FDC Bi-Monthly Update

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In This Issue ...

Proposed hike in electricity tariff

The Nigerian Electricity Regulatory Commission (NERC) has proposed an upward review of the existing multi-year tariff order (MYTO) in the country. It is proposing that from 2020, power consumers in Nigeria will be charged an additional sum of N8-N14 for every kilowatt-hour of power. The long-term objective is to achieve a cost-reflective tariff.

Nigeria is not alone (African countries and their electricity price)

Country	Electricity price ($/kwh)	GDP growth (%)
Zambia	0.04	3.2
Ghana	0.06	6.7
Nigeria	0.07	2.01
Cameroon	0.08	4.2
Botswana	0.09	4.3

[1]

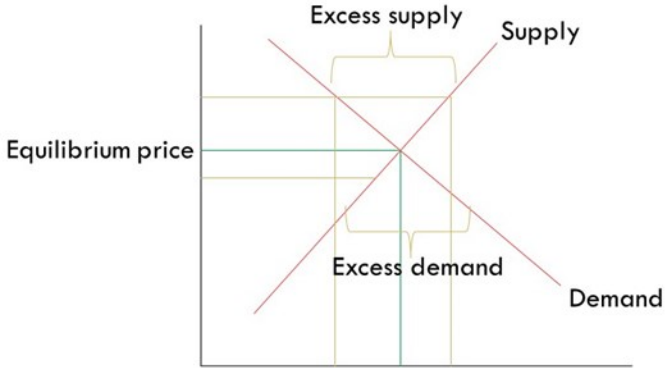
The impact of the proposed hike in electricity tariff on corporates, consumers and investors is mixed.

Advantages

Economic theory implies that the price of any commodity is at equilibrium when its supply equals demand. Any price above the equilibrium price results in a gap. This gap leads to distortions in the market as well as macroeconomic inefficiencies.

Currently, electricity tariffs in Nigeria are priced below the equilibrium price. This explains why the supply of electricity is not enough to meet the demand of the same. A move to a more cost-reflective tariff and an efficient pricing mechanism will encourage investment in the power sector. This in turn would create more jobs and improve the sector's growth rate.

[1] https://www.globalpetrolprices.com/electricity_prices/, Trading economics



Disadvantages

The proposed policy could easily become another challenge for the Nigerian consumer in the coming months and not just in terms of the increased price. The trickle-down effect of the hike could be inflationary. The rise in electricity tariffs without a corresponding increase in power supply would translate to a notable rise in the operating costs of corporates. The price burden is then passed to final consumers, leading to a rise in inflation.

Other issues to address in the power sector

The entire electricity value chain (generation, transmission and distribution) in Nigeria is saddled with challenges. The issues include:

* *Low capacity of the Transmission Company of Nigeria (TCN):* Power generated is not power transmitted. The newly signed deal between Nigeria and Siemens to generate 25,000Megawatts of electricity by 2025 will have minimal impact if the average Nigerian does not receive half of the power generated. Challenges such as inadequate funding, sub-optimal gas supply and poor infrastructure facilities have to be addressed to improve power transmission.

* *Debt overhang:* Total exposure of the sector to the banking system is in excess of N1.20 trillion. This represents 5.54% of aggregate industry loans and 9.78% of total deposits. An increase in tariffs would improve the cash flow of the Disco's as well as reduce their debt service burden. It will make the sector more viable and improve the cash flows of the operators by increasing their operating margins. If the government goes further by offering some debt forbearance, this will go a long way in fortifying the balance sheets of the banks and reduce their non-performing loans to total loans ratio. This ratio was put at 9.36% when the CBN governor addressed the media after the last MPC meeting in July. It is expected that any support and improvement at the fundamentals of the industry will attract additional investments and restore solvency to the industry.

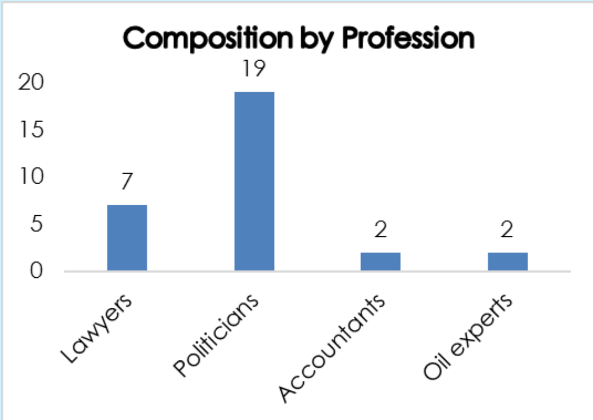
With cabinet portfolios assigned now, let the real work begin

"Expectations are low, but hopes high"

What has happened?

The cabinet has been sworn in and portfolios have been assigned. This is coming six months after the President was re-elected and nearly three months after he was sworn into office. Of the 43 ministers, 29 are new while 14 were returned.

The cabinet consists mostly of party loyalists, 7 lawyers, 2 accountants and 2 oil experts. Despite the advocacy for not too young to run, the youngest of the ministers is 44 years old. Whilst some ministries were fragmented (power, works & housing), some were merged (finance and budget & planning). Whilst new ministries such as police affairs and humanitarian affairs, disaster management and social development were added, the ministry of water resources was removed.



More women – gender centric?

The cabinet also has a larger percentage of women now than it had in the last cabinet (16% of the total 43 ministers are female). More portfolios were also assigned to women compared to Buhari's first tenure. For instance, Zainab Ahmed was reappointed as the minister of finance and now, she will have budget and planning ministry added to her portfolio. She will be seeking to boost revenue at the same time taming increasing public debt. The question is does she have the capability to manage the two ministries? Time will tell.

The power ministry has been separated from works and housing and would be run by Sale Mamman. The former minister of power, works and housing, Babatunde Fashola, is now expected to focus more on expanding the country's road infrastructure and work to reduce its huge housing deficit.

Below is a snapshot of Buhari's fiscal team.

Fiscal team	2015	2019
Budget & national planning	Udo Udoma	Zainab Ahmed
Finance	Kemi Adeosun	Zainab Ahmed
Labour & employment	Chris Ngige	Chris Ngige
Trade, investment & industry	Okechukwu Enelamah	Otunba Adeniyi Adebayo

Impact on the economy

The core objective of this administration is to achieve diversified and inclusive economic growth. The newly formed government faces the challenge of implementing development plans to reverse the macroeconomic hindrances such as the slow economic growth (2.01%) and unemployment (23.1%) as well as improve the country's trade capacity and infrastructure in order to benefit from the recently signed AfCFTA.

Impact on the market

Although the Nigerian stock market gained by 1.09% today, the gain cannot be attributed to the swearing-in of the ministers. The bourse has declined sharply by 12.97% ytd. Nevertheless, the swearing-in of the ministers would fast track the disbursement of the budget. We also expect synergy between the fiscal and monetary policy team in order to boost investors' confidence.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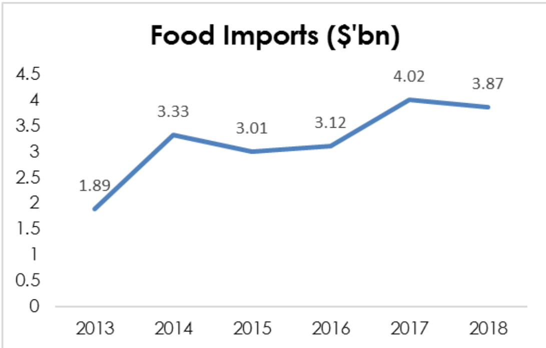
CBN goes into overdrive on protectionism

President Muhammadu Buhari has disclosed his intentions to direct the Central Bank of Nigeria to stop providing foreign exchange for food imports. The directive, which is in line with Buhari's trade protectionist stance, is aimed at stimulating agricultural output and reducing the country's dependence on oil exports.

Impact on the economy and policymakers

Since 2015, the CBN has been enforcing policies that deny access to foreign currency for several imported products. Currently, there are 43 items, including some foodstuffs such as rice, tomato paste, vegetable oil and recently, milk.



