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In This Issue . . .

Nigeria's Telco Giants Record Stellar Performance

The Nigerian bourse's newly listed telco giants, MTN Nigeria and Airtel Africa, released their financial results for the first half of the year (H1'19). These blue chip companies wield a joint market cap of N3.76trn, representing 27.56% of NSE's total market cap. While MTNN boasts of a year-to-date gain of 41.11% and reported an EBITDA margin of 54% (H1'18 - 43%), Airtel has lost 10.88% of its value and reported an EBITDA margin of 44% (H1'18 – 43%). The fortunes of these companies is evident from respective double digit growth in top line during the period.

Banking sub-index takes the back burner

Interestingly, the telco may take away the shine of the banking stocks, as no tier1 bank has released its result for H1'19. Prior to the listing of the telecom companies, banking stocks represented 31% of total market cap, but now accounts for 22% of total market value. Given that banking stocks are the most liquid on the stock exchange, representing 75% of daily volumes, the delay in the release of half year performance may further dampen investors' preference for banking stocks.

Market sentiments based on technical trend

Impressive earnings are still not enough to flip the negative market sentiment as performance is not driven by fundamentals. Nigeria is the largest economy in Africa but her market cap relative to GDP is 9.8% while, South Africa has a market cap relative to GDP of 314%. The Nigerian stock market is just about 3% of the Johannesburg stock exchange. This alludes to the lack of depth in Nigeria's equities market which is now reflecting on market sentiment.

Outlook

We expect the bearish run to persist considering there is no impetus to reverse the current market trend. However, the declining interest rate environment coupled with a boost in investors' confidence could turn-around the fortunes of the market.

MPC Maintains Status Quo Again - After Liquidity Surfeit

The MPC maintained status quo on all monetary policy parameters for the 2nd consecutive meeting since its 50bps cut in March 2019. The 11-member committee voted unanimously in favor of keeping rates unchanged at 13.5% p.a.

Considerations

* Subdued global growth
* Fragile domestic economic recovery
* Moderation in headline inflation
* Continued stability in exchange rate
* Credit to Private sector to rise on new Loan-Deposit-Ratio

The committee considered the trend of monetary accommodation in advanced economies and moderating inflation in the domestic economy. This meant further tightening was ruled out as it restricts the credit expansion capabilities of Deposit Money Banks. On the other hand, they considered the impact of looser monetary policy in a system already awash with liquidity. This could drive growth in consumer credit without any commensurate impact on aggregate output. In the end, the decision to hold all policy parameters was premised on a need to wait and observe the impact of the CBN's prescription of a minimum lending threshold of 60% to DMBs.

Implications

The committee made it clear that its mandate of price stability was still its priority in spite of recent policy announcements that focus on spurring GDP growth. The CBN is attempting to use moral coercion to compel banks to increase lending. Given the excess liquidity in the system, we expect borrowing costs to drop further by 200bps. This is in alignment with the anticipated effect of increased credit delivery to the real sector.

Loans to Small and Medium scale Enterprises (SMEs) will increase by 10% but banking sector profitability will take a slight hit. Excess liquidity will stoke price inflation while the naira will begin to show weakness as capital flight intensifies. There will be a mild expansion in GDP and more short-term jobs will be created.

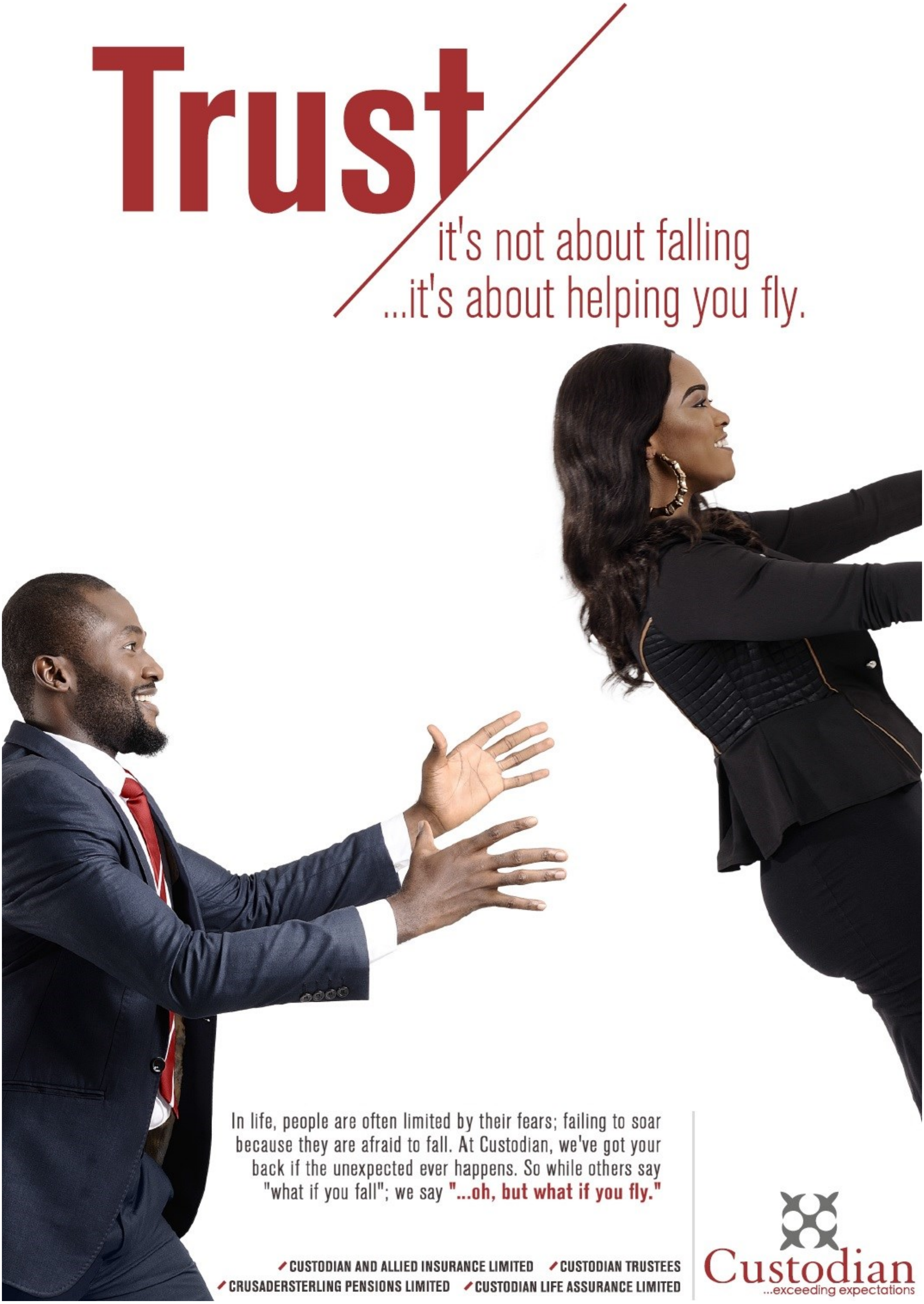
Outlook

The United States Federal Reserve is expected to lower interest rates by 25bps at its next meeting. This will lower the interest rate differential in the US and trigger increased capital outflow from the US to emerging market economies including Nigeria. We expect the impact to weigh immensely on the committee's decision at the next meeting.

It is general consensus that increased money supply will exert some inflationary pressures in the short term, especially if output remains constant. This is on the back of increased liquidity as capital votes are disbursed and the impact of the implementation of the new minimum wage (and arrears). We expect the impact of excess liquidity in the system to offset the harvest effect. Currency pressure will commence due to higher liquidity and the CBN will intensify intervention both in the money and forex markets.

Monetary policy has been dominant in the absence of fiscal policy to drive the economy. We expect this lopsidedness to be corrected as the President allocates portfolios to ministers.

The CBN's new LDR requirement has a deadline of September. This, in an addition to the lower SDF of N2bn, will induce an enhanced flow of credit to the private sector. Given the falling the interest rate environment, we believe the MPC will continue in its wait-and-see approach in order to fully ascertain the impact of its recent policy actions before any change in its monetary policy position.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Unlocking Nigeria's Cassava Potentials: Strategies for Growth and Poverty Reduction

Nigeria is the largest producer of cassava in the world with an annual production of 59.49million metric tons in 2017. This represents approximately 20% of global production and a 37% increase in the last decade.[1] The commodity is grown in virtually all states in Nigeria, although it thrives in the North Central and South-South states such as Edo, Benue, Kogi, Cross River, Imo and Rivers.

