious mistakes. "The bad decisions made in the past haunt you for a very long time." JIVR's early years were dogged by constant shortages of money. Piatkowski says he repeatedly underestimated the cost of developing a new bespoke piece of engineering from scratch. He over-promised to customers who pledged capital through a crowd-funding campaign — some of whom waited years longer than anticipated for a bike. "Most of the time it's quite grim really," he says.

JIVR now employs 60 people and hopes to double its production from 2,000 to 4,000 electric bicycles this year.

"As an entrepreneur it can be horrendous — there are challenges every single day and you can go from euphoric to despondent in an afternoon," says Alex Dunsdon, partner at Saatchinvest, an early stage tech venture capital fund spun out of the advertising agency Saatchi & Saatchi.

"The key trait you need is utter resilience. The best entrepreneurs I meet are sustained by a missionary zeal."

The people count for far more than the ideas, says Dunsdon. To that end, many start-ups find themselves doing something very different to their original concept. "It's like jumping out of a plane without an assembled parachute — you have to work it out and make it work on the way down. If you're good, you find a way." Dunsdon points to companies such as Twitch, which began life as a niche service video streaming computer games online and is now a subsidiary of Amazon, which has just signed deals to broadcast Basketball and American Football league games. Or Slack, the now ubiquitous workplace messaging platform, which was built originally as an internal development tool to aid the team building a now defunct video gaming venture, Glitch.

Keld van Schreven's current venture, SmartTrade, a payment app for small businesses, began life as a platform for connecting plumbers to customers. He pivoted in an entirely new direction after realising it was developing software services that really interested him, not running a directory for tradespeople, no matter how smart.

Being adaptable is essential, he says. "In start-ups there are these existential crisis points. 'Oh my God what's our profit? Who is using our product? What is our point?' and those are interspersed with these major financial crises. Then you have the shifting sands of the actual products and services under them — the mobile phones people are using, for example." Being adaptable also means having a very simple product or concept and focusing on honing it perfectly, says van Schreven, a key lesson he learnt through a past failure.

The problems of van Schreven's first business, Diary.com, are hard to forget, he says. "I mis-executed on the product and made it too complicated. I got badly burned and it took a lot of energy to get back in the saddle. I failed and failure is very hard to deal with."

Starting again is tough, he says. "To get up and restart with no money having been through all of that is really difficult. You're living on discount sandwiches. You have to really want it. It's a very lonely road." One debate in the entrepreneurial community is whether start-ups are best launched by partners, or even whole teams, rather than individuals who must bear the stresses alone.

"The idea of the hero entrepreneur is not something we believe in," says Tim Mills, investment director at the Angel CoFund. "It's about building the teams and making sure the emotional support and resilience around a founder is there we see that as part of our role as investors. I can think of few occupations that are so demanding. As a founder you are carrying a tremendous amount of responsibility — hopes and dreams."

According to Sanctus's Routledge, one of the biggest challenges the start-up and entrepreneurial world faces in the future is addressing how better to psychologically manage that burden. Yet the very nature of entrepreneurship — the strident individualism and drive that makes for the most successful businesses — is ultimately unavoidable.

"One of the main reasons being an entrepreneur really takes its toll on mental health is how wrapped up an entrepreneur's identity becomes with their business," says Routledge. "There is not enough separation between the founder and their company. Everything else gets sacrificed — relationships, marriages, friends, hobbies. It's very hard to keep a sense of yourself because of that.

"But ultimately you need the self-belief to do it in the first place. I think if you're going to do it, you have to believe in yourself and really ask yourself why you are doing it — it has to be about more than money. If financial success is your only motivation, it's too hard."

Macroeconomic indicators

Power Sector

The average power output stood at 3,658MWh/h during the review period, 9.05% lower than the output in the corresponding period in April (4,022MWh/h). On May 9th, the national power output fell to 1,585MWh/h due to total system collapse. This makes it the sixth time the country's power grid has collapsed in 2019. A breakdown of constraints to power generation is as follows:

Constraint (MWh/hour; total)	April (1st – 15th)	May (1st – 15th)
Gas	27,655.92	26,552.50
Grid	19,512.70	17,613.50
Water	1,950	1,650

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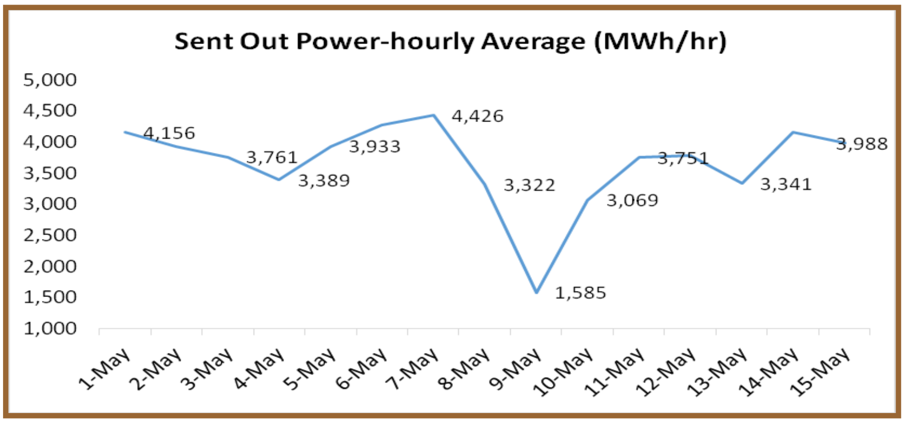
Gas constraints during the period resulted in an aggregate revenue loss of N22.47bn (N584.22bn annualized).