[2]

Food items are a major import item into Nigeria. In the last 6 years, Nigeria spent approximately $19.24bn on food importation. In Q1'19, food imports was estimated at $1.1bn, 10.7% of total imports. Imported food inflation in Q2 was 15.72%, 2.04% higher than domestic food inflation. Hence, the prohibition of forex access for all food imports could push up commodity prices, stoke inflation and could make the CBN's single-digit inflation target unattainable. This will also increase the cost of imported food. Importers of food products would have to source for forex from other windows such as the parallel market. The resultant increase in demand at the parallel market will result in a weaker exchange rate from the current N360/$ level.

It will also heighten the pressure on the exchange rate at the parallel market. Currently, the exchange rate at the Investors & Exporters Foreign Exchange (IEFX) window (N363.68/$) is more expensive than the parallel window (N360/$). This has widened the spread between IE rate and parallel market rate to 1.02%. By implication, we could see a shift to the parallel market, thus, increasing demand pressures. This would be further exacerbated by the forex restriction on food imports. Hence, naira could depreciate to about N370/$ before the end of 2019.

[2]NBS, FDC Think Tank

Impact on the consumer

Food inflation declined to 13.39% in July (7th highest in Africa) and it is expected to sustain this trajectory in Q3. However, the denial of forex for food imports would push up food inflation to about 14.5% and reduce consumers' purchasing power. A resulting effect of this is an increase in poverty, 93,823,485 Nigerians (47.7% of the total population) live in extreme poverty, with an aggregate consumption of $410bn and consumption per head of $2,039. To put this in context, if food prices spike further due to the possible full foreign-exchange ban on all food imports (raw materials and finished products), the poverty level and economic hardship will rise steeply. Furthermore, given that poverty is the bedrock of the unrest Nigeria faces on numerous fronts, we would see an increase in corruption and kidnapping.

Country	Food Inflation (%)
Nigeria	13.39
Kenya	8.47
Ghana	6.60
South Africa	3.40
Ivory coast	2.50

[3]

Impact on smuggling

The agric sector has been growing at an average of 3.53% in the last 5 years. It remains one of the most resilient since the recession in 2016. However, the sector is held back by more than just cheap imports. The sector's performance is still limited by poor quality seedlings, inadequate fertilizers, pesticides and herbicides, outdated machinery and farming techniques, high post-harvest losses and instability in the Middle Belt. The widening supply gap has led to increased smuggling of food items to and from neighbouring countries. For instance, the reduction in rice imports has been compensated by a corresponding increase in its smuggling from porous borders. Data from the IMF shows that as Nigeria's rice imports have been declining, rice imports into Benin Republic have been on the increase.

So, if the total foreign-exchange ban on imported food products is actualized, higher food prices or outright shortages would quickly turn Nigeria to a smugglers paradise.

[3]https://tradingeconomics.com/country-list/food-inflation

Nigeria's Automotive Industry, an Engine for Economic Growth

Over the last few years the purchase of imported used cars, often called "tokunbo", has grown due to insufficient domestic vehicle production and affordability. According to the US Department of Commerce, Nigeria spent an estimated $526 million in 2018 on used vehicle imports.[4] With a ratio of new to used cars at 1:134, tokunbo cars make up about 70% of the cars in Nigeria and are mostly imported from neighboring countries as well as the US, UK, Germany and Brazil.[5]

The auto importation policy of 2014 took a multi-prong approach to address the grossly lopsided balance of trade. In the first phase it introduced a 70% tariff (35% duty plus 35% levy) for consumer vehicles and the 35% duty (no levy) for commercial vehicles. It also stated that completely knocked down parts and semi-knocked down parts for assembling would be charged 0% and 5%-10% duty respectively. Finally, it stated that the levy on consumer vehicles would decrease as the industry grows and becomes more competitive. The policy aims were to: promote local production, attract foreign direct investment, curtail the overdependence on vehicle importation, and boost the industry's contribution to the national economy.

[4]International Trade Administration. 2018. "US Used passenger vehicle exports to the world." Department of Commerce, USA. https://www.trade.gov/td/otm/assets/auto/Used_Passenger_Exports.pdf
[5]PwC. 2015. "Africa's Next Automotive Hub." https://www.pwc.com/ng/en/assets/pdf/africas-next-automotive-hub.pdf

Yet, the desired increase in investment and local production has not manifested, nor has the importation of used vehicles been discouraged. The policy worked for a while. The high tariffs discouraged importations initially with the number of imported used cars falling by 48.02% to 40,136, valued at $272.69 million in 2015.[6] However, without an equivalent boost in production, imports began to rise again in 2017.

By 2018, Nigeria's imported used vehicles, from the US, were valued at $526 million (82,180 units of vehicles). This was a 68% year-on-year rise from the 2017 numbers of $284 million (48,899 units).[7] If the industry operated at full capacity, it could serve as an avenue for increased government revenue, industrial and technological advancements, and job creation. Left to function as it is now, the industry will remain a drain on the balance of trade and burden for the average Nigerian.

Increased Government Revenue and Economic Growth

The Nigerian auto industry could contribute significantly to government revenue as well as GDP growth. For instance, in the economy of developed countries, growth in the automotive industry by 1% causes a GDP growth of 1.5% and it also accounts for about 5% to 10% of their GDP. The auto industry accounts for 14% of the German GDP, 12% in Japan, 10% in South Korea, and 6.8% in South Africa.[8]

Furthermore, the industry contributes significant tax revenues from vehicle sales taxes, income taxes paid by employees working in the sector, registrations and licensing fees, and corporate income taxes paid by automotive companies. For instance, according to the Japan Automobile Manufacturers Association, auto-related taxes in Japan totaled $7.72 billion in 2012, 10% of all tax revenues.[9] In the United States, the auto industry contributes $135 billion per year, including 13% of state tax revenues and 2% of federal tax revenues.[10]

[6]2018. US Used passenger vehicle exports to the world. https://www.trade.gov/td/otm/assets/auto/Used_Passenger_Exports.pdf
[7]2018. US Used passenger vehicle exports to the world. https://www.trade.gov/td/otm/assets/auto/Used_Passenger_Exports.pdf
[8]International Robotics & Automation Journal. 2018. "The role of the automobile industry in the economy of developed countries". https://pdfs.semanticscholar.org/b5ce/5126b28f41c7660d925183c327641283aaab.pdf
[9]The motor industry of Japan. 2018. "Japan Automobile Manufacturers Association". http://www.jama-english.jp/publications/MIJ2018.pdf
[10]Assessment of Tax Revenue Generated by the Automotive Sector. https://autoalliance.org/wp-content/uploads/2017/03/Assessment-of-Tax-Revenue-Generated-by-the-Automotive-Sector-for-the-Year-2013.pdf

Industrial and Technological Advancements

The indirect impact of the development of the automotive industry on GDP is strengthened through related industries like agriculture (rubber for tire production), mining (metals and steel), and electricity to name a few. When an automobile plant is erected in a country, relevant industrial clusters are formed such as steel plants, rubber manufacturers, glass manufacturers, car dealerships and transportation service providers.

The cluster and expansion of these industries lead to towns or cities with improved road infrastructure, railway developments, freight connectivity, and new housing developments. This trend is spreading to emerging economies. In New Delhi, for example, significant development has arisen in the suburbs of Noida and Gurgaon, bringing crucial industrial and infrastructural development to their respective states.[11]

In addition, the automotive industry pioneered the use of robots as an automation solution, which is being used extensively in several industries. So, if Nigeria can improve its automotive industry, it has the potential to also increase the use of technology in the country.

Job Creation

Most importantly, the automobile industry plays a crucial role in job creation. This is reflective of the global growth of the industry and rise in consumer demand, which implies that manufacturers are continually seeking skilled technical professionals. In the US, original equipment manufacturers, who make the original parts that are used by automakers, employ about 1.7 million people directly and create 1.5 million jobs indirectly. Suppliers and dealers support an additional 4.8 million jobs. Also, every $1 million increase in revenue leads to the creation of approximately ten jobs.[12] In Japan, the industry employs about 8% of the total workforce (5.4 million people).