Despite being the world leader in production, the country's position in the global cassava market is insignificant. Cassava remains a basic rural and urban staple, mainly processed into foods such as garri, lafu and fufu to meet the needs of Nigeria's growing population. Little has been done to make it commercially viable to serve industrial purposes. Processing cassava into flour and industrial products accounts for just 10% of total cassava output. This is minute compared to countries such as Brazil, where processing accounts for 85% of output and Thailand, where it accounts for 95%.[2] Nigeria's inability to meet its industrial demand led to an increase in the importation of commodities such as starch, chips, syrups and ethanol. The import bill on cassava by-products is as high as $650million annually.[3]

[1]**Mr A.A. Adeniji etal.** 2017."Cassava development in Nigeria: A country case study towards a global strategy for cassava development," Department of Agriculture, Federal Ministry of Agriculture and Natural Resources, Nigeria. http://www.fao.org/3/a0154e/A0154E05.htm.
[2]Dada A.D. 2016. "Taking local industry to global market: The case for Nigerian cassava processing companies, "Department of entrepreneurship management technology, Federal University of Technology, Akure, Nigeria.https://pdfs.semanticscholar.org/9e8a/c077b9f89fe6e8e5c15c94f06e50b1c588a5.pdf
[3]Sahel Capital Partners & Advisory Limited, December 2016. '"Cassava: A Staple Crop in Nigeria" http://sahelcp.com/wp-content/uploads/2016/12/Sahel_Newsletter_Volume_13.pdf

Given the deficiency in domestic industrial supply as well as increasing global demand, especially in Asia, it is expedient that Nigeria step up its game to explore these new business opportunities. For the country to harness its potential in the production of this commodity, it is important that cassava production also becomes an industrial raw material and livestock feed. For this to be achieved, Nigeria needs an integrated seed system, a developed cassava processing industry and policies to encourage public-private partnership. These steps could significantly position the country in the global market and serve as a means to diversify the country's revenue base and boost economic growth.

However, a new disease known as the "Cassava Brown Streak Disease" has been recently confirmed to be ravaging East Africa – Tanzania, DRC, Kenya and Mozambique and it is gradually finding its way into West Africa. Therefore, in addition to improved seedlings and storage facilities, efforts need to be geared towards preventing its outbreak into Nigeria for the country to remain the world's largest producer. An outburst of this disease will reduce cassava output, thus increasing the price of commodities such as garri (a major staple), fufu and lafu.

Critical focus areas for the cassava industry

Two key areas that need urgent attention in the cassava industry are low quality seedlings and processing challenges. Despite being the world leader in production, Nigeria ranks 98th in cassava yield. Cassava farming is dominated by small scale farmers who do not have access to quality seedlings. To improve cassava yield, it is important to improve access to quality seeds and transition from subsistence to commercial production. Scaling the adoption of quality seedlings requires a sustainable and efficient integrated seed system, combining both formal and informal systems.

The formal seed system is a structured one that involves a chain of activities leading to clear products – 'certified seed of verified varieties'. It ensures that the seeds produced are of optimal physical, physiological and sanitary quality. A major challenge of this system is that officially recognized seed outlets are limited in number. This creates a role for an informal seed system, locally organized, in which the farmers access seed directly from their harvest or through exchange by barter from friends, neighbors or relatives. The informal seed system is highly accessible. An integration of these two systems requires putting in place a support system to coordinate the activities of both sectors. To this end, the formal sector could partner with cassava associations such as Nigerian Cassava Growers Association to distribute high quality seedlings. In addition to the integrated seed system, Nigeria's cassava farming needs to transition from subsistence to commercial cassava production. This involves the use of sophisticated farming techniques requiring capital intensive equipment purchases. Public-private partnerships can help with financing through investment friendly policies.

Another factor that plagues the cassava industry is the lack of processing. The Nigerian cassava processing industry is severely underdeveloped. The bulk of the cassava produced in the country is for domestic consumption. To maximize Nigeria's potential as the world's largest cassava producer and to take advantage of the growing demand for industrial raw materials, there is a need to encourage public-private partnerships to strengthen cassava processing. These partnerships can promote and provide technical and commercial assistance, such as export logistics, with a view to promote and sustain competitiveness of the cassava industry in the global market. The Nigerian government introduced policies to encourage the substitution of high quality cassava flour for wheat flour in bread baking by mandating, in 2015, a 10% cassava flour inclusion. Beyond this, the government could create tax holidays to incentivize cassava processors. Such a policy would help to bolster the cassava processing industry.

An expansion of the cassava processing industry will require more cassava tubers for processing. This implies that existing farmers will have to scale-up production. It will also make cassava production attractive to new entrants. The resulting effect of this will be a reduction in poverty among farmers and lower unemployment.

Lessons from Thailand

Thailand is the fourth largest producer of cassava in the world. Unlike Nigeria, cassava is grown as an industrial rather than a staple crop. The country dominates the cassava export market. It controlled approximately 65.79% of cassava chips exports and 33.92% of cassava starch exports in 2015.[4]

Thailand's cassava industry has benefited from the emergence of strong and active commodity-specific trade associations and research institutes. Some of the trade associations specifically tailored to the cassava industry include:

[4]Wasurat Cheunchoovit and Krissana Treesilvattanakul, 2016."Proposing alternatives in achieving Thai cassava agro-industry stability" Department of agro-industrial technology, faculty of agro-industry, Kasetsart university 50 Ngamwongwan rd., lad yao, Bangkok 10900, Thailand. https://knepublishing.com/index.php/Kne-Life/article/view/1680/3951

Thai Tapioca Trade Association; Thai Tapioca Starch Association; Thai Tapioca Products Factory Association; North Eastern Tapioca Trade Association; and Thai Tapioca Development Institute. These trade associations and research institutes often assist in the promotion and dissemination of new cassava seed varieties as well as training farmers on farm management and the use of new cost-savings technology. They also participate actively in policy dialogue and organize trade missions and investors' visits, sometimes with the government.

These initiatives have played significant roles in developing and enhancing cassava production and processing in Thailand. Not only did cassava production spike by 78% in the last two decades, the country's position as the world's leading exporter of cassava by-products such as starch, dry chips and pellets was sustained. Approximately 80% of its cassava root tuber production is processed and exported.[5] More importantly, Thailand's cassava yield increased to 230,731hectograms per hectare in 2017 from 168,570hectograms per hectare in 2000, at a time when Nigeria recorded a 10.8% decline. Apart from achieving improved yield and farm productivity, Thailand focused on creating market opportunities through cassava product promotions and the development of policies such as the export-led industrialization policy, trade and investment liberation and common agricultural policy to attract appropriate investments. It took Thailand over two decades to fully develop its cassava processing industry to become the world's largest cassava by-product exporter.

Just as in Thailand, it is important that specific trade associations and research institutes are in place in Nigeria. These, in addition to agricultural business-friendly policies, will assist Nigeria to invest in research and development, which is critical for identifying seedlings of good quality.

Conclusion

For Nigeria to be a key player in the global market and maximize its potential as the world's largest cassava producer, it is important that the commodity is processed into industrial raw materials and livestock feeds. This requires improving access to quality seedlings and developing the cassava processing industry through an integrated seed system and the encouragement of public-private partnership. A developed cassava value chain will increase the country's revenue by at least 15%, assisting the government in its revenue diversification efforts. It will also increase employment as more labor will be needed.

[5] C. Ratanawaraha, N. Senanarong and P. Suriyapan, 2000. "Status of cassava in Thailand: Implications for future research and development," Department of Agriculture, Bangkok Thailand. www.fao.org/3/y1177e/Y1177E04.htm

Promoting Financial Inclusion through Payment Service Banks in Nigeria

Financial inclusion implies that the general public has access to useful and affordable financial products and services that fulfill their needs.[6] Examples of such products and services include: payments, savings, credit and insurance. The Banking Association of South Africa defines financial inclusion as, "the access and usage of affordable and quality financial products by the unbanked adult population".[7]

Approximately 33% of adults (1.7 billion) are unbanked globally.[8] Nigeria falls above this trend with over 50% of the adult population remaining unbanked.[9] The majority of these affected individuals would attribute their financial exclusion to the low availability of banks, high transaction costs and challenges associated with accessing funds.

In October 2018, the Central Bank of Nigeria (CBN) introduced regulations and guidelines for the licensing and operations of payment service banks (PSBs) in an effort to leverage technology to promote financial inclusion. PSBs are banks whose operations are limited to transactions involving deposits, withdrawals and money transfers.

[6] World Bank (2018). "Overview of financial inclusion". http://www.worldbank.org/en/topic/financialinclusion/overview.
[7] The Banking Association of South Africa (2019). "Definition of financial inclusion". https://www.banking.org.za/what-we-do/overview/working-definition-of-financial-inclusion.
[8] World Bank (2018). "Overview of financial inclusion". http://www.worldbank.org/en/topic/financialinclusion/overview.

[9] Enhancing Financial Innovation and Access (EFInA) (2018). "Access to Financial Services in Nigeria 2018 Survey". UK Department for International Development. https://www.efina.org.ng/wp-content/uploads/2019/01/A2F-2018-Key-Findings-11_01_19.pdf

They are not allowed to provide credit facilities and participate in forex trading unlike the traditional banks. The PSB license is usually granted to mobile network operators (telcos), mobile money operators, supermarkets and the agents of traditional banks. Despite the introduction of several initiatives by the CBN, such as, microfinance banking, agent banking, know-your customer (KYC) requirements, and mobile money operators, the rate of financial inclusion remains low in Nigeria.