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Outlook

We expect power supply to remain dependent on the availability of gas. Meanwhile, higher rainfall would result in lower water constraint and boost Nigeria's hydropower output. Hence, average on-grid power output is likely to oscillate within the range of 4,000-4,100MWh/hour in the coming weeks.

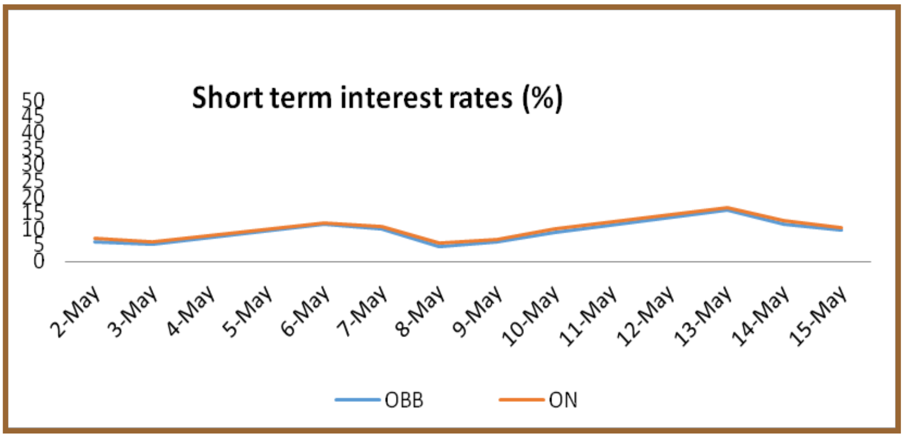
Impact

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.

[22]FG, FDC Think Tank
[23]FG, FDC Think Tank

Money Market

During the review period, the average liquidity was N341.19bn, 171% higher than the position of N125.81bn in the corresponding period in April. This was despite an increase of 16.48% in OMO sales to N613.25bn relative to maturities of N196.41bn. This resulted in a net outflow of N416.84bn. The NIBOR (OBB/ON) rates increased by an average of 350bps to close the period at 9.86% and 10.57% respectively.



[24]

The yields on the primary and secondary market moved in the same direction. Whilst the 91-day T/Bills yield at the primary and secondary markets was flat at 10.00%pa and 10.35%pa respectively, the 182-day and 364-day T/Bills tenors fell by an average of 23.5bps at the primary market and 34bps at the secondary market.

T/bills Tenor	Secondary market rates as at May 2nd (%pa)	Secondary market rates as at May 15th (%pa)	Direction	Primary market rates as at May 2nd (%pa)	Primary market rates as at May 15th (%pa)	Direction
91	10.35	10.35	↔	10.00	10.00	↔
182	12.60	12.21	↓	12.49	12.30	↓
364	12.74	12.45	↓	12.77	12.49	↓

The Nigerian Inter-Bank Treasury bill True Yield (NITTY) rates moved in opposite directions during the review period. The 30-day tenor increased by 88bps while the 90-day and 180-day tenors declined by an average of 41.5bps.

[24] FMDQ, CBN

NITTY Tenor	Rates on May 2nd (%pa)	Rates on May 15th (%pa)	Direction
30	10.86	11.74	↑
90	10.88	10.62	↓
180	13.39	12.82	↓

[25]

Outlook

We expect higher naira liquidity in the coming weeks due to injections from OMO maturities. However, we expect the CBN to continue with its management of excess liquidity using measures such as the sale of OMO and Treasury Bills.

Impact

Higher liquidity within the banking system would result in lower interbank 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

At the parallel market, the naira depreciated to end the period at N361/$ from N360/$ at the start of the review period. This was despite an increase in the CBN's intervention in the forex market which totaled $476.83mn, 4.15% higher than $457.8mn in the corresponding period in April. Whilst the currency depreciated against the dollar to N307/$ at the interbank market, it appreciated to N360.54/$ at the IEFX window. Total forex traded in the IEFX window increased by $2mn to $2.40mn during the review period.

The naira depreciated against the euro and pound at 0.25% and 0.43% respectively to close the period at N403/€ and N472/£.

[25]FMDQ

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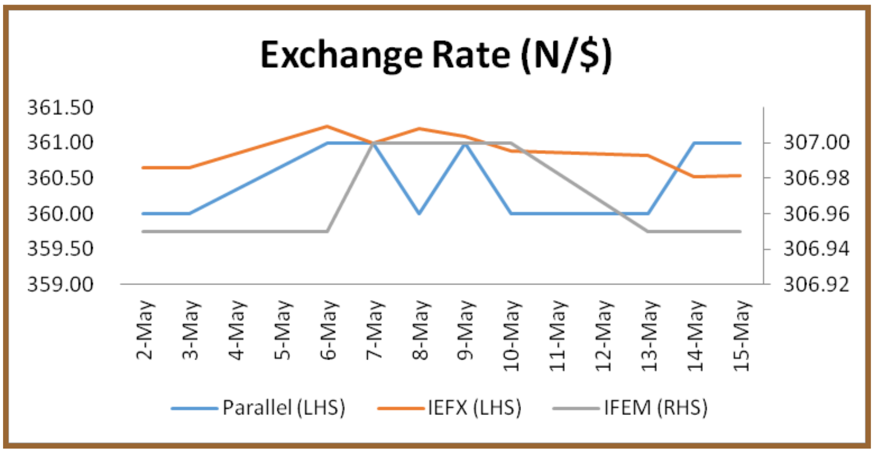