How to Leverage The Lessons

It is a fact that the auto importation policy of 2014 is not working. Firstly, to put Nigeria in the limelight like other countries, the government needs to set out policies to encourage the manufacturing of automotive components such as tires, doors and glass, etc. That way it will attract more automobile sub-industries and investors. It will also have a spillover effect on value-added for the economy and create a number of high-skilled jobs.

[11]Springer link. 2016. “Contribution of the Automobile Industry to Technology and Value Creation”. https://link.springer.com/article/10.1365/s40112-014-0688-5
[12]Market realist. “Why the automotive industry generates employment”. https://marketrealist.com/2015/02/automotive-industry-generates-employment/

Secondly, the development of the automobile sector takes time and requires a supportive business environment. For instance, French carmaker Renault and Nigerian conglomerate Coscharis Group have formed a partnership to assemble and distribute Renault vehicles in Nigeria from October 2019. However, many domestic firms still continue to struggle in a weak business climate, coupled with skills shortages among the domestic workforce, as the quality of education and technical skills training is low. Improvements in these areas will boost investment and increase investors' confidence.

Opportunity is Here for Nigeria's Auto Industry

The auto industry in most economies acts as an engine of growth, especially as it serves as an important stimulus for other manufacturing activities. The potential for growth of the Nigerian automobile industry remains strong. Nigeria has a population of over 190 million people, with over 40 million who are in the growing middle class. However, Nigeria has the ratio of 19 passenger cars for every 1000 persons, which does not compare favorably to the average of 68 passenger cars for every 1000 persons in the Middle East and Africa.[13] This gap creates a unique opportunity for players in the industry.

In addition, Nigeria signed the African Continental Free Trade Agreement which creates a free trade area among 55 African countries. The free trade area is a customs union, which will allow for movement of physical goods such as cars without tariffs from 2022. This would be a great opportunity for Nigeria as many auto manufacturers could invest in Nigeria with the view to develop a regional manufacturing hub in which its production can be imported within the free trade area.

The automotive industry accounts for a significant part of the GDP of most developed countries, and the growth dynamics will create new jobs, contribute to the expansion of the taxable population, increase the revenues of the government, influence industrial and technological advancement and improve the standard of living of Nigerians. Therefore, a functional automotive industry is important, not only for economic growth but also for social impact and relevance in the global space.

[13]EIU. 2019. "Country forecast Nigeria May 2019"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Markets are braced for a global downturn

Global Perspective: Culled from the Economist

The signals from bonds, currencies and commodities are increasingly alarming

Looking for meaning in financial markets is like looking for patterns in a violent sea. The information that emerges is the product of buying and selling by people, with all their contradictions. Prices reflect a mix of emotion, biases and cold-eyed calculation. Yet taken together markets express something about both the mood of investors and the temper of the times. The most commonly ascribed signal is complacency. Dangers are often ignored until too late. However, the dominant mood in markets today, as it has been for much of the past decade, is not complacency but anxiety. And it is deepening by the day.

It is most evident in the astounding appetite for the safest of assets: government bonds. In Germany, where figures this week showed that the economy is shrinking, interest rates are negative all the way from overnight deposits to 30-year bonds. Investors who buy and hold bonds to maturity will make a guaranteed cash loss. In Switzerland, negative yields extend all the way to 50-year bonds. Even in indebted and crisis-prone Italy, a ten-year bond gets you only 1.5%. In America, meanwhile, the curve is inverted—interest rates on ten-year bonds are lower than on three-month bills—a peculiar situation that is a harbinger of recession. Angst is evident elsewhere, too. The safe-haven dollar is up against many other currencies. Gold is at a six-year high. Copper prices, a proxy for industrial health, are down sharply. Despite Iran's seizure of oil tankers in the Gulf, oil prices have sunk to $60 a barrel.

Plenty of people fear that these strange signals portend a global recession. The storm clouds are certainly gathering. This week China said that industrial production is growing at its most sluggish pace since 2002. America's decade-long expansion is the oldest on record so, whatever economists say, a downturn feels overdue. With interest rates already so low, the capacity to fight one is depleted. Investors fear that the world is turning into Japan, with a torpid economy that struggles to vanquish deflation, and is hence prone to going backwards.

Yet a recession is so far a fear, not a reality. The world economy is still growing, albeit at a less healthy pace than in 2018. Its resilience rests on consumers, not least in America. Jobs are plentiful; wages are picking up; credit is still easy; and cheaper oil means there is more money to spend. What is more, there has been little sign of the heady exuberance that normally precedes a slump. The boards of public companies and the shareholders they ostensibly serve have played it safe. Businesses in aggregate are net savers. Investors have favoured firms that generate cash without needing to splurge on fixed assets. You see this in the vastly contrasting fortunes of America's high-flying stock market, dominated by capital-light internet and services firms that throw off profits, and Europe's, groaning under banks and under carmakers with factories that eat up capital. And within Europe's stock markets a defensive stock, such as Nestlé, is trading at a towering premium to an industrial one such as Daimler.

If there has been no boom and the world economy has not yet turned to bust, why then are markets so anxious? The best answer is that firms and markets are struggling to get to grips with uncertainty. This, not tariffs, is the greatest harm from the trade war between America and China. The boundaries of the dispute have stretched from imports of some industrial metals to broader categories of finished goods. New fronts, including technology supply-chains and, this month, currencies, have opened up. As Japan and South Korea let their historical differences spill over into trade, it is unclear who or what might be drawn in next. Because big investments are hard to reverse, firms are disinclined to press ahead with them. A proxy measure from JPMorgan Chase suggests that global capital spending is now falling. Evidence that investment is being curtailed is reflected in surveys of plunging business sentiment, installing manufacturing output worldwide and in the stuttering performance of industry-led economies, not least Germany.

Central banks are anxious, too, and easing policy as a result. In July the Federal Reserve lowered interest rates for the first time in a decade as insurance against a downturn. It is likely to follow that with more cuts. Central banks in Brazil, India, New Zealand, Peru, the Philippines and Thailand have all reduced their benchmark interest rates since the Fed acted. The European Central Bank is likely to resume its bond-buying programme.

Despite these efforts, anxiety could turn to alarm, and sluggish growth descend into recession. Three warning signals are worth watching. First, the dollar, which is a barometer of risk appetite. The more investors reach for the safety of the greenback, the more they see danger ahead. Second come the trade negotiations between America and China. This week President Donald Trump unexpectedly delayed the tariffs announced on August 1st on some imports, raising hopes of a deal. That ought to be in his interests, as a strong economy is critical to his prospects of re-election next year. But he may nevertheless be misjudging the odds of a downturn. Mr Trump may also find that China decides to drag its feet, in the hope of scuppering his chances of a second term and of getting a better deal (or one likelier to stick) with his Democratic successor.

The third thing to watch is corporate-bond yields in America. Financing costs remain remarkably low. But the spread—or extra yield—that investors require to hold riskier corporate debt has begun to widen. If growing anxiety were to cause spreads to blow out, highly geared firms would find it costlier to roll over their debt. That could lead them to cut back on payrolls as well as investment in order to make their interest payments. The odds of a recession would then shorten.

When people look back, they will find plenty of inconsistencies in the configuration of today's asset prices. The extreme anxiety in bond markets may come to look like a form of recklessness: how could markets square the rise in populism with a fear of deflation, for instance? It is a strange thought that a sudden easing of today's anxiety might lead to violent price changes—a surge in bond yields; a sideways crash in which high-priced defensive stocks slump and beaten-up cyclicals rally. Eventually there might even be too much exuberance. But just now, who worries about that?

Is Nigeria immune to the next global slowdown?

A decade after the 2008 financial crisis, the question that has preoccupied the minds of a number of Nigerian investors is – how immune Nigeria is to the looming economic slowdown. Forecasting a global recession can be tricky especially with the IMF predicting a global growth of 3.6% in 2020. However, with the trade tensions between the two largest economies (US $ China), an economic slowdown is imminent.

The US/China trade war took a new dimension when the US threatened to impose a 10% tariff on approximately $300 billion worth of Chinese goods from September 1. In response to Trump's trade restrictions, the Chinese government devalued the Yuan to its lowest point in over a decade. This resulted in the US labeling China as a 'currency manipulator' and further deepening the rift between both countries. The devaluation of the Chinese yuan is a signal from China that currency devaluation is an option if the US/China trade war escalates. However, the currency appreciated to its highest level since March 2008. President Trump also suspended the imposition of new tariffs on specific goods such as laptops, phones, footwear's, clothing etc until December 15th.