The telcos present an opportunity to buck this trend. Leveraging the telcos as PSBs will not only grant the unbanked public increased access to financial services, but will also ease their access to funds. MTN Nigeria has taken the lead to secure a PSB license from the CBN. As Nigeria's leading telco, with over 58 million subscribers, MTN is targeting between 40 million and 60 million people in the unbanked adult population.

Levers for successful operation of telco PSBs in Nigeria

* ***Leveraging existing capabilities and increasing in financial access points***

The most obvious lever telco PSBs have to decrease the unbanked population is their large customer base, the telcos could use their existing finTech capabilities to increase the number of adults that are granted access to simplified, quality and affordable financial services. When paired with another goal of the CBN – increasing access points to financial services – telcos really shine. A lack of infrastructure has constrained banks from setting up physical branches in rural areas. With mobile devices as the primary access point for PSBs, telcos could ease access for depositors, improving the customer to access point ratio.

* ***Low service costs***

PSBs are also likely to have lower charges compared to the deposit money banks, as they compete to gain increased market share. Findings from a KPMG-UBS study indicate that the cost of effecting a transaction on a mobile device is half the cost of internet banking, 13 times cheaper than ATM banking, and 43 times cheaper than branch banking.[10] Increasing competition for market share amongst the telcos would drive down service costs. This is similar to what Nigeria has experienced with the cost of mobile phone credit dropping as more players have joined the market.

[10]Lamikanra, B. and Chidozie, N. (2018). "Payment service banks: The challenger banks in Nigeria". KPMG Nigeria. https://assets.kpmg/content/dam/kpmg/ng/pdf/advisory/Payment-Service-banks.pdf

* *Narrow range of services*

The limited services offered by PSBs would improve their operating efficiency. For instance, the administrative bottlenecks associated with some services including provision of credit facilities and forex trading would be absent. Meanwhile, Telco PSBs could attract a number of account users as they currently loan airtime to their subscribers. This would increase the proportion of unbanked adult population absorbed into the financial system.

The Role of Payment Service Banks in Kenya

In March 2007, Safaricom, Kenya's leading mobile operator, launched M-Pesa. By 2009, 40% of Kenya's adult population used M-Pesa services.[11] The platform has been able to ensure easier remittance of funds, safe conduct of business transactions and reduction of transaction costs in Kenya.[12] Based on the 2016 FinAccess survey, only 17% of Kenyan adults remain financially excluded.[13]

The M-Pesa started operations with money transfers through SMS texts. It later advanced to electronic money transfers (deposits and withdrawals). The platform also involves agents who take delivery of funds. Today, the population of M-Pesa agents is 40-fold the number of bank ATMs in Kenya. The key drivers of this mobile payment system include the ease of opening an account, simplicity of use, affordability, high literacy rate, and high penetration of mobile phones.[14]

Challenges ahead for Nigeria

Quality & reliability of service delivery

The members of the public would assess the quality and reliability of services provided by Telcos (call services, most especially) before signing up for the new financial services. This challenge was overcome in Kenya where Safaricom launched the M-Pesa with less than 500 participants to serve as testing ground for the new service before it could be made public. At first, there were logistic issues which later subsided and the new service (M-Pesa) was met with wholesome acceptance by the majority of the people. Safaricom benefitted greatly from strong public confidence in the quality and reliability of its services overtime.

[11]Cook, W. (2017). "Who are Kenya's financially excluded?" Consultative Group to Assist the Poor (CGAP). https://www.cgap.org/blog/who-are-kenyas-financially-excluded

[12]Lamikanra, B. and Chidozie, N. (2018). "Payment service banks: The challenger banks in Nigeria". KPMG Nigeria. https://assets.kpmg/content/dam/kpmg/ng/pdf/advisory/Payment-Service-banks.pdf

[13]Cook, W. (2017). "Who are Kenya's financially excluded?" Consultative Group to Assist the Poor (CGAP). https://www.cgap.org/blog/who-are-kenyas-financially-excluded

[14]de Soyres, F., Jelil, M.A., Cerruti, C. and Kiwara, L. (2018). "What Kenya's mobile money success could mean for the Arab world". The World Bank Group. https://www.worldbank.org/en/news/feature/2018/10/03/what-kenya-s-mobile-money-success-could-mean-for-the-arab-world

High level of illiteracy among target population

Poor adaptability to modern technology by rural residents, who constitute the bulk of the unbanked public, could limit the success of PSBs, despite the increasing traction of the telcos. By implication, the services of these companies may not be recognized beyond rendering call services by a majority of the uneducated unbanked adult population. Kenya's Safaricom invested in wide-ranging publicity and outreach to create awareness and educate people on the usefulness of the new service (M-Pesa) and how to carry out financial transactions using their mobile phones.

Next steps on Nigeria's financial inclusion journey

Financial inclusion does not only involve providing access to financial services but also ensuring the appropriate and regular usage of such products. There is therefore the need to educate and sensitize the general public on the benefits associated with banking services. This would go a long way in encouraging the unbanked public to try PSBs. Nigeria could draw useful lessons from the Kenyan experience, which has achieved a high rate of financial inclusion through the successful operations of its PSBs. The emergence of Telco PSBs would support the commitment of the CBN towards achieving 95% financial inclusion rate by 2024.

GLOBAL PERSPECTIVE: Trump wants weaker dollar but it could be a hard sell - Culled from Reuters

WASHINGTON/SAN FRANCISCO (Reuters) - President Donald Trump wants a cheaper dollar, saying earlier this month the United States should match what he says are efforts by other countries to weaken their own currencies - giving them an unfair trade advantage.

The comments have prompted speculation the president could order sales of the greenback, which is near a multi-decade high and, according to the International Monetary Fund on Wednesday, at least 6% stronger than warranted by economic fundamentals.

"Conditions seem increasingly favorable for the U.S. administration to intervene against perceived (dollar) overvaluation," Citi economists said in a note Wednesday.

Trump has railed repeatedly against the Federal Reserve for raising interest rates, complaining that the higher rates are holding back U.S. economic growth. But while signs increasingly point to the Fed's cutting rates when it meets at the end of this month, the lower rates are unlikely to weaken the dollar to a level that Trump wants.

A weaker dollar could help U.S. businesses compete globally by making exports less expensive, boosting the economy and potentially helping Trump's bid for re-election in 2020.

But a currency intervention could spark pushback from other countries, jeopardize the dollar's status as the world's reserve currency and touch off market turmoil. It is also not clear the Trump administration can significantly weaken the dollar without help from the U.S. central bank, which operates independently, or new powers from Congress.

What Could Trump Do?

Trump’s talking down the dollar - an unusual step for a U.S. president - has been effective, though less so more recently.

To weaken it further, the U.S. Treasury could sell the greenback to buy foreign currency, using dollars that it holds on reserve. It has not done that since spending $1.3 billion in September 2000 as part of an international effort to combat a collapse in Europe’s currency, the euro.

Most of America’s $126 billion in reserves are parked in its Exchange Stabilization Fund (ESF). But if Washington’s unilateral actions spark a currency war, that might not be enough firepower to win. “There are plenty of hedge funds that have more clout than that,” said Paul Ashworth, an economist at Capital Economics.

By comparison, China has $3.1 trillion in reserves. Roughly $5 trillion are traded in the world’s currency markets each day.

U.S. Treasury Secretary Steven Mnuchin said in an interview that the ESF was meant for minimizing distress in currency markets, a possible indication that Washington is not viewing it as a way to engineer a sustained weakening in the dollar.

“We always look at what the fund can be used for in different alternatives, but as of now there is no change in policy,” he said. A Treasury spokeswoman added that the department’s overall policy on the U.S. dollar has not changed.

The Treasury uses the Federal Reserve as its agent in financial markets, and traditionally the two agencies coordinate interventions. To intervene more heavily, the Treasury could require resources from the Federal Reserve, which might potentially create limitless dollars to sell.

The administration could also seek access to more funds from Congress, said Joseph Gagnon, fellow at the Peterson Institute for International Economics and a former economist at both the Fed and the Treasury. That might entail lifting a legal limit on the Treasury's borrowing authority, allowing the administration to raise more cash to buy foreign currencies. "If you get rid of the debt ceiling, it's clear the U.S. would win in a currency war," said Gagnon.

Central Bank Independence

Getting the Fed on board would pose its own challenges. The Fed sets interest rates to meet mandates assigned by Congress: stable prices, full employment and moderate long-term interest rates.

A weaker dollar could make imports into the United States more expensive and help the Fed by pushing inflation toward the central bank's 2% target. But intervening in foreign exchange markets to drive it lower would go against a 2013 agreement among finance ministers and central bankers of the world's biggest economies to avoid using exchange rate targets to meet their economic objectives.

"It is not clear the Fed would be willing to act unilaterally in a way that would antagonize the Bank of Japan and the European Central Bank," said Brad Setser, a fellow at the Council on Foreign Relations.

Speaking on June 19, Fed Chair Jerome Powell declined to say whether the central bank would support a currency intervention, saying that exchange rate policy is the Treasury's responsibility.

Currency As A Barometer

Even with limitless dollars, it is not clear Washington could control the value of the dollar, which reflects the strength of the U.S. economy and the attractiveness of its assets compared with those of other countries.