26

Outlook

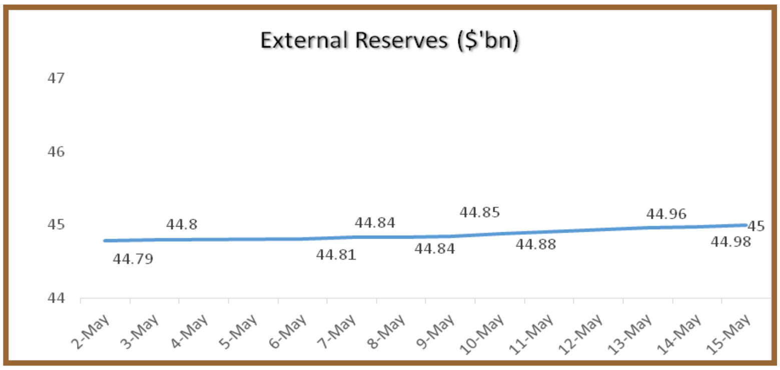
We expect the naira to remain stable within the band of N360-361/$ at the parallel market in the coming weeks on the back of regular CBN's forex and OMO intervention strategies.

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 0.47% to $45bn on May 15th from $44.79bn on May 2nd despite an increase in CBN's intervention by $2mn. Subsequently, Nigeria's import cover increased to 11.20 months from 11.15 months on May 2nd.



27

Outlook

We expect the CBN to continue with its intervention in the foreign exchange market in order to keep the exchange rate within the band of N360-361/$ at the parallel market. This could result in a decline in the level of external reserves.

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.

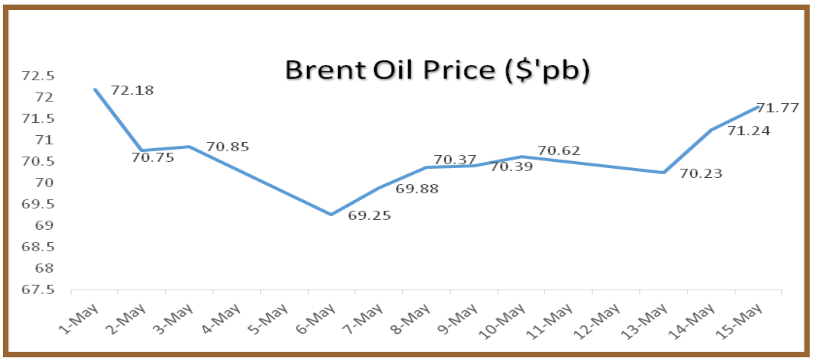
[26]FMDQ, CBN, FDC Think Tank
[27]CBN

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 $70.87pb in the first half of May, 0.67% higher than the average of $70.40pb in the corresponding period in April. The rally in oil prices was partly driven by reports of an attack on two Saudi Arabian oil tankers.



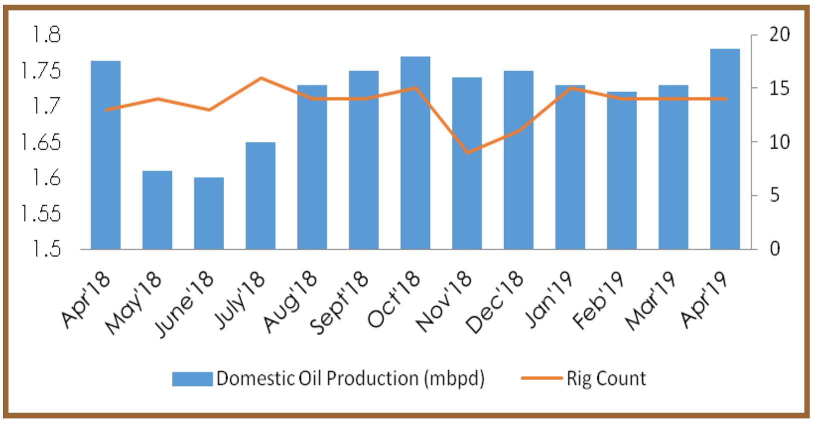
[28]

Outlook

We expect oil prices to continue its upward trend in the near term due to an indication of a consensus among OPEC members to extend the output cut to the end of 2019. The gains in crude oil prices may be moderated by an increase in US shale production. Nevertheless, the group's extension of production cut would be known after its bi-annual meeting on June 25th and 26th.

Oil Production

According to OPEC's latest monthly report, Nigeria's oil production increased by 5.20% to 1.82mbd in April. This was despite a flat rig count of 14 in April. Meanwhile, OPEC crude oil production averaged 30.03mbpd, marginally unchanged from the previous month of 30.02mbpd.



