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In This Issue ...

Making Sense of Regional Integration & AfCFTA

AfCFTA is a regional agreement that creates a free trade area among 55 African countries. Of these, 54 members have signed, only Eritrea is yet to endorse it. The free trade area is a customs union, which will allow for movement of physical goods without tariffs from 2022. It will be similar to the European Union (EU), which has 28 member countries and a central monetary authority, the European Central Bank (ECB). The ECB is the central bank for 19 member countries of the EU that use a common currency called the Euro. The EU was founded when the Maastricht treaty was signed in 1992. Before the EU, there was a Schengen agreement, a treaty signed in 1985, which led to the creation of Europe's Schengen Area and later the Schengen visa. A similar regional integration exists- the Economic Community of West African States (ECOWAS), with an ECOWAS passport of 5-year validity that allows for free entry and exit of member countries.

Creating One African Market

Between when the Maastricht treaty was signed to the creation of a customs union and the euro currency, it took over 50 years. It may take even longer for a continent as fragmented as Africa who has most if not all its countries as emerging or frontier markets.

The goal of AfCFTA is to create a single integrated market, which would increase trade across the continent and lead to free movement of goods and services. With a population size of 1.2bn and a combined GDP of $2.6trn, the trade agreement will cover the largest market in the world. Africa is a continent rich with diverse raw materials ranging from minerals to agriculture. The trade agreement would help change the continent's narrative from being just a source of raw materials to a destination point for high quality finished goods and services.

The success of AfCFTA will depend on the willingness of member countries to forfeit their autonomy in several ways and submit to a more centralized rule. For instance trade concession agreements will have to be established; reduction and eventual elimination of trade tariffs will need to be discussed while rules of origin will be negotiated. There are talks of a likely adoption of a single currency in the last phase of the integration (similar to the euro) but that will involve member countries forfeiting their individual currencies. This means one monetary authority. The French speaking African economies currently use the CFA Franc (8 West African countries use the West African CFA Franc and 6 central African countries use the Central African CFA Franc). Some of the existing integrations in Africa include the East African Community (EAC) and Southern African Customs Union (SACU).

AfCFTA- A parasitic relationship

Typically in a trade arrangement or any arrangement, the bigger party usually benefits. However AfCFTA has been viewed as a parasitic relationship. The Federal Government was initially afraid of a parasitic relationship and hesitated before signing the agreement. Presently, smuggled goods can be found everywhere in Nigeria. While AfCFTA would not stop smuggling (one of the reasons being Nigeria's very porous borders), it will create more competition which is good for the industries and the economy as a whole.

Nigeria's major trading partners globally are China (accounting for 20% of Nigeria's imports) and India (accounting for 32% of Nigeria's exports). The US is also a major trading partner, accounting for 8.6% of imports and 8% of exports). South Africa is the only African country among the top five key trading partners of Nigeria, accounting for 9.5% of Nigeria's export intensity index.

With respect to economic regions, Africa accounts for 19.19% (N1.58trn) of Nigeria's total merchandise trade in Q1'19. A further breakdown shows that Africa accounted for 5.08% of total agricultural goods traded, 6.2% of raw materials, 35.79% of solid minerals and 29.8% of manufactured goods.

Benefits to Nigeria

Some of the benefits Nigeria stands to enjoy by joining the trade area include but are not limited to the following

Wider market: Nigeria is the largest economy in Africa, with a population size of 196mn. Hence the country has a readily available market. Participating in a trade area such as what AfCFTA offers, provides a larger market for Nigerian goods. There will be intense competition and rivalry between domestic industries and other African industries. However in a perfectly competitive market where competition is at its peak and there are no barriers to entry or exit, it should lead to efficiency as it produces the best possible outcome for consumers and the society; in this case member countries

Localization and economies of scale: means the concentration of industries in a certain area. One of the factors that influence localization of industries is nearness to the market. Industries tend to site their factories close to the market, where the goods can be easily purchased, hence saving on cost of transportation. Nigeria is the largest market in Africa and is a good location for industries. Also, Nigeria is home to some big global brands such as Nestle, Lafarge and Unilever who would need to expand their business to meet the growing demand and would benefit from economies of scale.

Job creation: a larger market would require increased production to meet growing demand. This is positive for employment as more jobs are created.

What does Nigeria stand to lose?

The main threat to Nigeria for signing the agreement is the loss in government revenue through the reduction and eventual elimination of tariffs. Asides from taxes, tariffs are another major source of government revenue.

Another risk is that the country may be turned into a dumping ground for sub standard goods and increased competition, which will negatively affect the domestic industry.

Nigeria's Poverty Debacle

Approximately five people fall into extreme poverty every minute in Nigeria. This is the stark reality confronting Africa's largest economy according to the United Nations' (UN) World Poverty Clock.[1] In 2018, Nigeria officially overtook India (a country with seven times its population) to become the poverty capital of the world. A person can be said to live in extreme poverty if they live below the poverty line of $1.90 according to the World Bank.[2] This translates to N693.5/day or N20,805/month. A staggering 93,823,485 Nigerians (47.7% of the total population) live in extreme poverty giving it a Gini coefficient (a measure of wealth distribution) of 43, compared with 41.5 for the U.S. and 29.2 for Sweden. To put this in context, there are more extremely poor people living in Nigeria than there are in Togo, Benin Republic, Ghana, Ivory Coast, Liberia and Sierra Leone combined.

President Muhammadu Buhari, in his inaugural address for a second term in office, essentially set a 10-year target to move at least 100 million Nigerians out of poverty. But how realistic is this target? Can that many people be pulled out of poverty in that short a time? The answer is an emphatic "YES". President Buhari likened the task at hand to feats achieved by China, India and Indonesia who succeeded in lifting millions of people out of poverty.

[1]United Nations, real time. "World Poverty Clock-Nigeria," https://worldpoverty.io/index.html
[2]"World Bank, LAC: Equity Lab", http://www.worldbank.org/en/topic/poverty/lac-equity-lab1/poverty

Lessons from the Far East: China as a case study

One of the great stories in human history is China lifting over 800 million people out of poverty since the start of its economic reforms in the late 1970s. Its success resulted from doing the right thing at an opportune time. China simply implemented the right policies at the right time in the right place, and embraced the global market. The evolution of its economic system allowed it to take advantage of the rise of globalization in ways that may not be possible today.

China presented the world with a matchless and almost certainly unrepeatable blend of low, developing-country wages and modern, rich-country infrastructure. This combination of low-wage workers with a basic education (adult male literacy was over 75% in 1980) attracted foreign investment in manufacturing and created millions of jobs. There was a significant shift in manufacturing exports from agriculture and soft goods to higher-value products like electronics. The rise in the demand for these products coincided fortuitously with the fall in trade barriers to the United States and Europe – the world's biggest markets. China's entry into the World Trade Organization (WTO) in 2001 also served to deepen its integration into global supply chains.

Can Nigeria replicate the Chinese model?

So what did China do? China's brand of state-capitalism has worked remarkably to its advantage. A communist country, it enacted economic reforms and became more capitalist (a socialist market economy), increased its spending on infrastructure, maintained a low wage structure for its workers with basic education, and opened itself up to foreign investment while bringing down barriers to trade. Its political system is still deeply entrenched in communism and this, it can be argued, was a major plus to its ability to implement comprehensive policy changes.

The need for structural reform

Nigeria, like China, leans towards a capitalist economic model, which also employs significant state intervention. Nigeria has taken many of the same steps as China, but half-heartedly and incompletely. The structural impediments in the Nigerian economy continue to hinder free-market principles, stifling the incentive to invest and constraining economic growth. Market-determined rates for currency, gasoline and electricity tariffs – which are the most important factors in the economy today - will be the first step towards a truly free-market capitalist economy. However, the

political backlash that is likely to follow maybe considered too hefty a price to pay. China's communist political system was able to avoid a backlash. Nigeria still struggles with a natural resource dependence that has entrenched a "sharing" rather than a production economy.

The response of China to the Asian financial crisis of 1997 also has crucial lessons for Nigeria. It drove home the urgency of financial reforms. The Chinese government strengthened the independence of the central bank, converted state-owned banks into genuinely commercial entities, and developed a disciplined capital market.

Massive infrastructural spending

The Chinese purportedly spent about 15% of their gross domestic product (GDP) annually on infrastructure between 1980 and 2005. An attempt to replicate this spending pattern would mean spending N19trn ($63bn) annually on infrastructure. This is more than twice Nigeria's 2019 budget. Nigeria's current revenue and debt profile means it simply cannot replicate China's massive spending on infrastructure. Increased borrowing targeted at infrastructure spending will push the debt-to-revenue ratio over 60%, beyond its already stretched levels and off a fiscal cliff. At 6% of GDP, Nigeria has one of the lowest revenue-to-GDP ratios in the world. The Sub-Saharan African (SSA) average is 15%. Nigeria's inability to raise government revenue to levels at par with its SSA peers is crucial here. Diversification of revenue is critical and Nigeria is only just thinking of ways to move away from its dependence on oil.