A key source of the dollar's strength is the relative weakness of the European economy which has led the European Central Bank to keep interest rates low while the Fed has raised borrowing costs since 2015.

The dollar has strengthened recently due to reduced investor appetite for risky assets amid rising trade tensions and a slowing global economy, according to the IMF assessment. The IMF said the euro's valuation was appropriate for the euro zone as a whole but was too low for Germany's fundamentals.

"Interventionist measures to drive down the dollar's value are likely to be overwhelmed by the configuration of macroeconomic fundamentals," said Eswar Prasad, a trade policy expert at Cornell University.

It Could Happen Anyway

The dollar may be poised to weaken even without any actual U.S. intervention. Just the possibility is putting downward pressure on the greenback, said Stan Shipley, strategist at ISI Evercore.

Meanwhile, U.S. economic growth is widely expected to slow, closing the gap with growth in Europe. Widening U.S. budget deficits, which delivered a boost to growth and the dollar last year, could drag down the U.S. currency longer-term, economists say.

And the Fed's expected rate cut later this month, along with further anticipated reductions over the next year or so, should also have an effect.

"Monetary policy itself looks like it's almost certainly going to pull the dollar downward," said Erik Norland, an economist at CME Group, whose interest-rate futures market is widely used as a gauge of market expectations for Fed policy.


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MACROECONOMIC INDICATORS

Power Sector

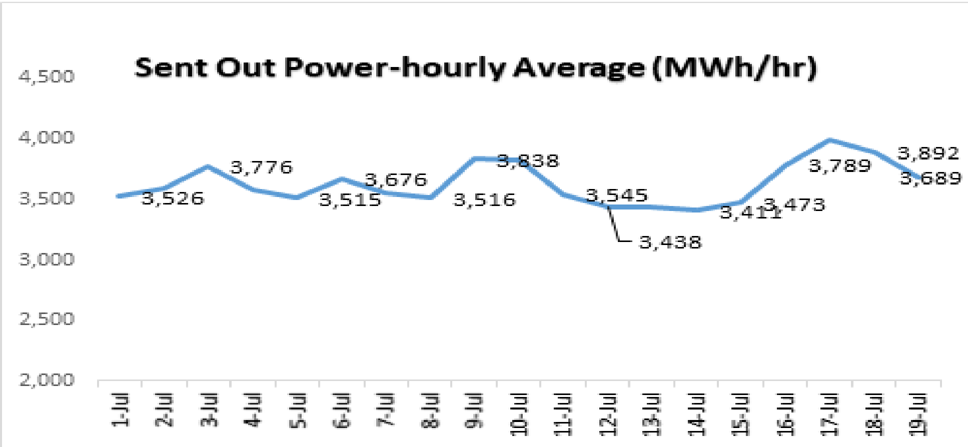
During the review period, the average power output stood at 3,636MWh/h, 2.26% lower than the average output in the relative period in June (3,720MWh/h). The decline in the power supply could be partly attributed to the continuous breakdown of the national grid.

A breakdown of constraints to power generation is as follows:

Constraint (MWh/hour; total)	June 1st – 19th	July 1st – 19th
Gas	33,390	34,463
Grid	23,529.20	40,869.90
Water	6,571	870

[15]

Gas constraints during the period resulted in an aggregate revenue loss of N36.36bn (N630.24bn annualized).



[16]

Outlook

We expect an improvement in the power output as the rainy season gets to the peak, which would result in lower water constraint and boost Nigeria's hydropower output. Hence, the average output is expected to increase to 4,000MWh/hour in the coming weeks.

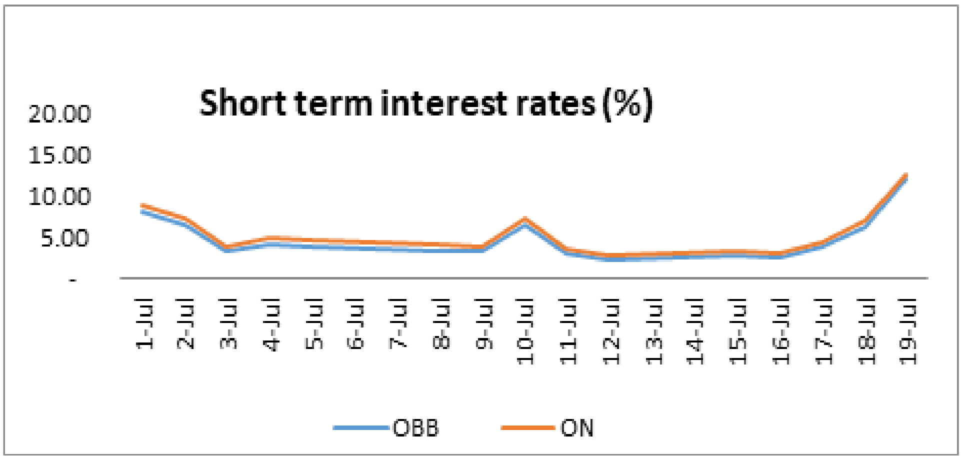
Impact

The expected increase in power supply will boost economic activities, especially of businesses whose operations depend majorly on the power supply. It will as well reduce the dependence of individuals and firms on alternate sources of electricity, and thus reduce the cost of power for firms and individuals.

[15]FG, FDC Think Tank
[16]FG, FDC Think Tank

Money Market

The average liquidity within the banking system stood at N459.85 billion, 47.69% higher than N311.36 billion in the relative period in June. The increase in liquidity could be partly attributed to an increase of 4.07% to N184.82 billion in OMO repayments. OMO sales during the period stood at N475 billion and this has resulted in a net outflow of N290.18 billion during the period, which is 2.94% lower than the net outflow of N298.97 billion in the corresponding period in June. In response to the high liquidity, the NIBOR (OBB/ON) rates fell to a 14-month low of 2.21%pa and 2.93%pa respectively on July 12, before retreating to close the period at 11.93%pa and 12.64%pa respectively.



[17]

At the primary market, the yields for all the T/Bill tenors (91, 182 and 364-day) fell by an average of 82.67bps. Likewise, at the secondary market, the 91-day, 182-day and 364-day tenors decreased by an average of 129.33bps.

T/bills Tenor	Secondary market rates as of July 1st (%pa)	Secondary market rates as of July 19th (%pa)	Direction	Primary market rates as of July 3rd (%pa)	Primary market rates as of July 17th (%pa)	Direction
91	11.61	9.17	↓	10.50	9.74	↓
182	11.79	10.29	↓	11.70	10.75	↓
364	11.40	11.10	↓	11.91	11.14	↓

[17]FMDQ, CBN

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 208bps.

NITTY Tenor	Rates on July 1st (%pa)	Rate on July 19th (%pa)	Direction
30	10.91	8.99	↓
90	11.80	9.25	↓
180	12.54	10.77	↓

[18]

Outlook

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

Impact

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

Forex Market

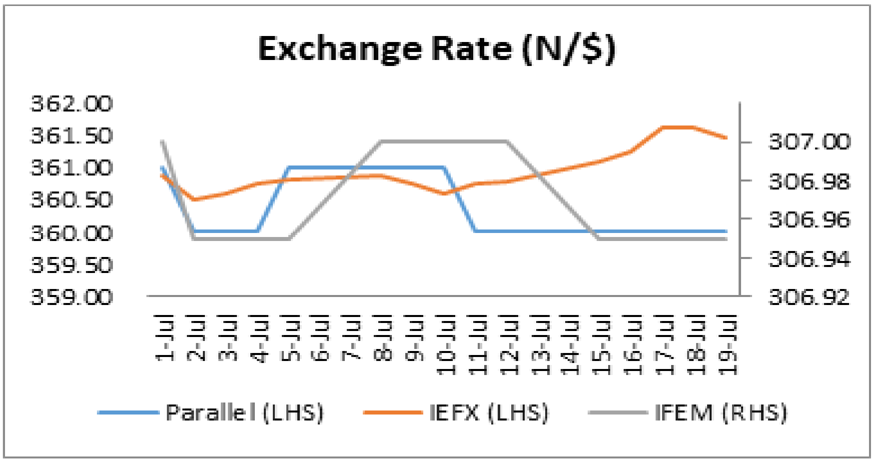
The Nigerian forex market is segmented with multiple exchange rates. The most important rate is the Investors and Exporters window (IEFX). No less than 55%-60% of Nigerian forex transactions are traded on this window. The CBN and most exporters and investors use this window. It serves not only as a source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

[18]FMDQ

Exchange Rate

At the parallel market, the naira depreciated against the dollar to N361/$ on July 5th before appreciating to close the period at N360/$. This was despite the decline in the CBN's forex intervention. The apex bank intervened with a total of $508.71 million in the first seventeen days of July, 33.16% lower than $761.1 million in the corresponding period in June. In the same vein, the currency strengthened against the euro and pound by 0.49% and 0.22% respectively to close the review period at N405/€ and N461/£.