Impact of the trade crisis on Nigeria

Nigeria is not immune to the looming economic slowdown. This is because the economy is largely dependent on US and China. 21.3% of Nigeria's imports are from China while approximately 8.4% is from the US. In addition, Nigeria's fiscal revenues, growth and development is dependent largely on the oil markets.

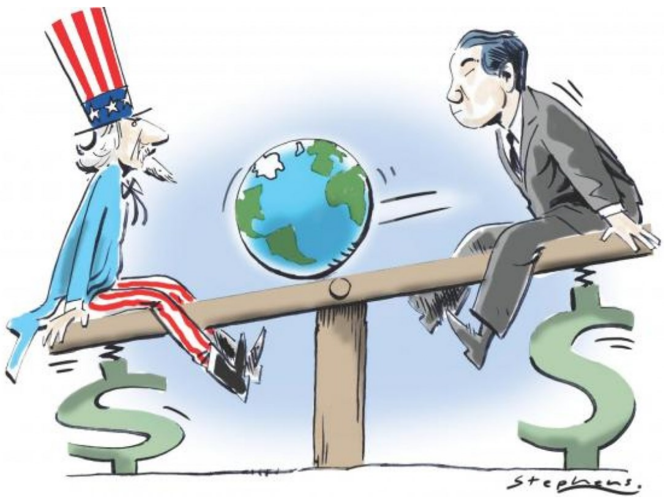
The volatility in the global oil market remains one of the major risks to Nigeria's growth trajectory. The collapse of crude oil prices in 2015/2016 caught many by surprise and led to the economic recession.

	Brent Oil Prices ($'pb)	GDP Growth Rate (%)
Q2'14	109.69	6.54
Q3'14	102.16 ↓	6.23 ↓
Q4'14	77.3 ↓	5.94 ↓
Q1'15	55.19 ↓	3.96 ↓
Q2'15	63.66 ↑	2.35 ↓
Q3'15	51.39 ↓	2.84 ↓
Q4'15	44.87 ↓	2.11 ↓
Q1'16	35.25 ↓	-0.67 ↓
Q2'16	46.89 ↑	-1.49 ↓
Q3'16	46.86 ↓	-2.34 ↓
Q4'16	51. 07 ↑	-1.73 ↑
Q1'17	54.68 ↑	-0.91 ↑
Q2'17	51.05 ↓	0.72 ↑
Q3'17	52.1 ↑	1.17 ↑
Q4'17	61.36 ↑	2.11 ↑

[14]

On the average, statistics shows that there is a positive correlation between oil prices and GDP growth rate. This implies that as oil prices falls, GDP declines. In the last week in July, oil prices gained on lower US crude inventories and the expectations of the US Fed interest rate cut.

On August 1, geo-political tensions were back at the forefront. The oil narrative was dominated by the looming trade war between China and US. Following US tariff hikes against Chinese goods, and retaliatory actions from Asia's economic giant, the oil market enjoyed another bullish run as oil prices crashed by 11.95% to a seven-month low of $56.23pb on August 7.



[14]NBS, FDC Think Tank

Thanks to the larger-than-expected drop in US crude inventories, oil prices are now above the CBN's benchmark of $60 a barrel.

The on-and-off global geo-political tensions can cause one to lose sight of market fundamentals, which have remained largely unchanged. Supply is still at record high, although, it has been curtailed by OPEC and its allies, while the growth in Asian and European demand has softened year-on-year.

A significant increase in supply or a sharp dip in global demand due to the trade tension could lead to a plunge in global Brent prices. This will reduce Nigeria's oil proceeds, which has been supporting economic growth and fiscal spending. Given that dollar liquidity is a function of oil proceeds, the reduction in forex flows will have implications for the exchange rate and could lead to currency depreciation, introduction of more forex restrictions and higher inflation.

Macroeconomic Indicators

August 1st – 20th

Power Sector

During the review period, the average power output stood at 3,588MWh/h, 1.35% lower than the average output in the first half of July (3,637MWh/h). Total revenue loss within the review period was N38.15billion (annualized at N696.24billion).[15]

Meanwhile, the FGN and Germany-based company, Siemens signed an agreement to generate 7,000MWh/hour by 2021 and 11,000MWh/hour by 2023. The main goal of the agreement between both countries is to generate affordable, reliable and sustainable power supply in Nigeria.

A breakdown of constraints to power generation is shown below:

Constraint (MWh/hour; total)	July 1st – 20th	August 1th – 20th
Gas	34,462.50	28,332.00
Grid	40,869.90	47,866.90
Water	870	-

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Outlook

There has been no water constraint to power output in the last two weeks owing partly to the rainy season. We expect water constraints to remain muted before the season comes to an end between September –October. Therefore, power output is projected to average between 3,500 – 3,800MWh/hour in the coming weeks.

Impact

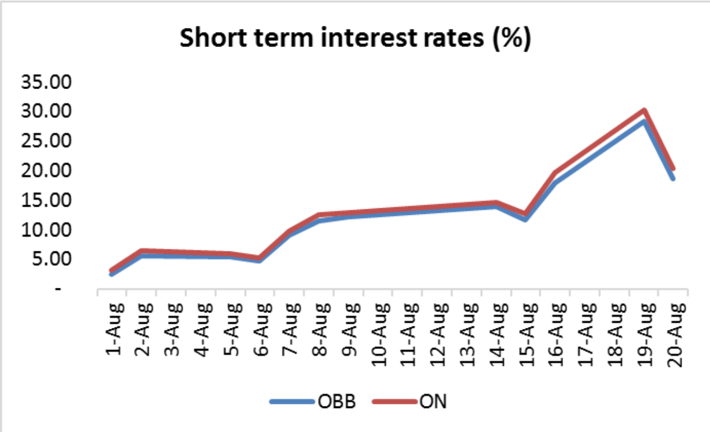
The expected increase in power supply will boost economic activities, especially of businesses whose operations depend primarily on electricity. It will as well reduce the dependence of individuals and firms on alternate sources of electricity, and thus reduce the cost of power for firms and individuals.

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

Money Market

Average liquidity within the banking system during the period was N154.54bn, 66.39% lower than the average of N459.85bn positive recorded in the corresponding period in July. Within the review period, the market witnessed three days of negative opening position. The decline in liquidity within the money market was despite the net inflow of N306.62billion recorded in the first half of August.

In response to the illiquidity, the NIBOR (OBB/ON) rates spiked to a 4-month high of 28.29% pa and 30.29%pa respectively on August 19, before retreating to 18.57%pa and 20.36%pa respectively on August 20th.



[17]

At the secondary market, all the yields increased by an average of 287bps while at the primary market, there was a mixed movement. The 91-day tenor declined by 5bps while the yields for the 91-day and 364-day tenors inched up by 78.5bps.

The Nigerian Inter-Bank Treasury True Yield (NITTY) rates increased during the review period. The 30, 90 and 180-day tenors jumped by an average of 473bps.

T/bills Tenor	Secondary market rates as of August 1st (%pa)	Secondary market rates as of August 20th (%pa)	Direction	Primary market rates as of July 31st (%pa)	Primary market rates as of August 18th (%pa)	Direction
91	9.82	14.32	⬆	9.75	9.70	⬇
182	10.53	14.37	⬆	10.60	11.35	⬆
364	10.67	10.95	⬆	11.18	12.00	⬆

[17] FMDQ, CBN

NITTY Tenor	Rates on August 1st (%pa)	Rate on August 20th (%pa)	Direction
30	9.66	14.87	
90	9.99	14.53	
180	11.16	15.60	

[18]

Outlook

We expect increased market liquidity in the coming weeks driven by 2019 budget disbursements and FAAC allocation. Interest rates are expected to decline in response to increased naira liquidity.