Competitiveness now the ultimate differentiator for attracting foreign investment

Increased spending on world class infrastructure will lower the cost of doing business and foster a more competitive economy. This, in addition to investments in healthcare and education, will boost the quality and quantity of labor and Nigeria's attractiveness to foreign investment. Foreign firms are beginning to find it difficult to differentiate between regulatory enforcement and official tyranny, especially in the face of perceived growing hostility by the regulators.

Protectionism not the way to go

Nigeria has been cautious about lowering its barriers to trade. Its initial reluctance to sign the Africa Continental Free Trade Agreement was based on fears that the agreement could "undermine local manufacturers and entrepreneurs, or… lead to Nigeria becoming a dumping ground for finished goods."[3] China had the advantage of carrying out its economic reforms at a time of rising globalist sentiment. Its exports/GDP ratio rose from 5.9% in 1980 to 36.04% in 2006. That is somewhat different from the tide in this more protectionist era, particularly with the West being the chief proponents of the populist and nationalistic rhetoric.

Conclusion

In the end, what matters most is how all of these combine to create jobs. Nigeria's path out of poverty is one that must be paved with sustainable job creation. Nigeria, not too long ago, had an average GDP growth rate of 6-7% for over a decade. This was during a period of higher oil prices and a stronger currency. Lower oil prices mean a weaker revenue profile and an inability to build the type of world-class infrastructure that gave the Chinese a major advantage. At the current population growth rate of 2.6%, Nigeria's population is estimated to rise to 258 million in 10 years time (by 2030). Nigeria requires a GDP growth rate far in excess of its population growth rate to reverse the trend of spiraling poverty. Unemployment is at 23.1% and has consistently been on the rise since 2015. Nigeria's own set of economic reforms need to be bolder. The elimination of the subsidies on the factor prices is perhaps the most crucial reform needed to hoist Nigeria on a path of accelerated and sustainable growth.

Where the Chinese have succeeded by being intentional and consistent with policy, Nigeria's leadership has struggled to agree on the policy direction that would optimize growth – let alone its implementation. Pulling 100 million people out of poverty is as ambitious as it is unlikely given Nigeria's current growth trajectory. Nigeria, or any other country for that matter, may not be able to do what the Chinese did, at the scale they did it, but if you aim for the stars and miss, you just might hit the sun.

[3] https://www.africanews.com/2018/03/23/nigeria-s-buhari-explains-failure-to-sign-continental-free-trade-agreement//

Digital ID: value creation or breach of privacy?

In many countries, identity has become a public good necessary for development. Governments use a national identification number as a way to enable service delivery, manage taxation and keep a record of all their citizens, permanent residents and temporary residents. Examples include the US' social security number, Britain's national insurance number, France's National Institute for Statistics and Economic Studies code, and Canada's social insurance number.

Despite their common use, centralized ID systems remain a controversial topic. Advocates for a unique citizen identifier argue that these identifiers have the potential to unlock both economic and non-economic value, as they enable increased access to critical government services such as education, healthcare, and pensions, amongst others. Unique identifiers also ensure that government benefits targeted at the poor and vulnerable citizens reach the appropriate hands. If properly designed, a national unique identifier can serve as a foundation for fiscal planning and management.

On the other hand, opponents argue that centralized ID systems are vulnerable to a breach of privacy and misuse of data. In the worst cases, a centralized database can be used to enable ethnic or religious persecution, as the identity systems often pair the unique identifiers with key data attributes such as address, phone number and even place of work. The challenge for Nigeria, then, is to unlock the opportunities of a centralized unique identifier while guarding against its misuse and abuse.

Nigeria's journey to a centralized database

Despite all efforts to have a single and unique number, the World Bank still describes Nigeria's identity landscape as fragmented, particularly as multiple government agencies collect and store biometric data. The National Identity Management Commission (NIMC) is mandated with issuing and maintaining the national citizen ID. However, only 21 million Nigerians (11% of the population) have an NIMC issued ID.[4] Examples of other agencies that collect and store biometric data, and issue unique identifiers include:

- The Independent National Electoral Commission, 84 million registered voters[5]
- The Central Bank of Nigeria, 38 million Nigerian registered with a bank verification number [6]
- The Nigerian Communications Commission, 174 million registrants[7]

The duplicity of biometric enrolment is not without its economic consequences and inefficiencies. Firstly, government agencies duplicate the cost of collecting and storing the highly sensitive data. There is also duplication in maintaining the multiple portals available for citizen access. Thirdly, without an integrated identity ecosystem the delivery of public services is affected. An integrated identity ecosystem enables online service delivery and, if done well, it can help to reduce fraud. However, if the NIMC is to truly unify the national unique identifier it must first overcome some of its immediate challenges including improved enrollment strategies and increased privacy and security measures.

The Indian Model

Currently, India boasts of the world's largest biometric database. Aadhaar, India's unique identification system, was introduced in 2009. The need for the number arose from the prevalence of fraud and corruption in government benefit allocations. The 12-digit code is linked to the fingerprints or iris scan of Indians. A decade later, the system covers over one billion Indians (94% of the population).[8]

[4] National Identity Management Commission. 2017. "NIMC issues National Identification Number (NIN) to over 20 million Nigerians". https://www.nimc.gov.ng/nimc-issues-national-identification-number-nin-to-over-20-million-nigerians/

[5] Independent SNational Electoral Commission. https://www.inecnigeria.org/

[6] Nigeria Inter-Bank Settlement ystem (NIBSS). 2019. https://nibss-plc.com.ng/bvn/

[7] Nigerian Communications Commission. 2019. https://www.ncc.gov.ng/stakeholder/statistics-reports/industry-overview#view-graphs-tables

[8] India ID Program Wins World Bank Praise Despite 'Big Brother' Fears. https://www.bloomberg.com/news/articles/2017-03-15/india-id-program- wins-world-bank-praise-amid-big-brother-fears

Over the years, the wide reach, inclusivity and technology of the database have served as both an attraction and a subject of debate. Nonetheless, many countries such as Russia, Morocco, Algeria and Tunisia have sought to replicate India's digital ID system for their citizens.[9]

Nigeria's NIN system already bears some similarities with India's Aadhaar number. Similarities include:

- Both resemble a foundational ID system. A foundational ID is one that is developed to serve identity needs across various applications.
- The unique identification number is accompanied with a digital ID (or e-ID) in both countries.
- Beyond serving as a form of identification, both cards provide citizens with access to various government benefits in the country.

On Nigeria's journey to a centralized database, India serves as a perfect example of what the country must do and what the country must avoid under its national identity system.

Lessons to learn

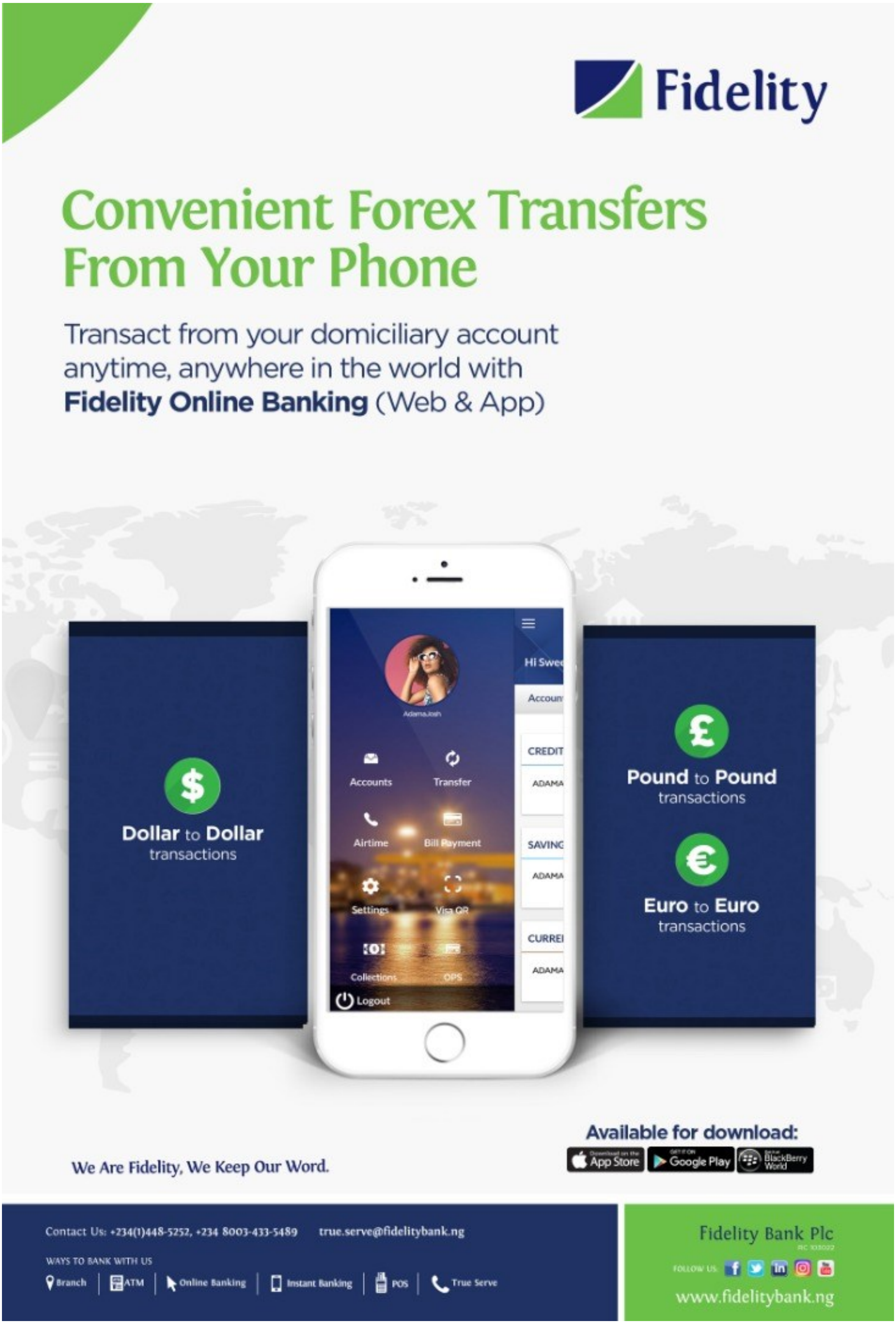
The most important lesson for Nigeria in India's Aadhaar story is on expanding coverage. Less than 10 years after the first Aadhaar number was issued, the system already had approximately one billion enrolments.[10] To achieve this scale the Unique Identification Authority of India (UIDAI), the agency in charge of generating Aadhaar numbers, adopted some flexible and unconventional methods:

- The agency recognized that women and children in India were less likely to possess valid proof of identity and so allowed for the head of a family, with valid documents, to introduce other family members during enrolment.

- If there were no valid documents in the possession of a prospective enrollee, the UIDAI allowed for an introducer-based enrolment approach. Under this approach, an 'introducer' is a person with a valid Aadhaar number and can vouch for an individual's identity.

[9]Aadhaar goes global, finds takers in Russia and Africa. https://www.livemint.com/Politics/UEQ9o8Eo8RiaAaNNMyLbEK/Aadhaar-goes-global-finds-takers-in-Russia-and-Africa.html

[10]India ID Program Wins World Bank Praise Despite 'Big Brother' Fears. https://www.bloomberg.com/news/articles/2017-03-15/india-id-program-wins-world-bank-praise-amid-big-brother-fears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- By 2016, Aadhaar enrollment was also available to newborns and children under the age of five through government hospitals and community health centers. This method also improved India's birth registration rates.

It is important for the NIMC to realize that the ultimate objective is for all Nigerians to be registered under the NIN system and so a flexible enrollment method should be adopted.

Pitfalls of the Indian system

While the Aadhaar system is technologically advanced, it is far from perfect. The centralized ID system has been the subject of several controversies from transparency and privacy, to security of the database. It is important for Nigeria to learn from India's mistakes if the country is to successfully build a world-class identification system.

The most significant pitfall of the Aadhaar system was Aadhaar's transition from merely a strategy to improve the Public Distribution System (PDS) (a distribution network that aims to provide subsidized food and fuel to the poor) in India to a de-facto mandatory national identity.

The system is now 'voluntary yet mandatory'. The UIDAI claims that the Aadhaar number is voluntary but in retrospect, an average Indian is denied certain services without the number. This created other problems for India and its citizens.

Firstly, linking the number to private sector services such as financial services has increased the possibility of data breach and misuse of the information. The Aadhaar number is linked to mobile phones, bank accounts, and land registrations amongst others. The initial reason for including private platforms was to boost the government's drive towards a cashless Indian society.

However, linking data on government platforms to private platforms has encouraged the illegal trade of citizen's data on the underground market. To address this challenge, the Supreme Court, in September 2018, amended some parts of the initial Aadhaar Act. Private companies are now no longer allowed to ask for an Aadhaar number. Therefore, the number would no longer be required for opening a bank account or school admission amongst others. This is to remind countries that a unique identification number for citizens should be largely restricted to government services. When it is widely available, the risk of identity theft is much greater.

In addition, without investing in advanced technology infrastructure, technical glitches could prevent citizens from accessing critical services. Several poor Indian citizens, who were the initial target of the Aadhaar number, are now excluded from vital government benefits due to technical challenges such as poor network and faulty systems.

Nigeria's next steps should draw cautiously on India's lessons

Nigeria's NIN identification is a move in the right direction. However, it is imperative for the country to put measures in place to leverage on the lessons of India, both the good and the bad. Now is the time for Nigeria to ensure that the design of its unique identifier is air-tight and less vulnerable to data breaches and privacy infringements of its citizens. With the right technology infrastructure and increased public enlightenment on the economic benefits of a digital ID, Nigeria can attain a world-class identification system in the near term.

African companies are expanding across the continent

Global Perspective: Culled from the Economist

Leading businesses are stitching the region together

Twenty years ago, Patrick Bitature, a Ugandan tycoon, took his mobile-phone business to Nigeria. At first, the cash was piling up so fast that it would not fit in the safe. But he found the business culture more cut-throat and less trusting than back home. Money started going missing. Eventually he retreated to the east African markets he knows best. “I was going to go to every country in Africa at the time,” he recalls, smiling at his naivety. “I was lucky not to lose my shirt.”

Plenty of African businesses have tried to conquer new markets over the years, only to return home sartorially compromised. Colonialism fragmented the continent and linked its economies to imperial capitals rather than to each other. That legacy locked many businesses into national silos. Today big European and American multinationals still dominate markets from logistics to soft drinks. African firms have announced $72bn of foreign direct investments in new projects on the continent this decade, according to fdi Markets, a data provider. Companies from the rest of the world have made nearly nine times as much.

But the pan-African dream lives on. Two-thirds of African firms surveyed by McKinsey, a consultancy, in 2017, planned to enter new countries in the region in the next five years, compared with half of foreign multinationals in Africa. According to the Boston Consulting Group, the 30 biggest African companies operated in an average of 16 of the continent’s countries last year, twice as many as in 2008.

Leading African businesses are stitching the region together, making it easier for others to follow suit. Banks serve their corporate clients across multiple countries. Business leaders flit between megacities aboard Ethiopian Airlines, which flies to 36 African states.

The largest firms already have the scale to take on multinational incumbents. Aliko Dangote, a Nigerian cement baron, has ventured into ten countries. Dangote Group has overtaken

LafargeHolcim, a Swiss behemoth, as the largest cement producer in sub-Saharan Africa. Mr Dangote's plants, built by a Chinese contractor to two standard designs, are bigger, newer and more efficient than most others. He has the ear of presidents.

Intra-continental expansion is a response to two challenges. The first is finding customers. The combined economy of Africa's 54 countries is smaller than that of France. As they grow richer, individuals or businesses switch from informal purveyors to formal markets where big firms operate. But these customers are concentrated in pockets across a vast land mass.

To reach as many as possible, Shoprite, a South African retailer, has opened supermarkets in 15 countries. A similar logic drove OCP Group, a Moroccan phosphate producer, to create a sub-Saharan subsidiary in 2016. By investing in soil research, microcredit and logistics, it hopes to turn subsistence farmers into commercial growers—and buyers of its phosphate fertilizer. Other firms are taking similar steps.

The second challenge is uncertainty. Africa's weak supply chains, volatile currencies and fickle regulators with a fondness for expropriation or capital controls, which make repatriating profits difficult, render the future blurrier than in mature economies. Businesses focused on a single country (or industry) face greater risks, notes Kartik Jayaram of McKinsey. Firms with a toehold in many places and sectors, like Dangote Group or Shoprite, are less exposed to a setback in any one of them.

As Mr Bitature's experience reveals, crossing borders can backfire. Policymakers in other countries are prone to sudden "somersaults", cautions Abdul Samad Rabiu, whose Bua Group sells everything from cement to sugar but has stuck to native Nigeria. Foreign soil can be inhospitable even in the absence of political flips. Tiger Brands, a South African food maker, sold its stake in its Nigerian flour division to Mr Dangote for $1 in 2015, three years after buying it from him for nearly $200m. A depreciating naira hit Nigerians' pockets, dampening demand, and drove up the cost of imports like wheat, which Tiger could not pass onto consumers because of stiff competition.