[29]

[28]Bloomberg
[29]OPEC and Baker Hughes

Outlook

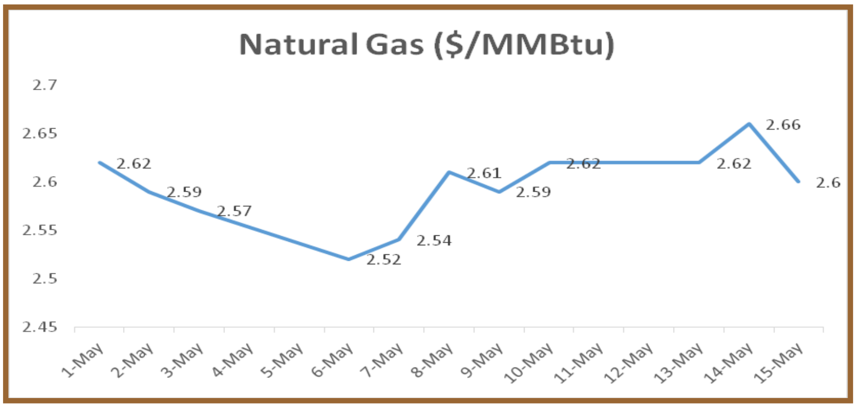
Recently, oil multinationals Shell and Total declared force majeure on Bonny light crude and Amenam respectively could result in a decline in the oil production level which is currently at 1.78mbpd.

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, a continuous increase in oil prices would likely moderate the loss expected from a fall in oil production.

Natural Gas

The average price of Natural gas declined by 2.62% to $2.60/mmbtu from $2.67/mmbtu in the first 15 days in May, despite higher demand for natural gas in the US.



[30]

Outlook

We expect prices to remain bearish in the coming weeks on the back of higher global supply.

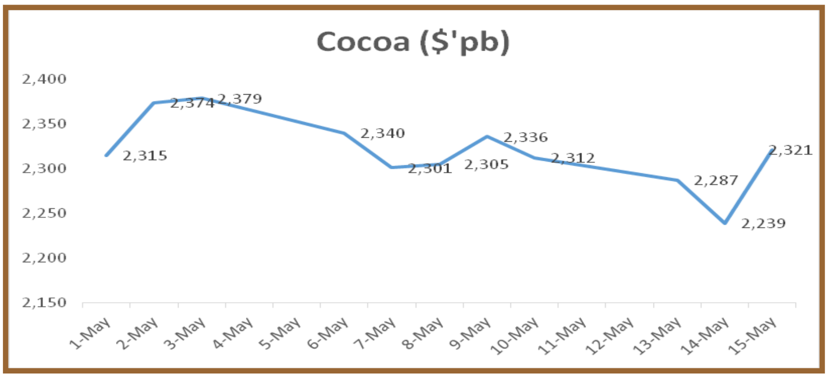
Impact

LNG accounts for approximately 12%[31] of export revenue. A continuous decline in the price of this commodity is negative for the country's fiscal and external reserves accretion.

Cocoa

Cocoa prices averaged $2,323/mt in the first 15 days of May, 2.84% lower than $2,391/mt in the corresponding period in April due to lower global demand.

[30]Bloomberg
[31]EIU



32

Outlook

We anticipate an increase in the level of Ghana's cocoa production and this could likely result in higher global supply. Therefore, we expect prices to maintain the downward trend and trade within the range of $2,200/mt-$2,400/mt in the near term.

Impact

Nigeria, the world's fourth largest exporter of cocoa, produces 205,000 tonnes annually. A decrease in global prices of cocoa would impact negatively on the country's terms of trade and external balance.

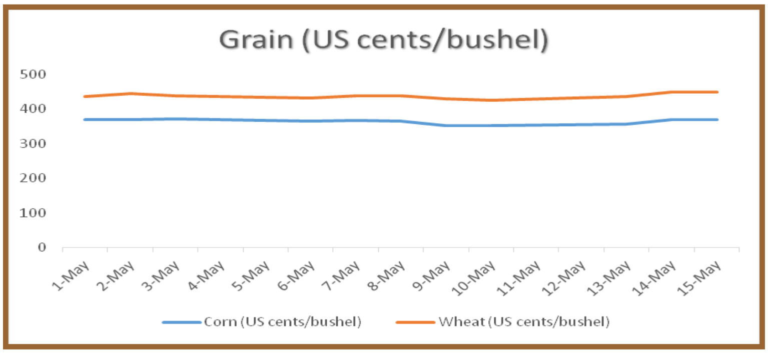
Commodities market - imports

Wheat

The average price of wheat declined by 5.38% to $4.40/bushel in the first half of May, from $4.65/bushel in the corresponding period in April due to ample global supply .

Corn

The price of corn averaged $3.64/bushel in the first 15 days of May, 0.27% lower than the average of $3.65/bushel recorded in April despite delayed planting in the US.



33

[32]Bloomberg
[33]Bloomberg

Grains- Outlook

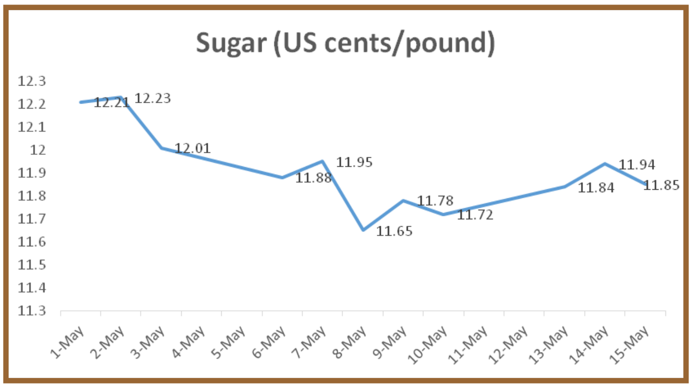
We expect wheat prices to continue its downward trend in the next few weeks due to favorable weather condition in Russia and Ukraine.