At the interbank market, the naira was relatively flat between N306.95/$ to N307/$ during the review period. On the other hand, the currency depreciated by 0.29% to N361.46/$ at the IEFX window. Total forex traded in the IEFX window decreased by 47.62% to $2.48 billion.



19

Outlook

We expect the CBN to remain committed to defending the naira either through its regular intervention in the forex market or its aggressive OMO intervention strategy. Hence, naira to trade within the range of N360-361/$ in the coming weeks.

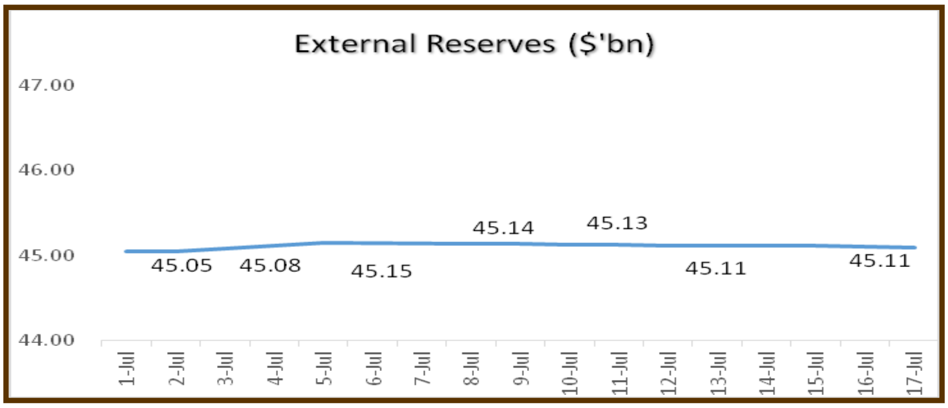
Impact

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

[19] FMDQ, CBN, FDC Think Tank

External Reserves

Nigeria's gross external reserves increased to $45.15 billion on July 5th from $45.05 billion on July 1st before retreating to close at $45.09 billion on July 17th. Nonetheless, Nigeria's import cover increased to 11.23 months from 11.22 months on July 1st.



[20]

Outlook

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

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.

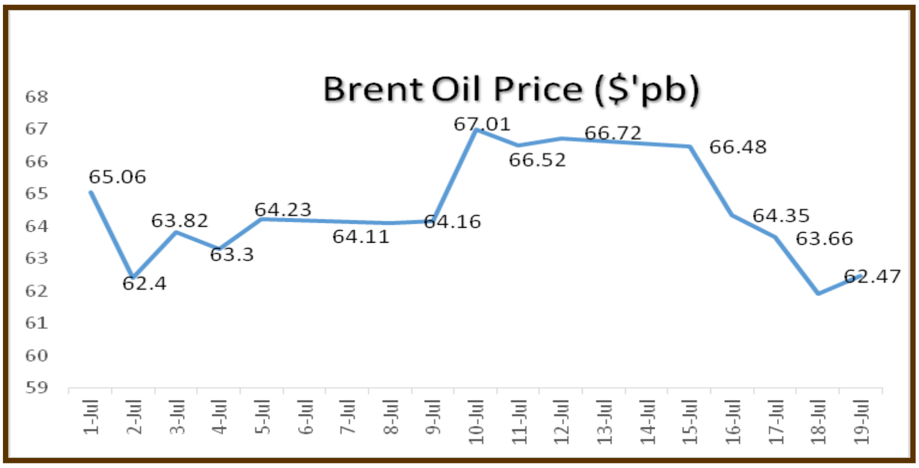
[20]CBN

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 $64.41pb in the first nineteen days of July, 4.46% higher than the average of $61.66pb in the corresponding period in June. The rally in oil prices was mainly driven by lower than expected US stockpiles and OPEC's output cut extension.



[21]

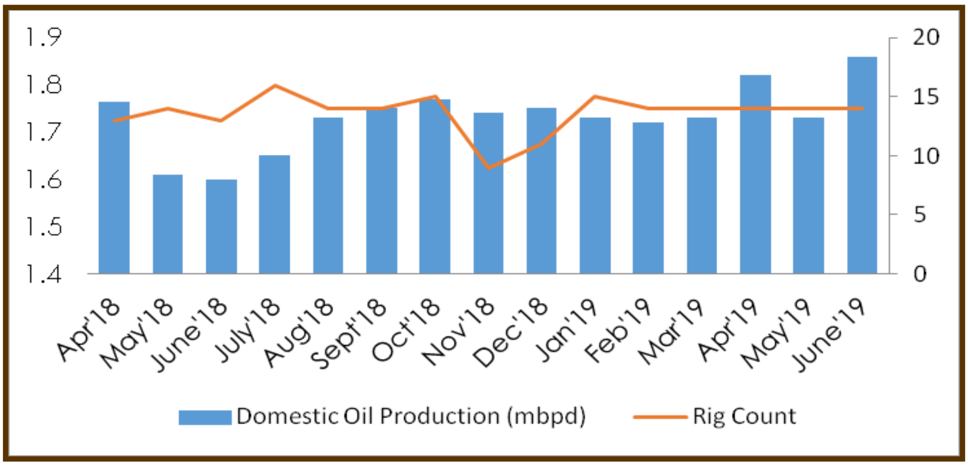
Outlook

We expect oil prices to be bearish in the coming weeks due to concerns of weakening global demand. Nevertheless, OPEC's output cut extension coupled with the disruptions to oil output in the Gulf of Mexico would likely moderate losses.

Oil Production

According to OPEC's latest monthly report, Nigeria's oil production jumped by 7.51% to a 4-year high of 1.86mbpd in June. This was despite a flat rig count of 14 for five consecutive months. Meanwhile, OPEC's crude oil production declined by 68,000b/d to an average of 29.83mbpd. This was supported by lower output in Iran, Libya and Angola. In addition, Nigeria's oil rig count was flat for the fifth consecutive month at 14 in June.

[21]Bloomberg



[22]

Outlook

OPEC's extension of its production cut till March 2020 would require the country to reduce output by 9.68% to 1.685mbpd if forced to comply.

Impact

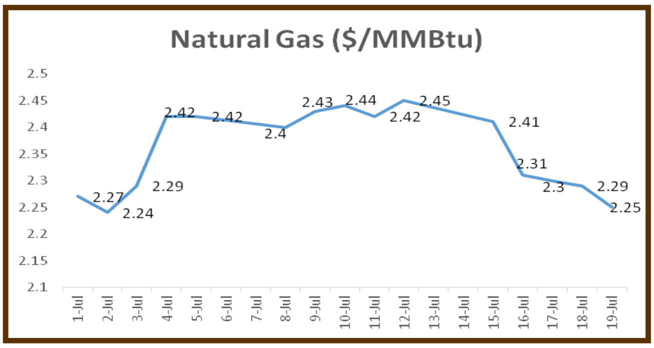
Crude oil accounts for approximately 90% of Nigeria's export revenue. Given that Nigeria is more production sensitive than price, a decline in production would weigh on the country's oil revenue.

Natural Gas

The average price of Natural gas declined by 0.84% to $2.36 /MMBtu during the review period from the average of $2.38/MMBtu in the relative period in June despite strong global demand.

Outlook

We expect prices to continue its downward trend due to expectations of a build-up in the US inventory.



[23]

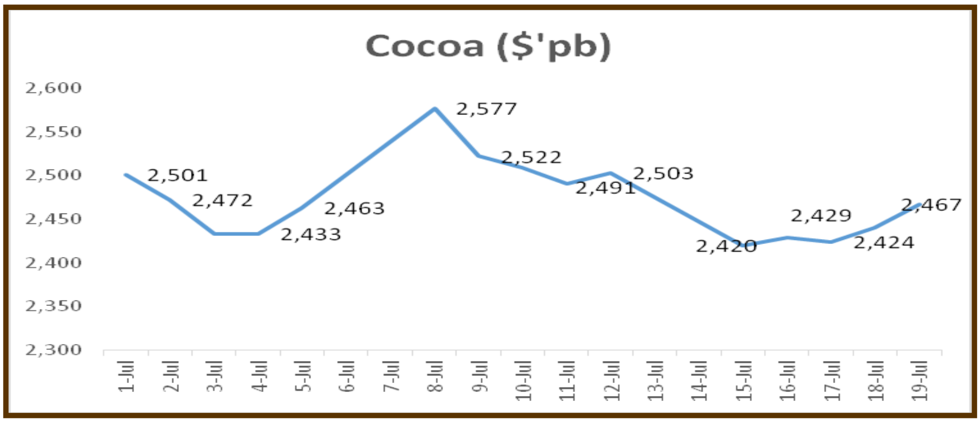
Impact

LNG is Nigeria's second biggest export. It accounts for approximately 12%[24] of export revenue. Lower prices will have a negative impact on the country's external buffers and fiscal position.

[22]OPEC and Baker Hughes
[23]Bloomberg
[24]EIU

Cocoa

Cocoa prices averaged $2,472/MT during the review period, 0.20% higher than $2,467/MT in the corresponding period in the previous month amid the establishment of a price floor.



[25]

Outlook

The introduction of a living-income differential (a premium of $400 a ton) could lead to an increase in the global price of cocoa.