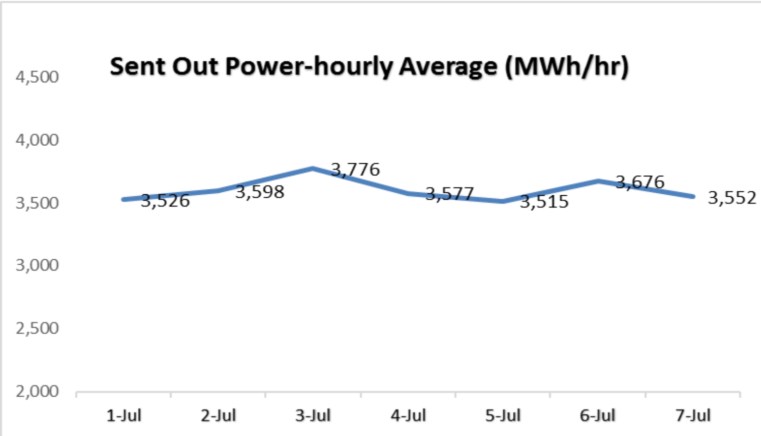
The strongest firms are those which are choosy. MTN, a large South African telecoms company, is pulling back from some smaller countries. But it is toughing it out in Nigeria, despite endless battles with regulators; it is a vast market, and gross operating margins of 44% stiffen the spine. OCP set out to deepen its presence in 15 African countries. It has winnowed the list down to five—including the regional giants, Nigeria and Ethiopia—where policies are most business-friendly.

Macroeconomic Indicators July 1st - 8th

Power Sector

The average on-grid power output declined by 1.26% to 3,603MWh/h during the review period compared to the average on-grid power output of 3,649MWh/h in the corresponding period of the previous month. This was due to significant water constraints during the period.

However, gas constraints continue to account for a significant amount of power constraints. The gas constraints during the period were 51.43% (13,554MWh/h) of the total constraints (26,355MWh/h). This led to an aggregate revenue loss of N13.32 billion (annualized to N694.54bn).



[11]

Outlook

Power supply is expected to remain dependent on the availability of gas to the power plants. Meanwhile, high levels of rainfall are expected to boost water levels at hydro power stations. Hence, we expect average on-grid power output to increase within the range of 4100MW-4200MWh/hour in the coming weeks.

Impact

The expected increase in power supply will reduce the dependence of individuals and firms on alternate sources of electricity, and thus reduce the cost of power for firms and individuals.

Money Market

Average liquidity in the banking system during the review period was N622.63 billion, 34.78% higher than N461.96 billion during the corresponding period in the previous month. Due to the high levels of liquidity, the average NIBOR (OBB/ON) rates declined by 463bps to 3.36% pa and 4.07%pa respectively on June 8th.

[11]FG, FDC Think Tank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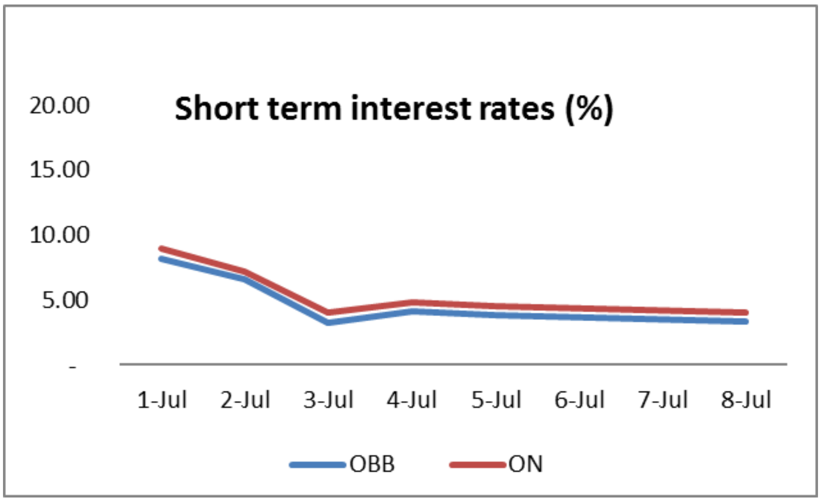
Total OMO sales during this period were N400 billion, 16.07% lower than N476.57 billion in the corresponding period in June. There was no OMO repayment during the review period. The total OMO sales of N400 billion resulted in a net outflow of the same amount.



[12]

At the primary market, the yields for 91-T/Bill tenor increased by 90bps while 182 and 364-T/Bills tenors fell by an average of 15bps. Meanwhile, at the secondary market yields for 91-T/Bill tenor fell by 131bps while the 182 and 364 T/Bills tenors rose by an average of 9.5bps.

T/bills Tenor	Secondary market rates as at July 1st (%pa)	Secondary market rates as at July 8th (%pa)	Direction	Primary market rates as at June 19th (%pa)	Primary market rates as at July 3rd (%pa)	Direction
91	11.61	10.30	⬇	9.6	10.5	⬆
182	11.79	11.81	⬆	11.89	11.7	⬇
364	11.40	11.57	⬆	12.02	11.91	⬇

The Nigerian Inter-Bank Treasury True Yield (NITTY) rates moved in the same direction during the review period. The 30, 90 and 180 day tenors decreased by an average of 74bps.

NITTY Tenor	Rates on July 1st (%pa)	Rate on July 5th (%pa)	Direction
30	10.91	10.13	⬇
90	11.80	10.61	⬇
180	12.54	12.30	⬇

[13]

[12]FMDQ, CBN
[13]FMDQ

Outlook

Interest rate movement is a function of the level of liquidity in the market. Injections from OMO maturities and FAAC disbursements by the central bank and federal government are expected to shore up naira liquidity. However, we also expect the CBN to mop excess liquidity through the use of measures such as sale of OMO and treasury bills, and forex interventions.

Impact

Economic theory tells us that variances in interest rates depend on market liquidity. Lower interest rates will therefore lead to a decrease in the cost of servicing government debt.

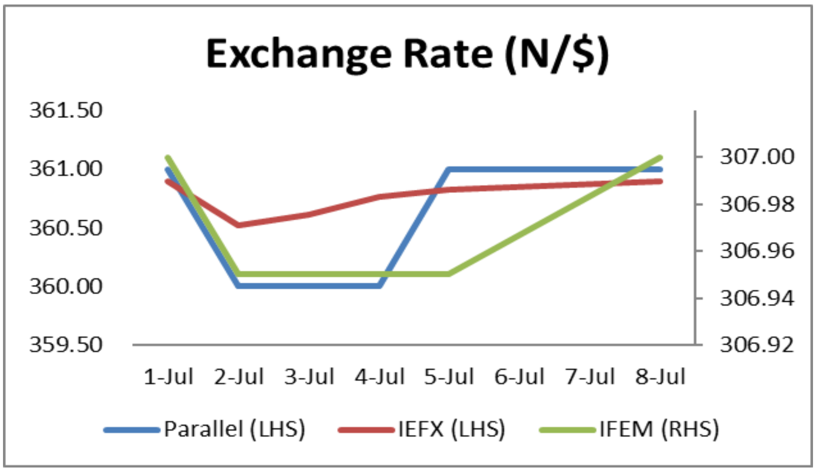
Forex Market

The Nigerian forex market consists of several exchanges. The most important of these being the Investors and Exporters Window (IEFX). The window is primarily used by the CBN, investors and exporters and is responsible for 55-60% of all Nigerian forex transactions. The IEFX window plays the dual role of serving both as a means of price discovery as well as the barometer for measuring potential and actual CBN intervention in the market. The main exchange rate determinants are balance of payments, capital inflows and trade balance.

Exchange Rate

The currency appreciated against the dollar by 0.28% to N360/$ on July 2 from N361/$ at the start of the review period before depreciating to end the review period at N361/$. This could be partly attributed to the lack of CBN's forex intervention. The apex bank did not intervene during the review period. The naira also weakened by 0.22% against the pound to close at N463/£ while it also depreciated against the euro by 0.74% to N410/€ before appreciating to close at N407/€.

At the inter-bank market, naira depreciated to N307/$ from N306.95/$. In the same vein in the IEFX window the currency also depreciated by 0.09% to N360.89/$ from N360.57/$ at the beginning of the review period. Total forex traded in the IEFX window spiked by 70.74% to $1.25bn compared to the corresponding period in the previous month.



[14]

Outlook

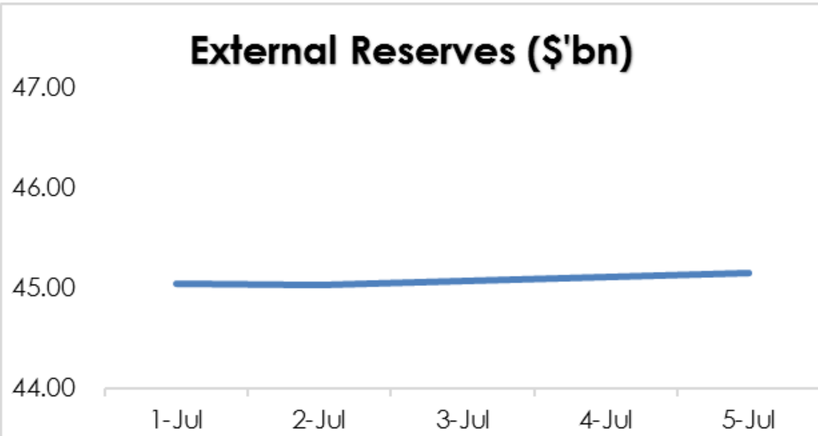
We expect naira to depreciate to N362/$ in the coming weeks due to demand pressure from travelers (Hajj).