Impact

A decrease in wheat prices will result in lower cost of raw materials and higher bottom line of wheat-dependent companies such as Flour Mills of Nigeria Plc.

Sugar

Sugar prices averaged $0.1191/pound in the first half of May, 6.73% lower than the average of $0.1277/pound recorded in the relative period in April. This was despite lower exports from India.



[34]

Outlook

We expect prices of sugar to reverse its bearish trend in the coming weeks due to an anticipation of lower output from Asian markets such as Thailand, India and China.

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. However, there is a growing health awareness concerning the consumption of sugar and this could reduce the demand of sugar.

[34]Bloomberg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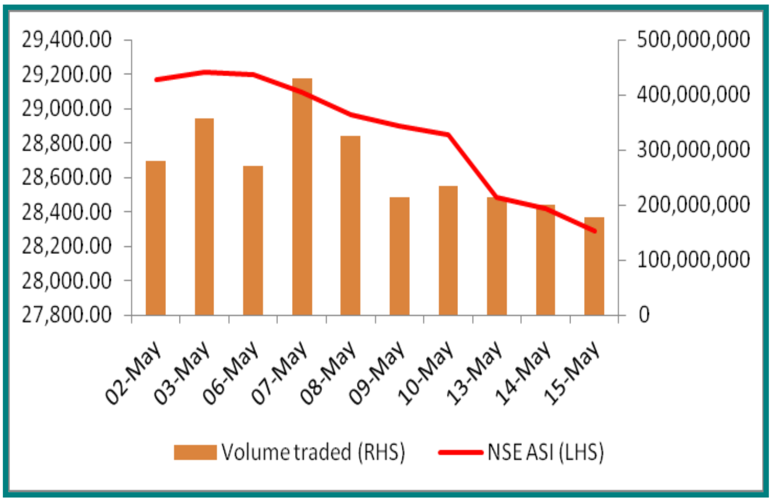
Stock market update

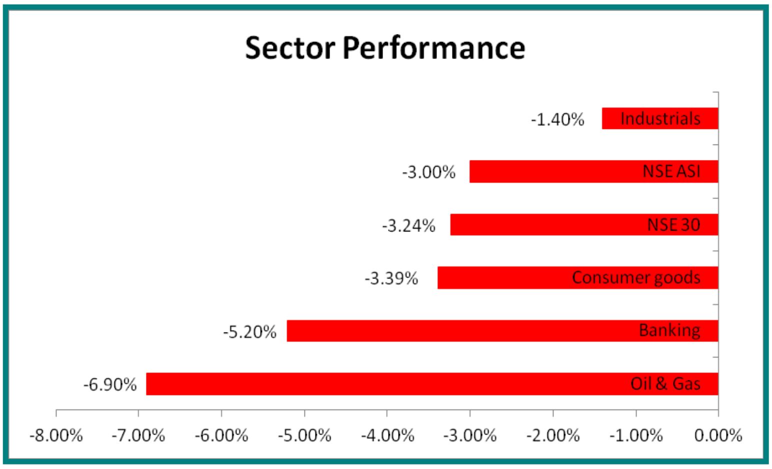
The Nigerian stock market continued its losing streak in the first half of May. The NSE ASI lost 2.99% to close at 28,286.08 points on May 15, 2019 compared to the end of April (29,159.74 points). Similar to the NSE ASI, market capitalization declined by 3.01% to N10.63 trillion.

The price to earnings (P/E) ratio stood at 7.0x, 9.56% lower than the close of 7.74x on April 30. The market breadth was negative at 0.24x, as 16 stocks gained, 85 stocks remained unchanged, while 66 stocks lost. This is 38.46% lower than the market breadth at the end of April (0.39x). Over this period, the market recorded 8 negative and 2 positive trading days.



[35]

The bearish trend on the NSE was also reflected in lower activity level over the review period. Average volume traded declined by 46.29% to 270.4 million units and average value of trades fell by 30.38% to N2.36 billion, compared to their respective averages of 503.51 million units and N3.39 in the first half of April.



[36]

All indices lost during the review period with oil & gas sector emerging the highest decliner (6.90%). The downward trend in these indices was largely driven by profit taking activities on the market.

Beta Glass Plc led the gainers' list with a 23.13% increase in its share price, followed by Courteville Business Solutions Plc (20%), Thomas Wyatt Nigeria Plc (16%), Fidson Healthcare Plc (9.52%) and UAC of Nigeria Plc (8.63%).

[35]NSE, FDC Think-Tank
[36]NSE, FDC Think-Tank

TOP 5 GAINERS (N)				
Company	Apr 30'19	May 15'19	Absolute Change	% Change
BETA GLASS CO PLC	56.00	68.95	12.95	23.13
COURTEVILLE BUSINESS SOLUTIONS PLC	0.20	0.24	0.04	20.00
THOMAS WYATT NIG. PLC	0.25	0.29	0.04	16.00
FIDSON HEALTHCARE PLC	4.20	4.60	0.40	9.52
U A C N PLC	6.95	7.55	0.60	8.63

[37]

The laggards were led by Goldlink Insurance Plc (-50%), followed by Chams Plc (-28%), Regency Alliance Insurance Company Plc (-20%), Ikeja Hotel Plc (-17.14%) and Caverton Offshore Support Group Plc (-15.82%).