Impact

Nigeria is the fourth largest producer at 245,000 tonnes annually. An increase in prices would benefit cocoa growing regions and lead to a boost in the income of cocoa farmers.

IMPORTS

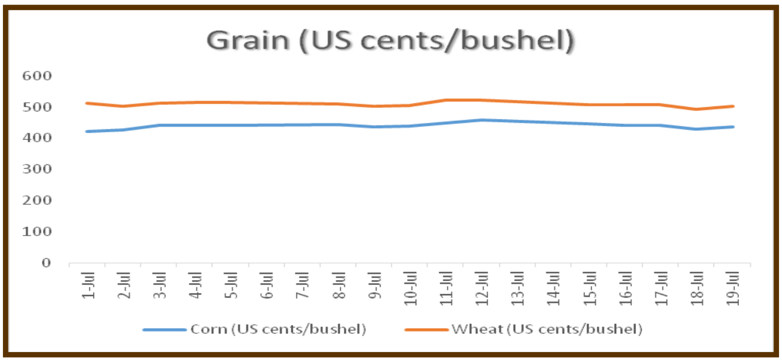
Wheat

The average price of wheat declined by 2.28% to $509.25/bushel during the review period, from $521.13/bushel in the relative period in June due to ample global supply.

Corn

The price of corn averaged $439.82/bushel in the first nineteen days in July, 0.03% higher than the average of $439.67/bushel recorded in the relative period in June despite improved weather conditions in the US.

[25]Bloomberg



[26]

Grains- Outlook

Prices are expected to trend downwards due to expectations of higher global output.

Impact

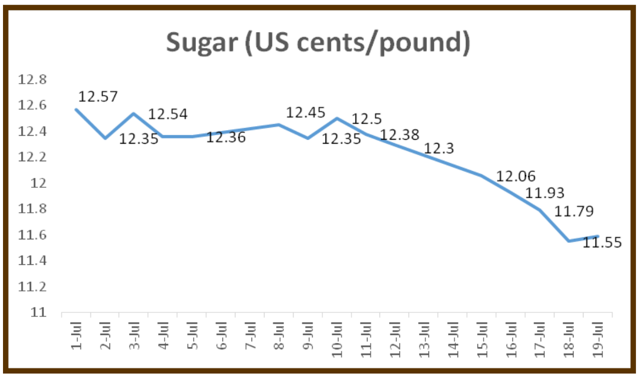
Nigeria's manufacturing firms depend largely on imported wheat to augment lower domestic production. A decrease in the global price of wheat would translate to lower production costs and decreased prices of wheat dependent products.

Sugar

Sugar prices averaged $12.21/pound during the review period, 3.63% lower than the average of $12.67/pound recorded in the corresponding period in June due to concerns of weak global demand.

Outlook

We expect sugar prices to reverse its downward trend in the coming weeks due to expectations of a global supply deficit of about 2.5 million tonnes.



[27]

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.

[26]Bloomberg
[27]Bloomberg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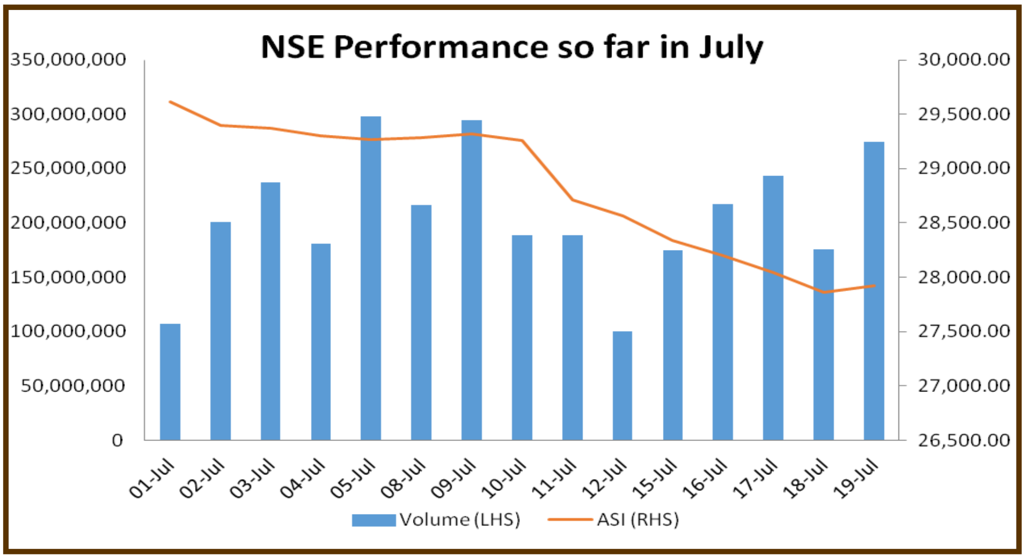
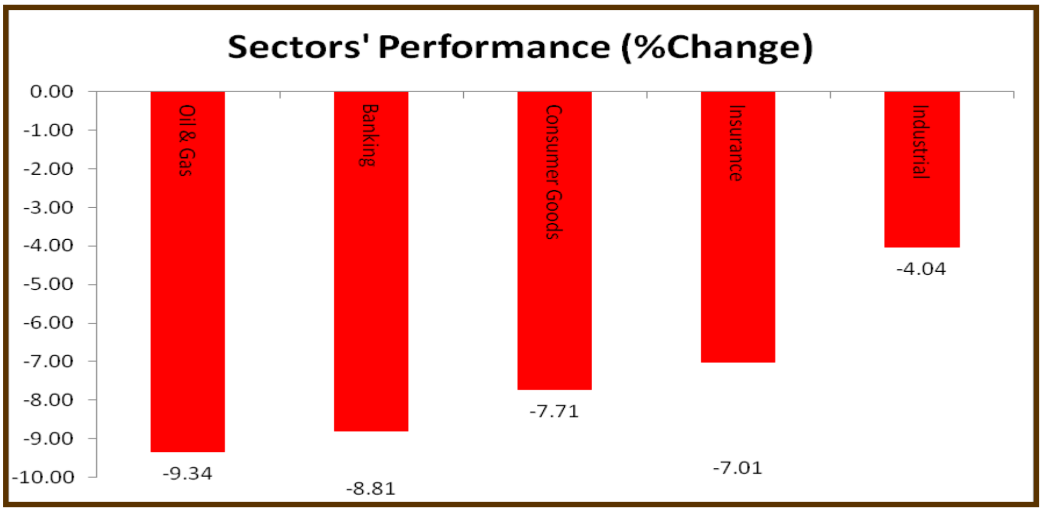
STOCK MARKET UPDATE

The NSE ASI lost 6.83% to close at 27,919.50 points on July 19th relative to its close of 29,966.87 points on June 28th. However, the market capitalization rose by 3.03% (N400bn) to N13.61trn. The market capitalization increased as a result of Airtel Africa's listing on the bourse. In the 15-trading day period, the market lost in 12 days and gained in 3.

The NSE traded at a price to earnings (P/E) ratio of 6.92x as of July 19th, 5.85% lower than the close of June 28th (7.35x). The market breadth was negative at 0.27x, as 18 stocks gained, 67 lost while 83 stocks remained unchanged.



The market also saw a sharp drop in activity level. Average volume traded fell by 76.11% to 206.59mn units compared to the same period in June, while the average value of trades dropped by 77.74% to N2.48bn.



All indices lost within the review period, with oil & gas recording the worst performance (-9.34%).

Academy Press Plc topped the gainers' list with a 48.15% increase in its share price. This was followed by Consolidated Hallmark Insurance Plc (19.23%), Lasaco Assurance Plc (13.79%), Abbey Mortgage Bank Plc (10.00%) and Cornerstone Insurance Company Plc (10.00%).

TOP 5 GAINERS (N)				
Company	Jun 28'19	Jul 19'19	Absolute Change	% Change
ACADEMY PRESS PLC.	0.27	0.40	0.13	48.15
CONSOLIDATED HALLMARK INSURANCE PLC	0.26	0.31	0.05	19.23
LASACO ASSURANCE PLC.	0.29	0.33	0.04	13.79
ABBEY MORTGAGE BANK PLC	0.90	0.99	0.09	10.00
CORNERSTONE INSURANCE COMPANY PLC.	0.20	0.22	0.02	10.00

The laggards were led by Nigerian Aviation Handling Company Plc (-26.33%), Forte Oil Plc (-24.81%), UACN Property Development Company Limited (-20.67%), Fidson Healthcare Plc (-18.81%) and UACN Plc (-18.80%).

TOP 5 LOSERS (N)				
Company	Jun 28'19	Jul 19'19	Absolute Change	% Change
NIGERIAN AVIATION HANDLING COMPANY PLC	3.19	2.35	-0.84	-26.33
FORTE OIL PLC.	26.80	20.15	-6.65	-24.81
UACN PROPERTY DEVELOPMENT CO. LIMITED	1.50	1.19	-0.31	-20.67
FIDSON HEALTHCARE PLC	5.05	4.10	-0.95	-18.81
UACN PLC.	6.65	5.40	-1.25	-18.80

Outlook

We expect market sentiment in the short term to be largely driven by the release of Q2'19 results. Meanwhile, we may see some bargain hunting ahead of the declaration of interim dividends by some companies.