Impact

Nigeria has a high marginal propensity to import. The depreciation of the currency will have a negative impact on import dependent manufacturing firms. This will filter through to higher input costs and higher imported inflation.

External Reserves

Nigeria's gross external reserves increased by 0.22% to $45.15 billion on July 5th. This could be partly attributed to the lack of CBN's forex intervention during the period. As a result, Nigeria's import cover increased to 11.24 months at the end of the review period from 11.22 months at the beginning of the period.



[15]

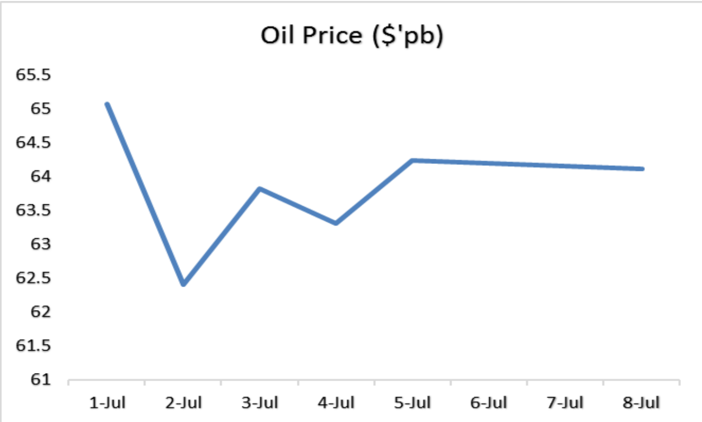
[14]FMDQ, CBN, FDC Think Tank
[15]CBN

COMMODITIES MARKET - EXPORTS

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

Oil Prices

Brent prices averaged $63.82pb during the review period, a 3.32% increase from the average price of $61.77pb during the corresponding period in June. The increase in prices could be attributed to the OPEC's output cuts extension and the fall in the US shale inventories.



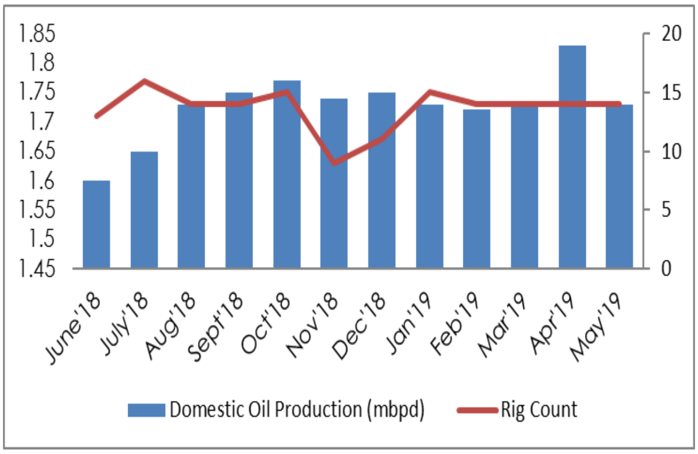
[16]

Outlook

We foresee a recovery in oil prices as OPEC and its allies extend the output cut deal to March 2020.

Oil Production

According to OPEC's latest figures, Nigeria's oil production in May declined by 4.95% to 1.73mbpd. Meanwhile, OPEC crude oil production stood at 29.88mbd, a decrease of 230,000bpd compared to last month. The lower output was driven by a decreased production in Iran, Nigeria and Saudi Arabia. In addition to this Nigeria's oil rig count remained flat at 14 for the fifth consecutive month in June.



[17]

Outlook

The threats by the maritime workers union of Nigeria to shut down ports if their demands are not met will have a negative impact on crude oil export. This coupled with the output quota extension by nine months will result in a decline in crude production.

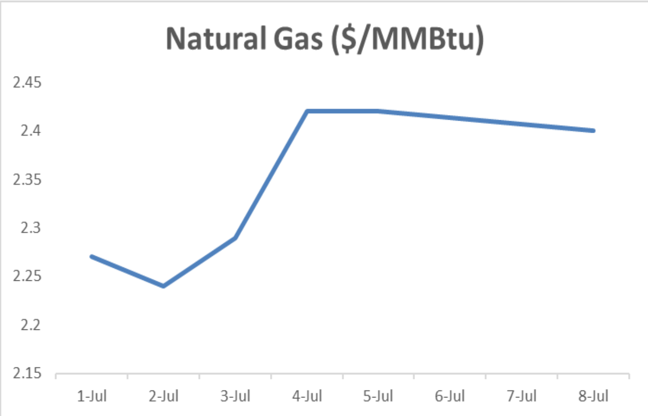
[16]Bloomberg, Baker Hughes
[17]Bloomberg

Impact

Crude oil accounts for 90% of Nigeria's export revenue. A fall in crude output coupled with any volatility in oil prices will result in an increase in the country's fiscal deficit which is budgeted at N1.95 trillion.

Natural Gas

The price of natural gas rose by 5.73% to end the review period at $2.4 compared to $2.27 at the beginning of the review period. This was despite a build-up in the US inventory and weak global demand.



[18]

Outlook

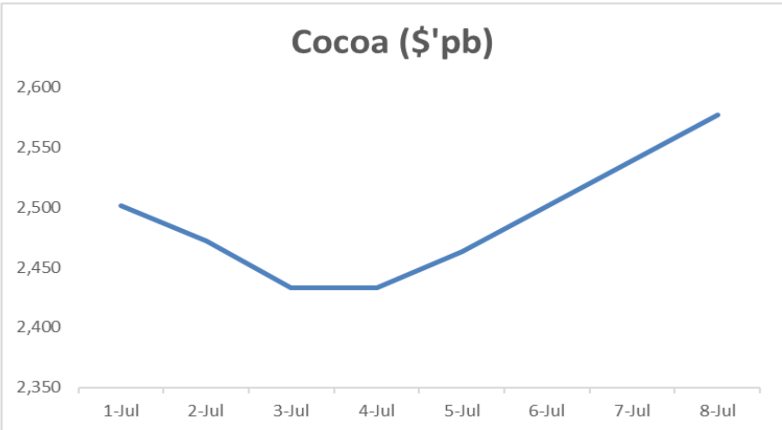
Prices are likely to remain depressed due to expectations of an increase in Russia's natural gas production.

Impact

LNG is Nigeria's second biggest export. Lower prices will have a negative impact on the country's external buffers and fiscal position.

Cocoa

Cocoa prices increased by 3.04% to close the review period at $2,577/mt due to the establishment of a price floor of $2,600 per tonne by Ghana and Ivory Coast.



[19]

Outlook

The combined efforts of Ghana and Ivory Coast to establish a price floor of $2,600 per tonne is expected to push prices upwards in the coming weeks.

[18]Bloomberg
[19]Bloomberg


UBA
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Leo
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Top up your airtime?
Bank Transfers?
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Africa's global bank

Impact

Nigeria is the fourth largest producer at 245,000 tonnes annually. An increase in prices will benefit cocoa growing regions and lead to a boost in the income of cocoa farmers. On the other hand higher cocoa prices will also lead to an increase in the price of cocoa products.

COMMODITIES MARKET - IMPORTS

Wheat

Wheat prices declined by 0.15% to $511/bushel on July 8th, from $511.75/bushel on July 1st despite weak global supply.

Corn

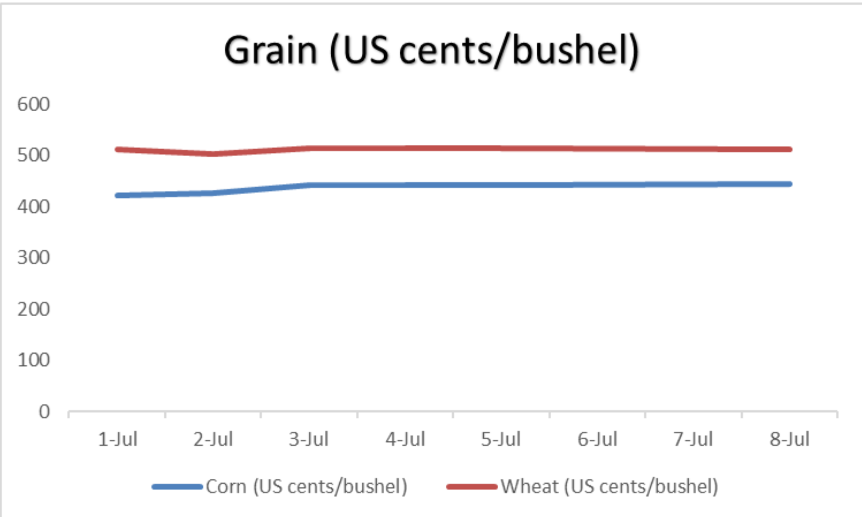
The average price of corn rose by 3.86% to $436.33/bushel from $420.1/bushel during the corresponding period in June. This was as a result of adverse weather conditions in the US.