TOP 5 LOSERS (N)				
Company	Apr 30'19	May15' 19	Absolute Change	% Change
GOLDLINK INSURANCE PLC	0.40	0.20	-0.20	-50.00
CHAMS PLC	0.50	0.36	-0.14	-28.00
REGENCY ALLIANCE INSURANCE COMPANY PLC	0.25	0.20	-0.05	-20.00
IKEJA HOTEL PLC	1.75	1.45	-0.30	-17.14
CAVERTON OFFSHORE SUPPORT GROUP	2.97	2.50	-0.47	-15.82

[38]

Corporate Disclosures

MTN finally enlists on the NSE

MTN Nigeria (MTNN) Communications Plc was listed on the Nigerian Stock Exchange on May 16, 2019 with a total outstanding shares of 20.35 billion units valued at N90 per share. At the close of trading activities, the company recorded a 10% increase in its share price to N99, yielding a market capitalization of N2.02 trillion. This ranked MTNN the second largest company on the NSE after Dangote Cement Plc. in terms of market capitalization. The company's stock gained 50.5% in the first 5 trading days after it was listed, reaching a peak of N149/share. Meanwhile, the recent investigation by SEC and EFCC of MTNN's listing drove negative investor sentiment with its share price falling by 12.75% between May 23-27 to N130. Currently, the share price is gradually showing some improvements as the company's stock gained 3.08% between May 28-30 to N134.

Outlook

Investor sentiment in coming weeks would be influenced by the release of H1 corporate results. We expect investors to take positions in stocks with a robust-dividend payment history.

[37] NSE, FDC Think-Tank
[38] NSE, FDC Think-Tank

Analyst Recommendation: Hold

Market Capitalization: N1.15trn

Recommendation Period: 365 days

Current Price: N1,454.50

Industry: Food, Beverage and Tobacco

Target Price: N1,545.59

Equity Report: Nestle Nigeria Plc.

Analyst note

Effective capacity utilization buoyed Margins

Nestle Nigeria (Nestle) recorded a marginal increase in its top line despite the tough business environment in the first quarter of 2019 (Q1'19). The renowned fast moving consumer (FMCG) company grew its revenue by 5.2% to N70.97 billion during the period compared to Q1'18. Nigeria (domestic sales) remained the dominant revenue source, accounting for 98.6% of the company's total income, while export accounted for the remaining 1.4%.

Nestle continued to benefit from its local raw material sourcing scheme, as its cost of production declined by 5.3% despite higher sales in the quarter. This improved the company's gross margin to 44.4% (from 38.2% in Q1'18). Nestle is at the forefront of the Nigerian economy's import substitution and local content policy. The company facilitated supply chain optimization for most of its locally sourced inputs. This has not only led to lower unit cost, but also helped Nestle in its inventory management process due to improved influence on input supplies.

Top of mind awareness initiatives gulp more funds

The FMCG company's operating expenses increased at a much faster rate relative to turnover in Q1'19. Marketing and distribution expenses rose by 14.9% to N10.37 billion owing to intense competition. Industry players have had to contend with reduced discretionary income and abundance of substitutive to the consumer. This pushed for more loyalty programmes and a combination of above-the-line and below-the-line marketing. However, Nestle continued to leverage its internal efficiency to reduce its administrative expenses by 9% to N2.01 billion in Q1'19.

Foreign exchange stability improved debt service

In Q1'19, Nestlé's net finance position moved to a gain of N34.65 million from a loss position of N878.59 million in Q1'18. This can be largely attributed to the company's gain on its foreign obligations. Nestle continued to reduce its debt position into 2019, which positively impacted its net finance position. This cost savings helped the firm increase its finance income by 79.2% to N504 million during the same period. Consequently, profit before tax surged 40.2% to N19.12 billion and profit after tax, up 49.3% to N12.85 billion.

Revenue growth rate continues to narrow

Nestlé's impressive performance shows the company's resilience despite the challenging operating environment and low average household income. We expect Nestle to leverage on the minimum wage increase as well as its strong brand and market appeal to sustain growth in its top-line earnings for the rest of 2019.

However, Nestlé's top line growth has slowed considerably from double digits in 2016 (20.3%) and 2017 (34.2%) to a single digit in 2018 (9.1%) and Q1'19 (5.2%). This alludes to the fact that the company might be approaching its point of inflection. In order to reverse this dwindling trend, the company would need to further intensify its product innovation and improve efficiency in its route to market. Consequently, we recommend a HOLD on the stock given a relatively unchanged product mix.

Nigeria's food and processing industry, a significant component of the agro industry, is currently valued at $10bn and it provides an estimated 10mn jobs. However, the industry has remained dull, despite Nigeria's comparative advantage in agriculture, as the country is yet to derive the maximum benefit from the industry. The level of food processing and value addition is quite low due to a couple of challenges.