Equity Report: 11 Plc[28]

Analyst's note

Fuel dominates revenue sources

Analyst Recommendation: HOLD

Market Capitalization: N56.97 billion

Recommendation Period: 365 days

Current Price: N158

Industry: Oil and Gas

Target Price: N181.86

11 Plc (formerly Mobil Nigeria) posted a moderate increase of 8.02% in revenue to N92.81 billion in the first six months of 2019 (H1'19), compared to H1'18. Of 11 Plc's three revenue sources, lubricants and liquefied petroleum gas recorded an increase. Fuels, which account for 80.66% of revenue, rose slightly to N74.56 billion.

The increase in the company's top line can also be largely attributed to the 9.62% boost in sale of lubricants. 11 Plc continued to consolidate its leadership position within the industry. The company also began to sell liquefied petroleum gas at some of its service stations. This segment raked in N607.60 million in H1'19 and is expected to gain more traction, leveraging the 11 brand names and branch network across Nigeria.

11 Plc moves to further diversify income streams

11 Plc's strategic retail network, as well as its brand equity, is a key competitive strength in the downstream oil sector. Similarly, the company revived its sale and marketing of aviation jet fuel, after five years of being in a comatose state. The pickup in activities of its industrial clients, especially aviation players, sustained the firm. Nigeria's air transport sector recorded a transformational growth of 9.09% despite an anemic overall economic growth of 2.01% in Q1'19.

Internal efficiency signals remain mixed

A combination of the tough operating environment and internal inefficiencies, especially on its cost of production, dragged down the performance of 11 Plc. The firm's cost of sales as a percentage of revenue increased to 91.9% in H1'19, compared to 89.1% in H1'18. On one hand, management is unable to pass higher costs to its customers due to the price cap on gasoline (under the fuel business segment). The competitive rivalry and tussle for a share of the customer's wallet has also affected the health of 11Plc.

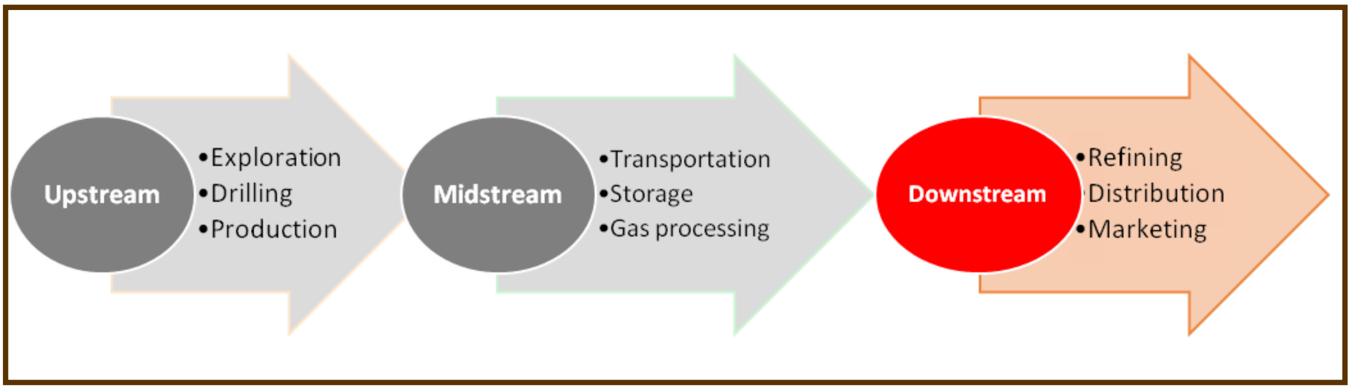
[28] Pronounced Double One Plc.

Given these constraints, management focused on other cost items under their control. For instance, 11 Plc recorded a decline in both selling and distribution, and administrative expenses during the first half despite a moderate increase in revenue. Selling and distribution expense items declined by 15.78% to N3.14 billion while administrative expenses were down 8.44% to N2.07 billion. Selling and distribution expenses to revenue improved to 3.4% (4.3% in H1'18), while administrative expenses to sales declined to 2.2% (2.6% in H1'18). Accordingly, we place a HOLD rating on the company given that its revenue growth lags the increase in cost components.

Industry and company overview

The Nigerian oil and gas industry is one of the largest in Africa with oil reserves of 37.2 billion barrels and gas reserves of 197 trillion cubic feet. Oil and gas remains a mainstay in Nigeria, as it contributes about 10% to Nigeria's gross domestic product, and accounts for about 93% of export earnings.

The federal government, through the Nigerian National Petroleum Corporation, participates in the petroleum industry as both player and regulator. This has led to numerous requests for the fast tracking of the approval of the Petroleum Industry Bill (PIB) by policy makers.



In order to minimize the complexity of the PIB, the policy makers split the bill into four distinct parts: Petroleum Industry Governance Bill (PIGB); Petroleum Industry Administration Bill; Petroleum Industry Fiscal Bill; and, Petroleum Host Community Bill. The PIGB, which aims to ensure oil industry transparency, was successfully passed by the legislative arm of government. However, the president is yet to give assent to the passage of the bill. The delay has negatively impacted investment in the oil and gas sector, as some international oil companies exited their position in the sector due to the uncertainty, as well as the unfavorable policy environment.

This delay has also weighed on the attractiveness of the downstream sector. On the one hand, there is the delay in the assent to the petroleum industry bill, while on the other hand, there is the hesitation to remove the gasoline subsidy, which continues to constrain investor optimism in the sector. The reluctance to put these initiatives in place has adversely impacted players in the industry, as very few have consistently delivered value to respective shareholders over the last decade.

Under the current market conditions, the removal of the gasoline subsidy will be a double-edged sword. It will ease considerable pressure on the Nigerian government, reducing under recoveries and provisions. On the flip side, it will add considerable pressure on individuals and corporate costs. The impact of the latter is somewhat inflationary.

Hence, a critical success factor in the industry is the ability to drive volume sales and reduce additional unit costs. The dominant indigenous players include: Conoil, Oando, and MRS Oil, while multinational competitors include Total Nigeria.

11 Plc, formerly Mobil Oil Nigeria (MON), was incorporated as a private limited liability company in 1951. In 1978, it became a public limited company when it listed on the Nigerian Stock Exchange.

The company is primarily engaged in the marketing of petroleum products with a strong presence across Nigeria. It is divided into two business segments – petroleum products marketing and property business. The former generates revenue from sale of white products and lubricants, while property business generates income from rent paid on the company's investment properties (leased out to third parties).

In October 2016, Nipco Investment Limited, a wholly owned subsidiary of Nipco Group, agreed to acquire ExxonMobil Oil Corporation's 60% stake in Mobil Oil Nigeria. This arrangement increased Nipco Group's shareholding in MON to 74.67%, leading to the change in company name to 11 Plc

11 Plc is the only authorized dealer of Mobil fuel and lubricant brands in Nigeria. As part of Nipco's continuous growth and expansion strategy, especially in the retail value chain, it acquired MON, the foremost player in the downstream sector.

Income Statement for 11 Plc							
N'000	2012	2013	2014	2015	2016	2017	2018
Revenue	80,801,947	78,744,100	79,583,738	64,220,901	94,107,683	125,257,109	164,609,535
Cost of sales	(72,590,899)	(68,803,945)	(68,846,436)	(53,229,847)	(78,618,050)	(109,983,726)	(148,015,916)
Gross profit	8,211,048	9,940,155	10,737,302	10,991,054	15,489,633	15,273,383	16,593,619
Other operating income	2,810,092	2,752,085	2,374,323	4,670,282	6,561,700	7,461,437	8,626,739
Selling & distribution expenses	(4,918,796)	(5,036,139)	(5,226,522)	(5,517,566)	(6,586,717)	(5,796,586)	(6,924,989)
Administrative expenses	(1,696,519)	(2,336,510)	(2,115,561)	(3,165,076)	(3,688,590)	(3,828,732)	(5,024,634)
Other operating expense	(65,963)	(95,241)	(147,524)	(23,427)	(16,569)	(24,164)	(28,368)
Operating profit	4,339,862	5,224,350	5,622,018	6,955,267	11,759,457	13,085,338	13,242,367
Finance income	35,547	60,592	158,633	74,135	260,727	368,483	493,724
Gain on disposal of investment property	-	-	2,851,585	-	-	-	-
Finance expenses	(298,860)	(161,940)	(186,099)	(123,080)	(292)	(86,916)	(40,632)
Net finance cost	(263,313)	(101,348)	(27,466)	(48,945)	260,435	281,567	453,092
Profit before exceptional items	4,076,549	5,123,002	5,594,552	6,906,322	12,019,892	13,366,905	13,695,459
Exceptional items	-	-	-	-	-	(2,229,019)	-
Profit before tax	4,076,549	5,123,002	5,594,552	6,906,322	12,019,892	11,137,886	13,695,459
Income tax expense	(1,198,250)	(1,642,217)	(2,053,347)	(2,033,393)	(3,865,599)	(3,619,153)	(4,366,524)
Profit for the year	**2,878,299**	**3,480,785**	**3,541,205**	**4,872,929**	**8,154,293**	**7,518,733**	**9,328,935**