Grains- Outlook

Wheat prices are expected to trend upwards due to expectations of low global output

Impact

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

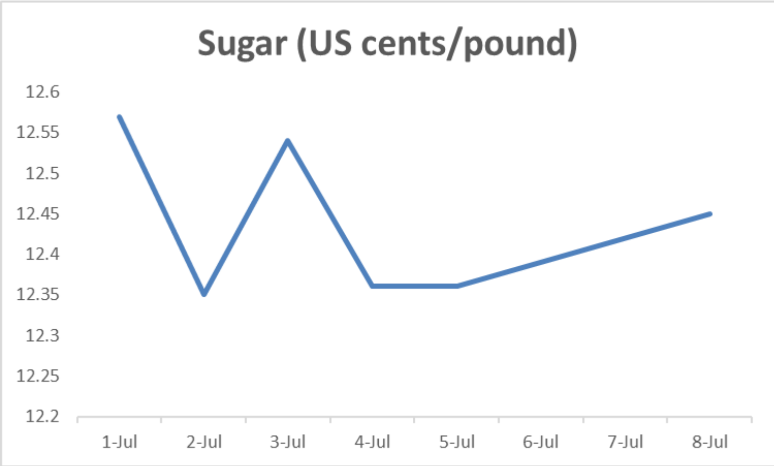


[20]

[20]Bloomberg

Sugar

Sugar prices slide by 0.95% to end the review period at $12.45/pound from $12.57/pound at the beginning of the period despite lower output from India and Thailand.



[21]

Outlook

We expect sugar prices to maintain the upward trend due to expectations of a global supply deficit of about 2.5 million tonnes.

Impact

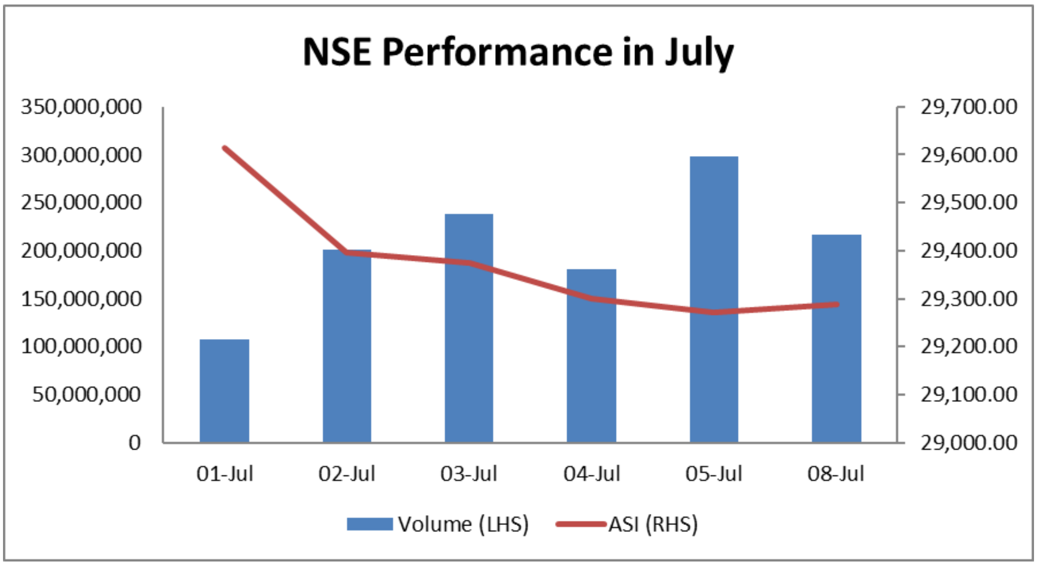
Nigeria is the 10th largest importer of sugar in the world. The projected increase will filter through to higher input costs of sugar-producing companies such as Dangote and Flourmill.

[21]Bloomberg

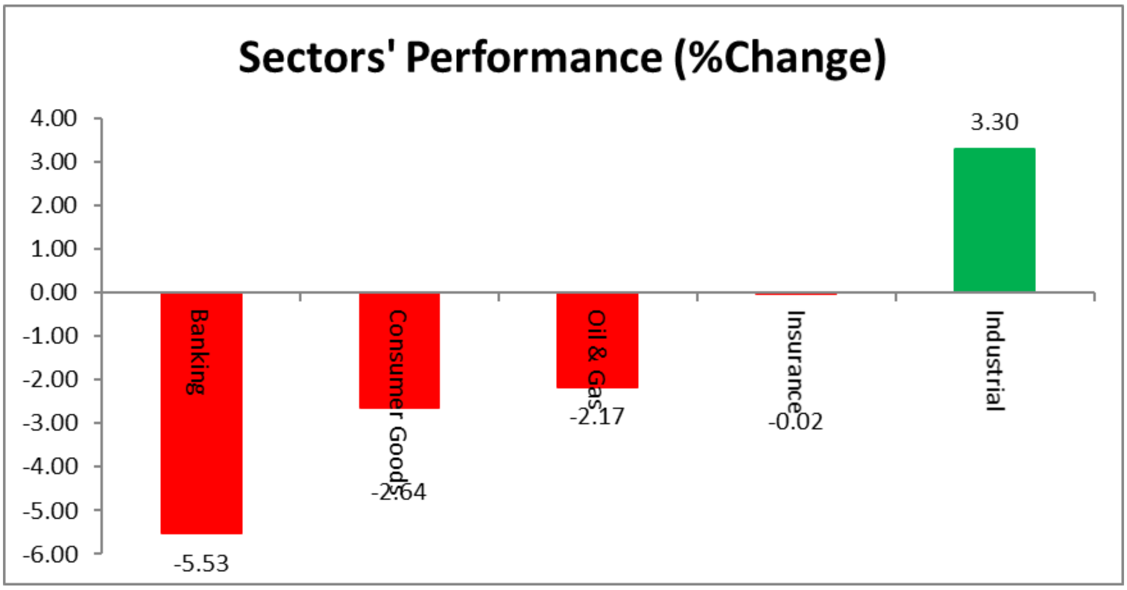
STOCK MARKET UPDATE

The NSE ASI lost 2.27% to close at 29,287.87 points on July 8th relative to its close of 29,966.87 points on June 28th. The market capitalization also fell by 2.27% (N300bn) to N12.91trn.

The NSE traded at a price to earnings (P/E) ratio of 7.23x as at July 8th, 1.63% lower than the close of June 28th (7.35x). The market breadth was negative at 0.59x, as 23 stocks gained, 39 lost while 106 stocks remained unchanged.



The market also saw a sharp drop in activity level. Average volume traded fell by 19.31% to 206.83mn units compared to the same period in June, while the average value of trades fell by 51.44% to N2.03bn.



All indices except the Industrial sector lost within the review period. Banking lost the most (-5.53%). The industrial sector gained 3.30%.

Academy Press Plc topped the gainers' list with a 48.15% increase in its share price. This was followed by Consolidated Hallmark Insurance Plc (26.92%), Flour Mills of Nigeria Plc (17.86%), Cutix Plc (17.86%) and Cement Company of Northern Nigeria Plc (15.53%).

TOP 5 GAINERS (N)				
Company	**Jun 28'19**	**Jul 08'19**	**Absolute Change**	**% Change**
ACADEMY PRESS PLC	0.27	0.40	0.13	48.15
CONSOLIDATED HALLMARK INSURANCE PLC	0.26	0.33	0.07	26.92
FLOUR MILLS NIG. PLC	14.00	16.50	2.5	17.86
CUTIX PLC.	1.40	1.65	0.25	17.86
CEMENT CO. OF NORTH.NIG. PLC	13.20	15.25	2.05	15.53

The laggards were led by Presco Plc (-13.85%), Mutual Benefits Assurance Plc (-13.04%), Sovereign Trust Insurance Plc (-13.04%), Guaranty Trust Bank Plc (-12.31%) and Fidson Healthcare Plc (-9.90%).