The industry also lacks the required level of investment needed to purchase suitable storage infrastructure to reduce post-harvest loss (estimated at 40%) to the barest minimum. Capacity utilization in local factories is at an average of 35%, which signals external impediments such as poor power supply.[39]

Access to credit remains a major challenge in the industry as creditors have flagged it a high risk for investment. It is notoriously difficult to borrow at affordable interest rates, without valuable collateral or a recognizable family name. The worst hit are the small and medium scale enterprises (SMEs), which form a bulk of the food processing industry. Anecdotal evidence suggests that very few SMEs can obtain loans from financial institutions in Nigeria. The lack of a viable credit history database has deterred domestic banks from injecting more credit into the economy.

Apart from these external impediments, the food processing industry in Nigeria is plagued by structural deficiencies. Nigeria is one of the highest cost markets in Africa with a highly price sensitive consumer base. This makes competitive pricing difficult for food producers and affects Nigeria's export capabilities to the wider West African region and world at large.

The food and beverage industry in Nigeria is dominated by multinational players which include Nestlé, Unilever and Cadbury. Other players include domestic food processing companies such as UACN Foods, which manufacture snacks and a range of sweets. Despite the weak economic conditions, Nestlé Nigeria has recorded remarkable profitability compared to its competitors. This is evident in its earnings per share (EPS) of N27.07, 2,165% higher than that of Unilever Nigeria Plc (N1.28), its closest listed rival on the Nigerian Stock Exchange (NSE).

[39] BMI Research, 2017, "Nigeria Food & Drink Report".

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Nestlé Nigeria (a subsidiary of Nestlé SA) was incorporated in 1961 and was listed on the NSE in April 1979. Nestlé SA, Switzerland, currently holds a 66.18% stake in Nestlé Nigeria. Its principal activities include the manufacturing, marketing and distribution of food products domestically and internationally. The company has three factories in Nigeria: Abaji factory in Abuja, Agbara Manufacturing Complex in Ogun State, and Flowergate factory in Ogun State. Nestlé procures its raw materials on a commercial basis from both domestic and international suppliers. The company continues to explore the use of local raw materials and has successfully introduced the use of locally produced agricultural items such as soya bean, maize, cocoa, palmolein and sorghum.

Nestlé Nigeria produces a wide range of culinary products (Maggi), baby food (Cerelac, Nutrend), cereal (Golden Morn), chocolate drinks and confectionery products (Milo Powder, Milo Ready-to-drink, and Chocomilo), dairy products (Nido), coffee (Nescafé), and water (Pure Life). Its products are distributed through various distributors (over 100) spread across the country.

Income Statement for Nestlé Nigeria Plc

N'000	2013	2014	2015	2016	2017	2018
Revenue	133,084,076	143,328,982	151,271,526	181,910,977	244,151,411	266,274,621
Cost of Sales	(76,298,147)	(82,099,051)	(83,925,957)	(106,583,385)	(143,280,260)	(152,354,445)
Gross Profit	**56,785,929**	**61,229,931**	**67,345,569**	**75,327,592**	**100,871,151**	**113,920,176**
Marketing and Distribution E:	(22,932,923)	(24,689,301)	(25,904,586)	(28,775,263)	(35,157,152)	(43,489,890)
Administrative Expenses	(6,020,026)	(7,340,409)	(7,693,740)	(8,338,992)	(10,015,626)	(9,789,555)
Operating Profit	**27,832,980**	**29,200,221**	**33,747,243**	**38,213,337**	**55,698,373**	**60,640,731**
Finance Income	361,307	551,594	443,805	4,199,314	6,239,371	1,716,889
Finance Costs	(2,146,697)	(5,305,837)	(4,868,571)	(20,864,243)	(15,109,062)	(2,606,774)
Net Finance Cost	(1,785,390)	(4,754,243)	(4,424,766)	(16,664,929)	(8,869,691)	(889,885)
Profit Before Tax	**26,047,590**	**24,445,978**	**29,322,477**	**21,548,408**	**46,828,682**	**59,750,846**
Income Tax Expense	(3,789,311)	(2,210,338)	(5,585,700)	(13,623,440)	(13,104,952)	(16,742,820)
Profit After Tax	**22,258,279**	**22,235,640**	**23,736,777**	**7,924,968**	**33,723,730**	**43,008,026**