Balance Sheet for 11 Plc							
N'000	2012	2013	2014	2015	2016	2017	2018
Property, plant & equipment	8,911,120	20,695,199	7,287,171	7,612,813	7,936,980	8,780,077	10,923,166
Investment property	11,148,344	7,111,042	26,954,798	29,288,265	29,374,398	25,949,059	23,372,830
Intangible assets	164,163	134,705	121,838	100,862	82,683	64,863	68,316
Prepayments	1,340,774	1,525,090	1,552,726	1,598,378	1,978,780	2,033,239	2,033,676
Lease Assets	29,258	605	-	-	-	-	-
Non-current assets held for sale	-	128,075	-	-	-	-	-
Deferred tax	283,963	350,964	1,049,185	156,455	-	-	-
Non-current assets	21,877,622	29,945,680	36,965,718	38,756,773	39,372,841	36,827,238	36,397,988
Inventories	5,697,690	4,509,924	4,364,245	5,878,400	5,071,338	7,948,601	17,918,599
Trade and other receivables	5,744,713	5,151,839	7,342,543	6,028,505	8,629,378	11,991,262	11,513,890
Prepayments	1,340,774	159,372	142,625	190,200	186,064	13,491,957	2,393,065
Cash and cash equivalent	243,697	961,706	411,444	3,218,211	8,441,707	4,389,870	2,358,078
Current assets	13,026,874	10,782,841	12,260,857	15,315,316	22,328,487	37,821,690	34,183,632
Non-current assets held for sale	-	-	-	-	-	-	79,178
Total assets	**34,904,496**	**40,728,521**	**49,226,575**	**54,072,089**	**61,701,328**	**74,648,928**	**70,660,798**
Share capital	194,678	194,678	194,678	194,678	194,678	194,678	194,678
Retained income and other reserves	6,395,290	9,342,953	13,354,772	15,168,723	21,262,818	27,164,151	33,578,097
Equity	6,589,968	9,537,631	13,549,450	15,363,401	21,457,496	27,358,829	33,772,775
Non controlling interests	-	-	-	-	-	-	-
Total equity	6,589,968	9,537,631	13,549,450	15,363,401	21,457,496	27,358,829	33,772,775
Long term borrowings	612,913	1,086,259	-	-			
Retirement benefit obligation	2,530,145	1,253,087	1,853,525	3,279,629	2,293,775	-	
Deferred income	11,478,205	14,470,669	17,481,536	21,148,601	18,506,428	16,961,598	14,763,734
Deferred tax liability	20,000	-	-	-	622,074	2,190,178	2,796,528
Non-current liabilities	14,641,263	16,810,015	19,335,061	24,428,230	21,422,277	19,151,776	17,560,262
Finance lease obligation	14,086	-	-	-			
Trade and other payables	9,249,360	7,913,888	9,882,281	9,824,419	9,836,830	19,543,153	8,212,101
Borrowings	429,379	-	1,708,955	413,371	-		
Deferred income	1,468,412	4,526,160	2,401,927	3,901,137	6,254,120	6,239,707	6,885,405
Current tax payable	1,171,254	1,940,830	2,348,901	141,531	2,730,605	2,355,463	2,981,363
Bank overdraft	-	-	-	-	-	-	1,248,892
Current liabilities	12,332,491	14,380,878	16,342,064	14,280,458	18,821,555	28,138,323	19,327,761
Total liabilities	26,973,754	31,190,893	35,677,125	38,708,688	40,243,832	47,290,099	36,888,023
Total equity and liabilities	**33,563,722**	**40,728,524**	**49,226,575**	**54,072,089**	**61,701,328**	**74,648,928**	**70,660,798**

Management

While management of 11 Plc has very little to work with, as most factors are outside their control, they have consistently grown the business through strategic alliances with the previous parent (ExxonMobil), as well as partnerships with other stakeholders such as Air BP, the specialized aviation division of BP, and UAC, a conglomerate with interest in hospitality, manufacturing and logistics among others. These and other collaborations have given 11 Plc the competitive edge and appeal to help the firm consolidate its market position.

11 Plc's management has also operated a very lean debt profile to help sustain value accretion to the shareholders. This was achieved through a combination of effective inventory, receivables and payables management. The firm has also maintained a positive net finance cost position over the last three years. H1'19 bucked this trend. This will be a key item to watch going forward.

The management of 11 Plc is under the stewardship of Mr. Adetunji Oyebanji. Mr. Oyebanji joined MON in 1980 and rose through the ranks having succeeded on numerous local and foreign projects on the job.

He first joined its Board of Directors in 2002 and was subsequently appointed Chairman and Managing Director of MON in 2008.

Even after the acquisition of MON by Nipco Group, Mr. Oyebanji maintained his position as Managing Director after the change in control in 2017, overseeing the entire operations of 11 Plc. This demonstrates the trust and confidence the shareholders have in Mr. Oyebanji.

Ramesh Kansagra has been the Chairman of the Board of Directors since the change in control. He also presides over Solai Holdings Limited with a net asset value in excess of £160 million across various sectors, oil inclusive. His industry experience spans over 30 years in Africa and United Kingdom. His influence will be pivotal to the low cost funding of 11 Plc's expansion endeavors.

Managing Director

Mr. Adetunji Oyebanji

Chairman

Mr. Ramesh Kansagra

Bulls and Bears say

Bulls say:

* Leading indigenous player in downstream marketing
* Strong brand presence within Nigeria
* Opportunity to leverage the ExxonMobil brand and expertise
* Diversified business segment – oil and real estate sectors
* Strategic alliances and partnerships to improve revenue generation capacity

Bears Say:

* Internal inefficiencies weighing on bottom line
* Restricted margins in the downstream segment due to regulation
* Revenue dependence on a highly regulated and subsidized market - fuel accounts for 80.66% of top line
* Intense competition from other reputable downstream brands such as Total, Forte Oil and Oando

Risks and Outlook

The most potent risks that could hinder 11Plc from achieving its business priorities and delivering shareholders' value include market risk such as liquidity, credit and foreign exchange risk.

To tackle working capital challenges, 11 Plc maintains a standby overdraft facility to meet its daily obligations in the absence of cash. However, given the company's low interest expense and no long-term borrowings since 2013, the company has limited or minimal exposure to interest rate risks.

11 Plc also has a robust credit policy with its business partners. The Nigerian National Petroleum Corporation, being the sole importer of gasoline, limited the bargaining power of 11 Plc and thus, the credit period it enjoyed. However, the intensity of competition and the apprehension to increase turnover has seen 11 Plc's receivable period raise over time. This exerted more pressure on the company's cash position and the need to utilize more overdraft facilities, evident from the adverse change of its net finance cost position in H1'19. Its finance income declined by 82.5% to N51.75 million, while finance expenses rose by 7,520.68% to N249.88 million. This is a key line expense which the management needs to monitor and control accordingly.

The relative stability in the foreign exchange market has been positive for 11 Plc, as the firm enjoyed foreign exchange gains from movement in cash and cash equivalents in 2018. However, the upward review in the import duties exchange rate from N306/$ to N326/$ will further exert pressure on 11 Plc's over bloated input costs.

Lastly, the company has also leveraged on strategic alliances to deliver superior service and ensure customer satisfaction. This has given 11 Plc the competitive edge in an industry approaching maturity.

Our valuation

Using the Discounted Cash Flow (DCF) methodology, we estimate a stock price of N181.86, which is a 15.1% upside on the current price of N158 as of July 25, 2019. The discount rate (Weighted Average Cost of Capital (WACC)) was derived using a 14.3% risk free rate (FGN 5-year Bond as at June 2019), a Beta of 0.1981, an after-tax cost of debt of 10.9%, and a market risk premium of 7.64%. The long-term cash flow growth rate to perpetuity calculated is 3.8%.

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

DCF Valuation	2018		
N'000	**2019E**	**2020E**	**2021E**
EBIT	9,936,574	8,532,480	8,916,442
Less: Taxes	(2,925,575)	(2,512,174)	(2,625,222)
EBIAT	7,011,000	6,020,306	6,291,220
Plus: D&A Expense	4,211,458	2,508,027	2,330,758
Less: CAPEX	(3,140,101)	(1,833,566)	(1,916,076)
Less: Change in working capital	1,891,513	1,025,981	1,418,213
Free Cash Flow (FCF)	9,973,869	7,720,748	8,124,115
WACC	15.6%	15.6%	15.6%
Present Value (PV) of FCF	8,625,063	5,773,732	5,253,780
	2019	**2020**	**2021**
Terminal value			71,233,942
Present value of terminal value	46,066,241		46,066,241
DCF Calculation	**Valuation**		
PV of explicit period	19,652,574		
PV of terminal value	46,066,241		
Enterprise Value	65,718,815		
+ Cash	1,109,185		
- Borrowings	(1,248,892)		
Equity Value	65,579,108		
Share price	181.86		