TOP 5 LOSERS (N)				
Company	**Jun 28'19**	**Jul 08'19**	**Absolute Change**	**% Change**
PRESCO PLC	52.00	44.80	-7.2	-13.85
MUTUAL BENEFITS ASSURANCE PLC.	0.23	0.20	-0.03	-13.04
SOVEREIGN TRUST INSURANCE PLC	0.23	0.20	-0.03	-13.04
GUARANTY TRUST BANK PLC.	32.90	28.85	-4.05	-12.31
FIDSON HEALTHCARE PLC	5.05	4.55	-0.5	-9.90

Outlook

Asides from increasing the market capitalization, Airtel's listing is not expected to have any significant impact on investor sentiment. We are likely to see some bargain hunting in the short term ahead of the release of Q2 corporate results and the declaration of interim dividends. This could trigger a rebound on the NSE.

Analyst Recommendation: BUY

Market Capitalization: N27.79 billion

Recommendation Period: 12 months

Current Price: N6.45

Industry: Consumer goods

Target Price: N11.05

EQUITY REPORT: PZ Cussons Nigeria PLC

Analyst note

Indisputably, Nigeria's strong demographics, with an estimated population of 200 million representing 18.64% of the Sub-Saharan African population, remain a robust attraction to the fast moving consumer goods (FMCG) sector. However, the sector has been dragged down by weak consumer spending. Due to the nature of goods, product innovation and branding have been the bases of competition among key players in the sector. "The dwindling economic power of many Nigerians has also led to the FMCG sector welcoming new entrepreneurs who are designing products that are cheaper to drive patronage, production, turnover and profit margins. The FMCG sector remains highly fragmented and it is dominated by key players who leverage extensively on international alliance."[22] There is an expectation that revenue will come in weaker than the prior year due to strong competition with imported substitutes coupled with heavy financing and operating costs for industries in the sector.

Weak consumer demand weighs on topline

PZ Cussons posted sales of N55.07 billion in the nine-month period ending March 31, 2019 (9M'19)[23], 12.95% lower than N63.26 billion reported in 9M'18. The fall in revenue was driven by low consumer purchasing power and a highly competitive environment. This was despite a price/ volume mix in its personal and home care categories.

The company's operating profit declined by 76.9% as the reduction in the company's cost of sales was not enough to offset the increase in administrative, selling and distribution expenses. The company's cost of sales declined by 5.80%, while the selling and distribution costs increased by 14.8%, with administrative expenses rising by 39.8%.

[22]Femi Adekoya, October 24, 2018. "FMCG firms struggle for consumers amid weak demand, saturated market," The Guardian (Business), https://guardian.ng/business-services/industry/fmcg-firms-struggle-for-consumers-amid-weak-demand-saturated-market/

[23]Fiscal year ends May 31, 2019 (FY 2019)

PZ also reported low bottom-line earnings. Profit before tax (PBT) declined by 52.4% to N936.24 million while profit after tax (PAT) also decreased by 39.6% to N807.14 million from 9M'18. This was despite a decrease in losses of foreign exchange and finance costs. The foreign exchange loss declined substantially to N492.38 million from N3.28 billion. The finance costs also declined by 80.7% to N209.29 million. PZ benefited from the introduction of the Investors' and Exporters' Foreign Exchange Window (IEFX) by the CBN in late April 2017.

Industry and company overview

The Nigerian manufacturing sector was badly hit by the recession in 2016. This was due to the weakening of the naira amid dwindling oil prices and a shortfall in oil production because of security challenges in the Niger Delta. The unavailability of the US dollar for the importation of raw materials, as well as its high cost, was a major challenge. The sector was characterized by a fall in patronage, production, turnover and profit margins. However, since Q2'17[24], when Nigeria exited its worst recession in 20 years, the manufacturing sector has continued to grow. In 2018, the sector recorded a growth rate of 2.09% from -0.21% in 2017 and 0.81% in Q1'19. The introduction of the IEFX window has boosted liquidity in the foreign exchange market. This in turn has contributed to the expansion of the manufacturing sector due to access to and availability of foreign exchange to import innovative technology, machinery replacements and purchase raw materials. Also, the appreciation of the naira to N362 against the dollar relative to N495/$ in 2016 helped reduce import costs.

[24]Refers to normal calendar period. Q2'17: Apr'17 – Jun'17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Scratch and stand a chance of wining any of the following items that is revealed on the card
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24
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400
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Company Overview

PZ Cussons Nigeria originated in1899 when Paterson and Zochonis opened their first branch office in Nigeria. The first soap factory was incorporated in December 1948 as PB Nicholas & Company Limited and was later changed to Alagbon Industries Limited in 1953. However, in 1960, the name was changed to Associated Industries after which it became listed on the Nigerian Stock Exchange (NSE) in 1972. In 1973, the company entered the detergent and refrigerator markets in Nigeria. The company created Nutricima – a joint venture with Glanbia Plc – to supply evaporated milk and powder milk to Nigeria in 2003 and commenced manufacturing in 2005. In 2007, the Nigerian business changed its name to PZ Cussons Nigeria Plc. In 2011, PZ Wilmar was established – a joint venture with Wilmar International – to build a palm oil refinery and food ingredients business. PZ Cussons Limited UK, is currently the main shareholder with 73.27% of PZ Cussons Nigeria Plc while the remaining 26.73% is held by the general public.

Its principal activities include the manufacturing of a wide range of consumer products such as detergent, medicaments, soap, cosmetics, confectionery, and home appliances. These are sold and distributed throughout Nigeria through company-owned depots. The company operates in five main categories: personal care, beauty, home care, food and nutrition, and electrical. The company remains the market leader in the toilet soap and baby soap segments.

Over the years, the company has collaborated with strategic companies to successfully provide products that meet consumers' needs. The company remains the leading personal and household company in Nigeria. Nigeria remains the company's largest market in Africa. Table 1 shows PZ's business segments and its unique brands.

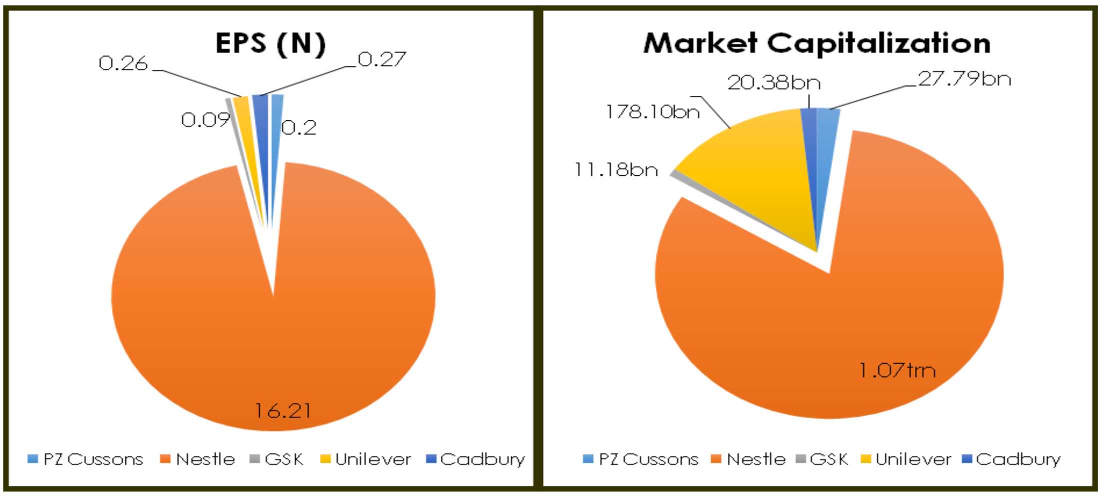
Table 1: PZ Cussons business segments and brands

Business Segment	Brands
Home care	Elephant, Zip, Morning Fresh, Jet, Tempo, Rex
Soaps	Premier, Imperial Leather, Joy, Duck, Canoe, Drum
Medicaments	Robb, Heatol, Super Robb, Medicated Dusting Powder
Hair care	Venus, Joy
Baby care	Nigerian Baby Care, Cussons Baby Range
Skin care	Venus, Stella Pomade, Joy, Carex
Perfumes	Dan Duala, Venus Gold, Joy Cologne
Consumer electronics	Haier Thermocool
Electrical retail	Cool World
Nutrition	Coast, Yo!, Nunu, Olympic Milk, Olympic Apple Drink
Palm Oil	Mamador, Devon Kings Refined Palm Olein

PZ Cussons Plc's main competitors are Nestlé, Cadbury, GlaxoSmithKline (GSK) and Unilever. However, the company's marketing strategy and its 25 strategically located depots and distribution channels across Nigeria have helped it maintain market share in the personal and home care category. Nestlé Nigeria Plc is the largest in the food and nutrition segment with bottom-line earnings of over N12.84 billion.

The picture below gives a breakdown of leading players in terms of earnings per share (EPS) and market capitalization.

Figure 2: Leading players in consumer goods sector



The company's growth can be seen through increases in its total assets and revenue during the years.

The company's continuous investment in strengthening the supply chain and improving the operational efficiency and consumer experience, while minimizing the cost base, will have a positive impact on its financial performance in the future.