Balance Sheet for Nestlé Nigeria Plc						
N'000	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Non-current assets						
Property, plant and equipment	65,878,425	67,514,854	69,148,171	70,171,526	72,377,943	73,365,523
Intangible assets	-	-	-	-	-	-
Long-term prepayments			-	-	234,170	3,997,477
Long-term receivables	573,247	1,157,883	1,352,196	1,678,251	1,921,232	2,237,105
Total Non-current Assets	**66,451,672**	**68,672,737**	**70,500,367**	**71,849,777**	**74,533,345**	**79,600,105**
Current Assets						
Inventories	9,853,893	10,956,010	10,813,960	20,637,750	23,910,303	23,124,020
Right of return assets	-	-	-	-	-	351,995
Trade and other receivables	17,884,775	22,330,813	24,445,995	24,035,411	31,430,450	42,175,062
Contracts	-	-	-	-	-	93,179
Prepayments	300,637	398,002	525,205	1,711,842	1,791,176	1,228,025
Cash and cash equivalents	13,716,503	3,704,505	12,929,526	51,351,152	15,138,854	15,762,036
Total current assets	**41,755,808**	**37,389,330**	**48,714,686**	**97,736,155**	**72,270,783**	**82,734,317**
Total assets	**108,207,480**	**106,062,067**	**119,215,053**	**169,585,932**	**146,804,128**	**162,334,422**
Equity						
Share capital	396,328	396,328	396,328	396,328	396,328	396,328
Share premium	32,262	32,262	32,262	32,262	32,262	32,262
Share based payment reserve	26,585	44,637	150,466	126,480	147,236	154,788
Retained earnings	40,139,626	35,466,416	37,428,018	30,323,005	44,302,351	49,637,108
Total equity	**40,594,801**	**35,939,643**	**38,007,074**	**30,878,075**	**44,878,177**	**50,220,486**
Non-Current Liabilities						
Loans and Borrowings	26,471,275	18,385,876	12,530,361	10,384,341	9,564,664	5,921,494
Employee Benefits	1,821,829	1,827,773	2,382,213	2,103,744	2,275,921	2,700,673
Deferred Tax Liabilities	6,086,480	5,270,723	6,563,548	5,186,338	10,404,871	11,374,268
Total Non-current Liabilites	**34,379,584**	**25,484,372**	**21,476,122**	**17,674,423**	**22,245,456**	**19,996,435**
Current Liabilities						
Bank Overdraft	-	1,237,606	305,024	154,582	3,714,087	1,393,678
Current Tax Liabilities	2,803,623	3,478,733	5,040,468	15,489,634	15,098,670	23,629,987
Loans and Borrowings	947,809	12,730,126	17,108,803	40,130,375	10,913,246	1,026,458
Trade and Other Payables	29,066,050	26,656,779	36,661,728	64,662,096	45,668,363	60,384,454
Contract liabilities	-	-	-	-	3,387,261	3,858,793
Refund liabilities	-	-	-	-	-	615,211
Provisions	415,613	534,808	615,834	596,747	898,868	1,208,920
Total Current Liabilites	**33,233,095**	**44,638,052**	**59,731,857**	**121,033,434**	**79,680,495**	**92,117,501**
Total Liabilites	**67,612,679**	**70,122,424**	**81,207,979**	**138,707,857**	**101,925,951**	**112,113,936**
Total Equity and Liabilites	**108,207,480**	**106,062,067**	**119,215,053**	**169,585,932**	**146,804,128**	**162,334,422**

Management

Nestlé's management has made significant strides in sustaining the company's market leadership. This stems from the management's continuous investment in innovation to develop new products and improve the appeal and customer satisfaction of existing products.

Nestlé's executives have also successfully positioned the Nestlé brand name as a wellness brand, focused on providing for the nutritional needs of the consumer. Their ability to continue to deliver value to the customer centers on continuous improvement in line with constant feedback from key stakeholders. Going forward, critical success factors will revolve around reducing customer acquisition costs and acceptability of new innovations (products).

Mr. David Ifezulike has served as Chairman of the Board since May 2013. As a previous employee and director, he brings to bear decades of industry experience. From the strategic direction of the firm, and progress made thus far, it is clear that Mr. David Ifezulike has a good understanding of the business environment and has demonstrated sound leadership. He has helped the firm to consolidate its leadership position in key business segments over the last half decade.

The management of Nestlé is under the stewardship of Mr. Mauricio Alarcon, a Mexican who boasts of robust experience across diverse regions, especially in emerging markets.

Chairman

Mr. David Ifezulike

MD/CEO

Mr. Mauricio Alarcon

Bulls and Bears say

Bulls Say:

- Maintained market leadership in the food and beverage space
- Household brand name in the Nigerian market
- Strategic alliance and support from parent company
- Diversified product offering
- Upward review of minimum wage to boost demand
- Innovative initiatives to improve appeal and customer satisfaction
- Improved operating efficiency

Bears Say:

- Intense competition from other leading players
- Weak consumer purchasing power
- Limited room for share price surge

Risk and outlook

The most potent risks that could weigh on the performance of Nestlé and its ability to meet shareholder expectations include currency risks, operational risks, complacency risks and fluctuation in commodity prices.

Although Nestlé has invested extensively in its input commodities value chain (through its local content policy), the firm is still relatively exposed to the volatilities in the foreign exchange market. Similarly, most of its financial obligations are dollar-denominated. This highlights the importance of a stable foreign exchange market. Interestingly, over the last two years, the naira has remained stable within a 1% band of N360/$.

Another key consideration is the ability of Nestlé to continue to leverage its gains from improved capacity utilization and cost optimization. A potent threat exists if the attainment of these factors comes at the expense of quality. However, the management is well aware that quality standards are key to the sustainability of the business.

A final potent risk lies in the capacity and tenacity of the Nestlé brand to remain the dominant player in the food and beverage space. Any tendency to rest their oars could be devastating given the intense rivalry in the industry.

Our valuation

Using the discounted cash flow (DCF) methodology, we estimated a stock price of N1,545.59, which is a 6.26% upside on the current price of N1,454.50 as of May 30, 2019. The discount rate (weighted average cost of capital (WACC)) of 15.59% was derived using a 14.5% risk free rate (FGN 5-year Bond as at April 2019), a beta of 0.8113, an after-tax cost of debt of 7.98%, and a market risk premium of 6.34%. The long-term cash flow growth rate to perpetuity calculated is 7.1%.

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