Impact

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

Forex Market

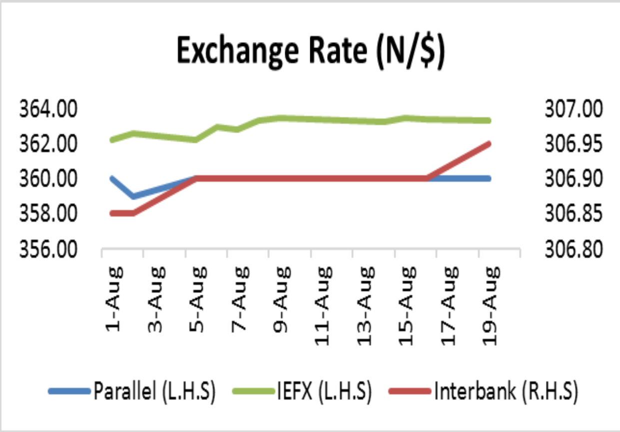
The Nigerian forex market is segmented with multiple exchange rates. The most important rate is the Investors and Exporters window (IEFX). No less than 55%-60% of Nigerian forex transactions are traded on this window. The CBN and most exporters and investors use this window. It serves not only as a source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

Exchange Rate

During the review period, the naira traded flat at N360/$ at the parallel market. This was despite a lower forex intervention. The apex bank intervened with a total of $490.04mn during the period, 3.67% lower than $508.71mn sold in the corresponding period in July. Whilst the currency strengthened against the pound to close the period at N443/£, it traded within the band of N396-398/€ against the euro.

At the interbank market, the naira depreciated by 0.03% to close at N306.95/$ as at August 20th. Likewise at the IEFX window, the currency depreciated by 0.46% to N363.68/$. Total forex traded increased to $4.49 billion compared to the total forex traded of $2.88 billion in the first twenty days of July.

[18]FMDQ



[19]

Outlook

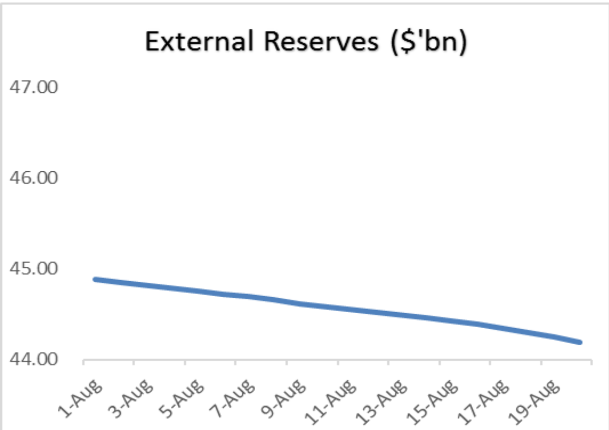
The restriction of forex access for food imports coupled with demand pressures from the payment of tuition fees would weaken the Naira at the parallel market. However, we expect the CBN to remain committed to supporting the naira through its regular forex market interventions. Therefore, we expect the naira to trade within a band of N361-N363/$.

Impact

A depreciation of the currency is negative for sectors such as manufacturing that depend mainly on imported inputs.

External Reserves

Nigeria's gross external reserves continued its downward trend in the first twenty days of August. External reserves depleted by 1.54% to close the period at $44.19bn compared to $44.88bn on August 1st. Subsequently, Nigeria's import cover has dropped to 11 months from 11.18 months at the end of July.



[20]

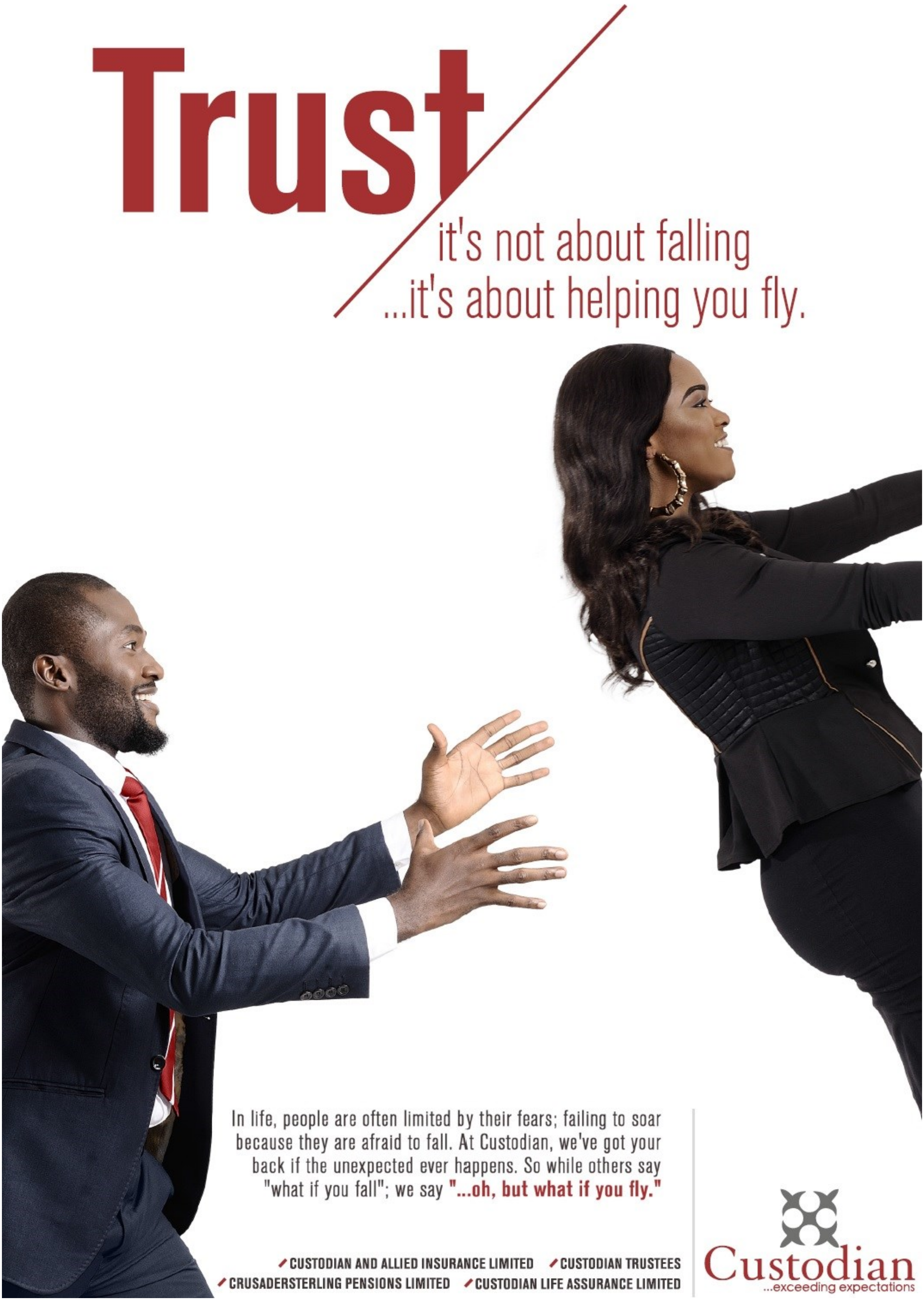
Outlook

If our projection of a decline in domestic oil production is correct, the depletion in external reserves is expected to continue. The increased demand pressure expected at the forex market would also push external reserves down as the CBN strives to defend the currency. Therefore, we expect Nigeria's external buffers to decline further to $42-43 billion.

Impact

Increased forex demand pressures from anxious investors and returning international students is expected in the coming weeks. The increased need for the apex bank to defend the currency could deplete reserves to $42-$43bn.