Income Statement for PZ Cussons Plc (FY May 2018)					
N'000	2014	2015	2016	2017	2018
Revenue	72,905,679	73,126,070	69,527,537	79,630,111	80,552,808
Cost of Sales	(53,710,991)	(52,672,138)	(49,326,175)	(51,682,211)	(56,097,215)
Gross Profit	19,194,688	20,453,932	20,201,362	27,947,900	24,455,593
Distribution Expenses	(8,825,075)	(9,248,099)	(8,825,636)	(9,095,909)	(9,601,809)
Administrative Expenses	(4,067,989)	(4,554,811)	(5,242,675)	(5,636,635)	(6,625,703)
Operating Profit	6,301,624	6,651,022	6,133,051	13,215,356	8,228,081
Other Income	281,039	121,861	286,084	198,601	128,748
Exchange Loss	-	-	(2,883,528)	(8,797,880)	(5,391,604)
Finance Income	508,374	228,794	210,256	485,569	180,657
Finance Expenses	(141,052)	(444,863)	(597,667)	(290,477)	(832,373)
Net Finance Cost	367,322	(216,069)	(387,411)	195,092	(651,716)
Profit Before Tax	6,949,985	6,556,814	3,148,196	4,811,169	2,313,509
Income Tax Expense	(1,867,238)	(1,986,027)	(1,018,507)	(1,124,572)	(386,389)
Profit for the Year (PAT)	5,082,747	4,570,787	2,129,689	3,686,597	1,927,120

Balance Sheet for PZ Cussons Plc (FY May 2018)					
N'000	2014	2015	2016	2017	2018
Property, Plant & Equipment	24,485,136	25,217,847	26,504,924	28,514,265	28,430,329
Intangible Assets	-	-	-	1,017,337	953,656
Investment in Subsidiaries	-	-	-	-	-
Other long term receivables					24,483
Non-current Assets	24,485,136	25,217,847	26,504,924	29,531,602	29,408,468
Inventories	20,292,556	21,012,631	19,278,455	28,709,943	26,039,546
Deposit for Imports	1,030,504	916,639	191,791	6,601,877	2,336,785
Trade and Other Receivables	20,679,990	17,912,325	15,587,350	17,221,712	16,570,915
Cash and Cash Equivalent	4,477,549	2,328,472	12,867,654	8,022,391	14,260,256
Current Assets	46,480,599	42,170,067	47,925,250	60,555,923	59,207,502
Total Assets	70,965,735	67,387,914	74,430,174	90,087,525	88,615,970
Share Capital	1,985,238	1,985,238	1,985,238	1,985,238	1,985,238
Share Premium	6,878,269	6,878,269	6,878,269	6,878,269	6,878,269
Retained Earnings	31,711,254	32,573,287	32,037,137	33,409,158	33,297,964
Equity Attributable to Equity Holders of the Company	40,574,761	41,436,794	40,900,644	42,272,665	42,161,471
Non Controlling Interests	1,963,821	2,235,650	2,502,326	2,865,212	2,947,118
Total Equity	42,538,582	43,672,444	43,402,970	45,137,877	45,108,589
Deferred Tax Liabilities	4,365,881	3,903,589	3,694,005	2,399,389	2,421,833
Warranty Provisions	109,224	248,900	237,544	184,215	103,516
Non-current Liabilities	4,475,105	4,152,489	3,931,549	2,583,604	2,525,349
Warranty Provisions	190,637	57,134	89,707	87,560	84,380
Bank Overdrafts	-	-	-	-	234,985
Current Income Tax Liabilities	1,863,541	1,671,311	1,289,711	2,555,256	457,818
Trade and Other Payables	21,897,870	17,834,536	25,716,237	39,723,228	40,204,849
Current Liabilities	23,952,048	19,562,981	27,095,655	42,366,044	40,982,032
Total Liabilities	28,427,153	23,715,470	31,027,204	44,949,648	43,507,381
Total Equity and Liabilities	70,965,735	67,387,914	74,430,174	90,087,525	88,615,970

Management

Capable of capitalizing on potential growth opportunities in the consumer goods industry

The ability of PZ Cussons' management to sustain returns and drive growth in a period of slow and fragile economic growth can be attributed to its diversified business segments and extensive distribution network across the country.

To further drive growth and improve earnings, management intends to develop innovative leading brands and improve its products to meet the needs and tastes of its customers. The company will review its product portfolio to keep the right focus on its key brands and channels. Management plans to sustain its investments in supply chain processes and consolidate its depot networks to optimize operational efficiencies.

Furthermore, the company is a part of a global organization benefiting from innovations and initiatives of its group. As a result, management has integrated its supply chain processes and sales functions as a single structure across the globe and region. This will align the company's route to market leading to further value.

Its management team has a wide range of experience in finance, managerial roles and government. Mr. Christos Giannopoulos, CEO, who joined the group in July 1988 and the Nigerian subsidiary in 2002, has steered the company for the last nine years. He has served in several managerial roles in the UK, Australia, Kenya and Indonesia. He has a BSc in Business Administration from the University of Derby, UK.

Chief Dr. Kolawole B. Jamodu has served as the Non-Executive Chairman of the Board of Directors, since 2014. He joined the group in 1974 and served in an executive position for 24 years, rising to CEO until he retired in 1999. He continued as the Chairman until 2001 when he joined the Federal Executive Council as the Minister of Industry. He is currently on the Board of Nigerian Breweries Plc as its Chairman and has led organizations such as Universal Trust Bank Plc, Manufacturers' Association of Nigeria (MAN), and United Bank for Africa Plc. He has also served as part of the National Economic Management team under former president, Goodluck Jonathan.

The company's board and executive management team understand the local business environment. They bring a wealth of experience that has helped propel the company to past successes.

CEO

Mr. Christos Giannopoulos

Non-Executive Chairman

Chief Dr. Kolawole B. Jamodu

What the bulls and bears say

Bulls say

- Strong global brand
- Leading personal and household company in Nigeria
- Rich product portfolio for personal care, home care, food and nutrition
- Strong equity brand
- Efficient marketing and distribution channels cut across the country
- Upward review of minimum wage could bolster consumer spending
- Qualified, talented and experienced management team
- Diverse product portfolio which ensures sustainability of revenue
- Focus on capacity expansion
- Cutting edge product innovation
- Favorable government policies

Bears say:

- Intense competition from other leading players such as Unilever, Nestlé and Cadbury
- Increased operational expenses
- Rising input costs could put pressure on earnings growth
- Poor infrastructure continues to weigh negatively on distribution and logistics costs
- Shift of market preference to low-priced products
- Insecurity in certain parts of the country
- High cost of generating power

Risk and Outlook

The major risks that could prevent PZ Cussons from achieving its goals of boosting earnings, increasing sales and managing costs include persistent macroeconomic challenges, credit risk, liquidity risk, market risk (currency and interest rate), and capital risk amid security challenges in the country.

The company's performance could be affected by commodity price fluctuations, particularly for raw materials such as crude palm oil tallow, sodium lauryl ether sulfate, and linear alkylbenzene.

Nevertheless, given the macroeconomic conditions, interest rate hikes are unlikely. Also, due to a slow and tepid economic recovery, an accommodative stance is necessary to stimulate growth.

Appendix - Valuation

We derived our valuation for PZ Cussons Plc by using the Discounted Cash Flow (DCF) methodology. Our fair value estimate per share for PZ Cussons stood at N11.05, which is a 71.32% upside on its current share price of N6.45 as at July 11th, 2019. The discount rate [weighted average cost of capital (WACC)] of 18.9% is derived using a 14.55% risk free rate, a beta of 0.6974, and a market risk premium of 7.64%. The calculated long-term cash flow growth rate to perpetuity is 3.5%.

We therefore place a BUY on the shares of the company at the current market price.

DCF Valuation			
N'000	**2019E**	**2020E**	**2021E**
EBIT	8,228,081	7,516,967	7,545,009
Less: Taxes	(2,358,612)	(2,154,769)	(2,162,807)
EBIAT	5,869,469	5,362,199	5,382,202
Plus: D&A Expense	2,608,246	2,712,391	2,829,463
Less: CAPEX	(2,515,509)	(3,759,930)	(3,899,462)
Less: Change in Working Capital	8,067,907	(13,079,026)	2,055,573
Free Cash Flow (FCF)	14,030,112	(8,764,367)	6,367,776
WACC	19.9%	19.9%	19.9%
Present Value (PV) of FCF	8,144,064	(4,243,856)	2,572,100
	2019	**2020**	**2021**
Terminal Value			40,240,524
Present Value of Terminal Value	23,358,432		

DCF Calculation	**Valuation**
PV of Explicit Period	6,472,308
PV of Terminal Value	23,358,432
Enterprise Value	29,830,740
+ Cash	14,025,271
- Borrowings	-
Equity Value	43,856,011
Share Price	***11.05***