[19]FMDQ, CBN, FDC Think Tank
[20]CBN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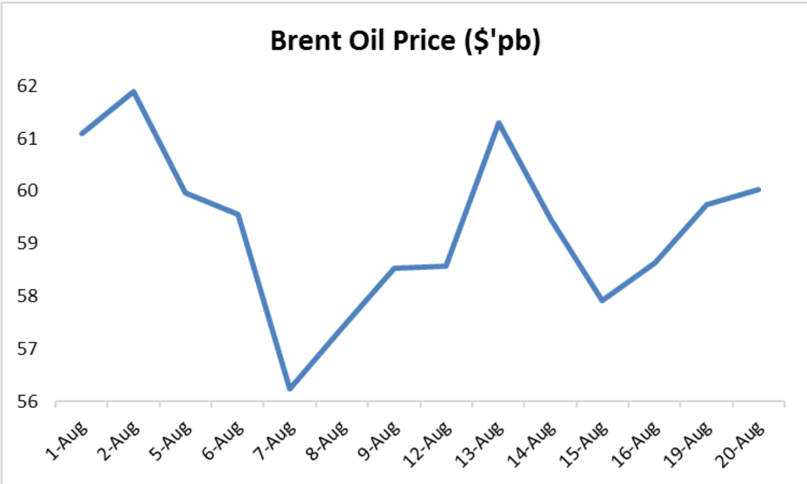
Commodities Market - Exports

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

Oil Prices

Within the review period, the average Brent price was $59.33pb, 7.89% lower than the average of $64.41pb in the corresponding period in July. This is due to the rising global economic uncertainty arising from the escalating trade war between the US and China. In addition, there are expectations of a slowdown in global demand for crude. The International Energy Agency (IEA) has also cut its 2019 oil demand growth to 1.1mbpd from an earlier forecast of 1.5mbpd.



[21]

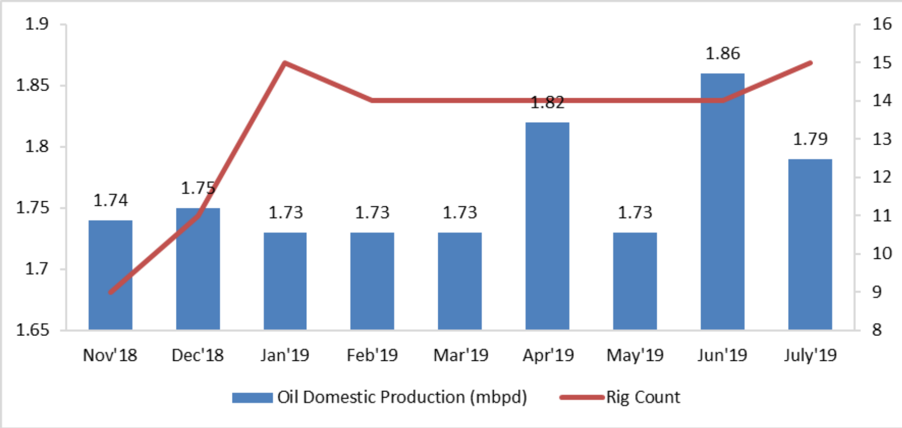
Outlook

OPEC's forecast of a bearish oil market coupled with rising US shale output could likely dampen the market sentiment. However, OPEC's output cut extension to March 2020 would likely moderate losses. Therefore, we expect oil prices to trade between a range of $57-59 in the coming weeks.

Oil Production

According to OPEC's latest monthly report, Nigeria's oil production fell by 1.21% to 1.79mbpd in July. This was despite an increase in the rig count to 15. Meanwhile, OPEC's crude oil production declined by 246,000b/d to an average of 29.61mbpd. This was supported by lower output in Saudi Arabia, Iran, Libya and Angola.

[21]Bloomberg



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Outlook

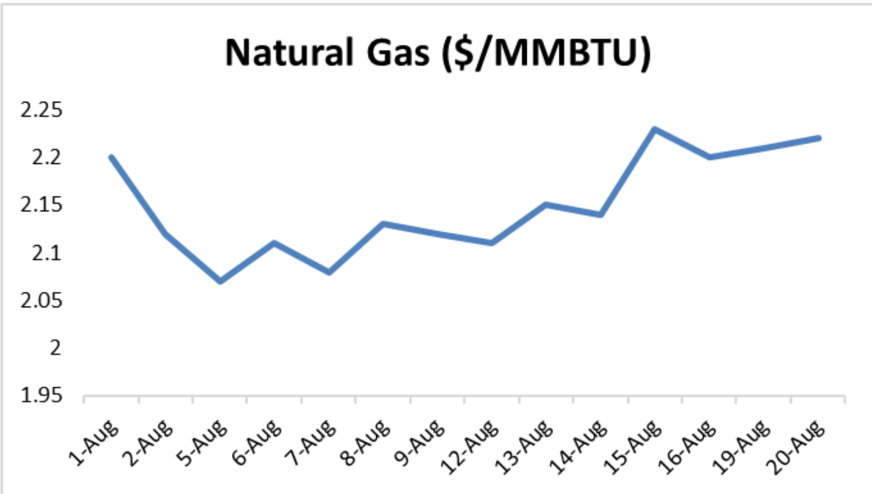
Nigeria's current oil output is 6% above the country's OPEC quota of 1.685mbpd. Although we expect the country's production to increase, there might be increased pressure to comply with output quota of 1.685mbpd.

Impact

Crude oil accounts for approximately 90% of Nigeria's export revenue. A decline in output would weigh negatively on fiscal and external buffers. This would have a negative trickledown effect on proxies such as FAAC disbursements, external reserves and exchange rate stability.

Natural Gas

Average price of natural gas during the review period was \$2.15/MMBtu, 8.90% lower than the average price of \$2.36/MMBtu in the corresponding period in July. This was as a result of ample global supply.



23

[22]OPEC and Baker Hughes
[23]Bloomberg

Outlook

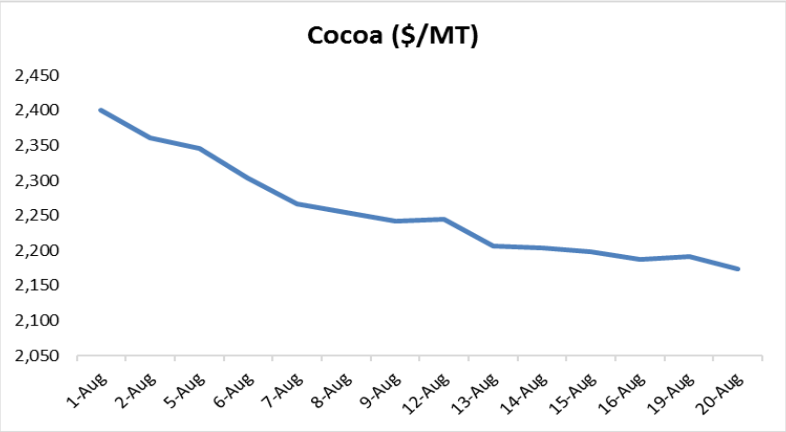
Expectations of a rise in global demand would likely push prices up in the coming weeks.

Impact

LNG is Nigeria's second major export, accounting for approximately 12%[24] of the country's export revenue. If sustained, the upward trend in global price of natural gas is expected to have a positive impact on Nigeria's external buffers in the near term.

Cocoa

Cocoa prices averaged $2,256/MT during the review period, 8.74% lower than $2,472/MT in the corresponding period in July due to the US' proposal to ban Ivory Coast cocoa imports.



[25]

Outlook

Expectations of a strong supply from Ivory Coast and Ghana are expected to further depress cocoa prices in the short-run.

Impact

Nigeria is the fourth largest producer of cocoa at 245,000 tonnes annually. A decrease in global price of cocoa is negative for Nigeria's export revenue.

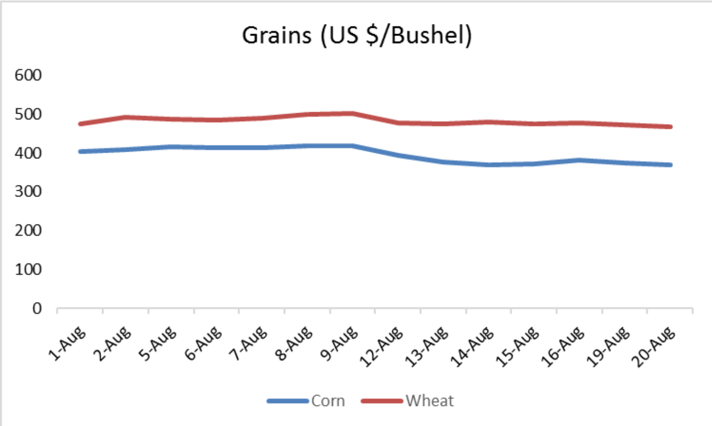
[24]EIU
[25]Bloomberg

Commodities Market - Imports

Grains (wheat & corn)

During the review period, the global prices of wheat and corn moved in the same direction. Average price of wheat stood at $481.95/bushel, 5.45% lower than the average price of $509.73/bushel recorded in the corresponding period in July. Expectation of a strong global harvest was the primary driver of wheat prices.

In the same vein, the average price of corn declined by 10.28% to $394.61/bushel compared to $439.82/bushel recorded in the corresponding period in July. The fall in price was partly attributed to improved weather conditions in the US.



[26]

Grains- Outlook

A bumper harvest in the US will likely depress prices further in the near term.

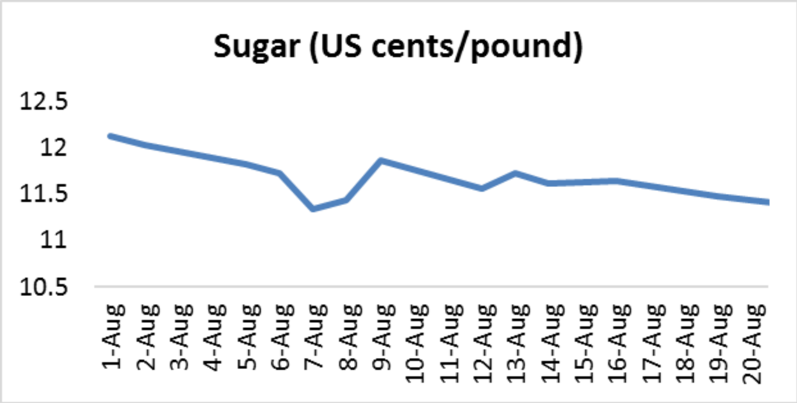
Impact

Several FMCGs in Nigeria depend on imported wheat as a vital input component. A further decline in the global price of wheat is expected to translate to lower production costs of these FMCGs, increased profitability and decreased prices of wheat dependent products.

[26] Bloomberg

Sugar

The average price of sugar within the review period was $11.65/pound. This was 4.59% lower than the average price of $12.21/pound recorded in the first fifteen days of July. This was despite the expectations of an output cut in India.



[27]

Outlook

We expect prices of sugar to reverse its trend due to expectations of a lower Indian output.

Impact

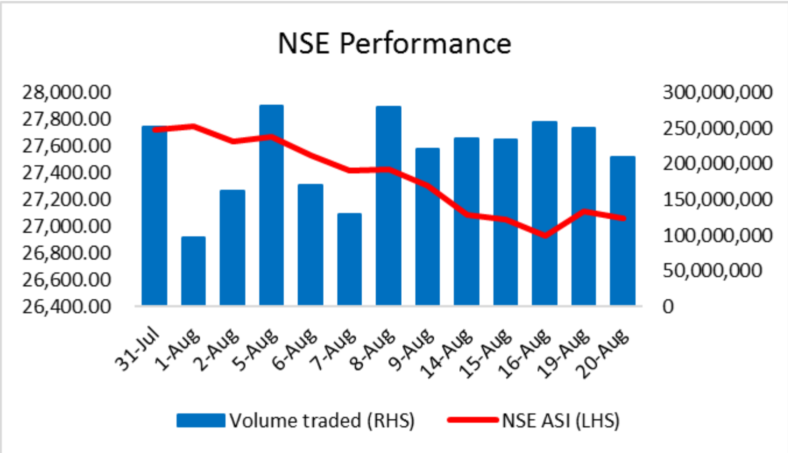
Nigeria is the 10th largest importer of sugar in the world. A rise in the global price of the commodity is expected to result in higher input costs of sugar-producing companies such as Dangote and Flourmill.

[27]Bloomberg

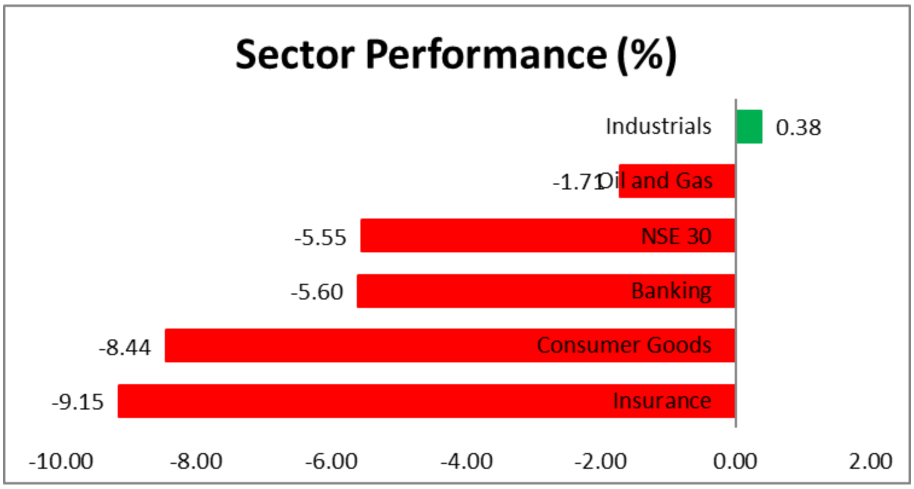
Stock Market Review

The NSE ASI lost 2.38% to close at 27,058.62 points on August 20th relative to its close of 27,718.26 points on July 31st, despite the release of some H1'19 earnings. In the same vein, market capitalization declined by 2.37% (N320bn) to N13.19trn. In the 12-trading day period, the market lost in eight days and gained in four.

The NSE traded at a price to earnings (P/E) ratio of 6.89x as of August 20th, 8.01% lower than the close of July 31st (7.49x). The market breadth was negative at 0.40x as 21 stocks gained, 53 lost while 94 stocks remained unchanged.



The market also saw a sharp drop in activity level. Average volume traded fell by 16.79% to 209.62mn units compared to the same period in July, while the average value of trades dropped by 21.55% to N3.24bn.



All indices except industrial sector (0.38%) lost within the review period, with insurance recording the worst performance (-9.15%).

Nigerian-German Chemical Plc topped the gainers' list with a 1,710.00% increase in its share price. This was followed by UAC of Nigeria Plc (364.60%), Berger Paints Nigeria Plc (31.58%), BOC Gases Plc (20.71%) and Cement Co Northern Nigeria Plc (17.89%).

TOP 5 GAINERS (N)				
Company	**Jul 31'19**	**Aug 20'19**	**Absolute Change**	**% Change**
Nigerian-German Chemical Plc	0.2	3.62	3.42	1710.00
UAC of Nigeria Plc	1.13	5.25	4.12	364.60
Berger Paints Nigeria Plc	5.7	7.50	1.8	31.58
BOC Gases Plc	5.07	6.12	1.05	20.71
Cement Co Northern Nigeria Plc	12.3	14.50	2.2	17.89

The laggards were led by Niger Insurance Plc (-94.48%), UAC Property Development Co Plc (-80.86%), Continental Reinsurance Plc (-26.70%), Rak Unity Petroleum Co Plc (-25.00%) and JAIZ Bank Plc (-24.44%).

TOP 5 LOSERS (N)				
Company	**Jul 31'19**	**Aug 20'19**	**Absolute Change**	**% Change**
Niger Insurance PLC	3.62	0.20	-3.42	-94.48
UAC Property Development Co Plc	5.80	1.11	-4.69	-80.86
Continental Reinsurance Plc	1.91	1.40	-0.51	-26.70
Rak Unity Petroleum Co Plc	0.4	0.30	-0.1	-25.00
JAIZ Bank Plc	0.45	0.34	-0.11	-24.44

Corporate Disclosures

Below is the snapshot of some companies that released their H1'19 earnings during the review period

Sectors	Company	Revenue N'bn	Profit/(loss) before tax N'bn	Profit/(loss) after tax N'bn	EPS (kobo)
Banking	Zenith Bank	331.59 2.91%	111.68 4.02%	88.88 8.74%	283
	Guaranty Trust Bank	146.45 -8.39%	115.79 5.62%	99.13 3.71%	20

Outlook

We expect to see some volatility on the bourse in the coming weeks as investors are likely to take advantage of low-priced stocks.

Equity Report: Lafarge Plc

Analyst note

Analyst Recommendation: HOLD

Market Capitalization: N221.48 billion

Recommendation Period: 12 months

Current Price: N13.75

Industry: Industrial

Target Price: N15.23

The Nigerian economy grew tremendously in 2018 due to election preparations. The construction and real estate sectors grew by 3.18% and 0.93% respectively. Despite this, there was a decline in Lafarge's revenue. The company posted a turnover of N160.30 billion in the first half of 2019, 1.23% lower than the corresponding quarter in 2018. The decline could be attributed to the price competitiveness of the market as Lafarge is a price follower in the cement industry.

Cement continued to dominate the company's revenue mix (80%), with aggregate, concrete and other admixtures accounting for the rest (20%). Its Nigerian operation accounts for 68% of the group's revenue, pointing to the importance of the Nigerian market to Lafarge.

Although Lafarge recorded low revenue, using intrinsic valuation and taking into consideration its divestment from its South African subsidiary, we place a HOLD rating on Lafarge Africa Plc.

Low operating costs improve operating profit

Despite the low performance of the company's top line, the operating profit grew by 37.03%. The increase in the operating profit was buoyed by a decline of 3.06% in the cost of sales. It was also boosted by a decline in the selling and marketing expenses, as well as the administrative expenses, which declined by 11.19% and 20.14% respectively.

Lafarge recorded profit after tax in spite of high finance cost

Despite the slight increase in the company's finance cost, the company recorded a profit after tax after five years of loss. The company's profit after tax stood at N9.01 billion in H1'19, 331.03% higher than the loss of N3.90 billion recorded in the corresponding period of 2018. The company's divestment of its South African operation coupled with N89.21 billion rights issue will help reduce the existing loans and place the company at an advantage in negotiating better terms on loans. However, the spiraling cost remains a key concern and management needs to tighten its administrative expenses, as well as its interest expenses.

Industry and company overview

Government involvement in the cement industry remains a net positive

Cement manufacturing accounted for 2.81% of GDP in Q1'19, a marginal improvement over Q4'18 (0.98%). The top three players, Dangote Cement, Lafarge Africa and Cement Company of Northern Nigeria (CCNN) account for over 90% of the industry's capacity.

The government's focus on local content has rubbed off positively on the cement industry. As a result, Nigeria moved from a major importer of cement to a net-exporter, thereby improving its current account balance and foreign exchange position. The increased investment has also seen productivity and resource utilization improve over time.

The wide infrastructure gap remains a double edge sword. Cement producers looking to fill the demand-supply gap have had to invest extensively in equipment, transportation, and power, to facilitate the production process. This has put considerable pressure on margins, extending the breakeven period of most cement manufacturers. To a lesser extent, competition from unbranded imports has also threatened margins, limiting the potential of price increases. However, cement prices increased from a low of N1,400 a bag to as high as N2,500 a bag in 2017, owing to the gas constraints, a major input in the production of cement. Cement prices have remained sticky downwards so far in 2019, despite the improvement in constraints, hovering around N2,550 a bag.

The cement industry remains a highly capital intensive investment, but the business opportunity from the federal government's attempts to narrow the infrastructure gap has been a key motivator for the continuous capacity expansion of dominant players such as Dangote and Lafarge.[28] The government's proposed capital expenditure in 2019 increased by 1.02% to N8.92 trillion in the 2019 budget.[29]

[28]African Development Bank. 2018. "African Economic Outlook". https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/African_Economic_Outlook_2018_-_EN.pdf

[29]Budget Office of the Federation. 2018. "2018 Budget Proposal". Ministry of Budget and National Planning. https://www.budgetoffice.gov.ng/

Lafarge's acquisition strategy, a major asset

Lafarge (formerly Lafarge Cement WAPCO Nigeria Plc) is a subsidiary of LafargeHolcim, the largest cement company in the world. The company has leveraged extensively on the expertise and resources of its parent company to penetrate the Nigerian market. It has grown to be one of the leading cement companies in Nigeria with a diverse product mix to cater for the needs of customers across different construction and building activities.

The company's operating segment comprises of cement, aggregates and other construction materials like ready-mix concrete and asphalt among others. Lafarge's aggressive acquisition strategy has facilitated its impressive growth. The most notable acquisitions are Ashaka Cement and United Cement Company of Nigeria ltd (UNICEM). These acquisitions have helped improve its competitiveness in the industry dominated by Dangote Cement.

Income statement for Lafarge Africa Plc					
N'000	**2014**	**2015**	**2016**	**2017**	**2018**
Revenue	260,810,463	267,234,239	219,714,112	299,153,305	308,425,456
Cost of sales	(177,782,717)	(184,703,341)	(179,052,422)	(248,393,638)	(238,742,586)
Gross Profit	**83,027,746**	**82,530,898**	**40,661,690**	**50,759,667**	**69,682,870**
Selling and distribution expenses	(3,915,635)	(4,482,752)	(3,355,737)	(3,685,666)	(7,732,817)
Administration expenses	(25,145,779)	(26,402,625)	(23,737,111)	(41,594,520)	(38,523,225)
Net other operating income	(2,618,057)	(11,159,543)	(1,128,928)	2,406,025	1,383,985
Operating Profit	**51,348,275**	**40,485,978**	**12,439,914**	**7,885,506**	**24,810,813**
Ne finance cost	(11,265,533)	(11,211,109)	(35,246,106)	(41,777,520)	(44,253,886)
Share of loss fom JV using equity method	-	-	(12,526)	(140,263)	(65,155)
Finance income					
Profit Before Minimum Tax	**40,082,742**	**29,274,869**	**(22,818,718)**	**(34,032,277)**	**(19,508,228)**
Minimum tax	-	-	(271,163)	(287,672)	-
Profit After Minimum Tax	**40,082,742**	**29,274,869**	**(23,089,881)**	**(34,319,949)**	**(19,508,228)**
Tax credit/(Tax expense)	(6,537,761)	(2,276,596)	39,988,662	(281,460)	10,706,502
Profit After Tax	**33,544,981**	**26,998,273**	**16,898,781**	**(34,601,409)**	**(8,801,726)**

Balance sheet for Lafarge Africa Plc					
N'000	**2014**	**2015**	**2016**	**2017**	**2018**
Property, plant and equipment	331,257,236	364,397,315	390,240,816	393,651,934	394,488,764
Intangible assets	2,196,926	1,548,927	1,563,499	2,634,326	6,194,518
Investment in subsidiary	-	-	-	-	-
Investment in JV/Associate	43,208	27,409	89,551	-	-
Other financial assets	7,606	5,526	423,921	1,582,622	1,301,148
Other assets	1,587,036	545,542	9,790,605	20,803,113	16,671,760
Deferred tax assets	234,623	447,942	7,641,003	7,951,595	28,720,032
Restrictedcash	2,097,687	2,188,089	-	-	-
Long term receivables	6,247,999	9,975,000	-	-	-
Non-Current Assets	**343,732,387**	**379,135,750**	**409,749,395**	**426,623,590**	**447,376,222**
Inventories	31,545,060	33,027,315	44,980,525	58,266,466	47,156,521
Trade and other receivables	19,830,192	23,474,461	9,765,950	25,110,116	21,163,994
Current tax assets	508,745	881,662	487,273	917,797	658,291
Other assets			12,458,086	15,162,092	10,594,409
Other financial assets			911,118	592,538	1,140,956
Derivative assets			3,580,378	640,091	95,573
Cash and bank balances	20,330,118	16,493,209	19,440,966	50,414,757	12,550,697
Current Assets	**72,214,115**	**73,876,647**	**91,624,302**	**151,103,857**	**93,360,441**
Total Assets	**415,946,502**	**453,012,397**	**501,373,697**	**577,727,447**	**540,736,663**
Ordinary share capital	2,202,088	2,277,451	2,740,367	2,787,888	4,336,715
Share premium	173,997,568	186,419,988	217,528,456	222,272,108	350,945,748
Retained earnings	87,206,392	100,992,758	102,842,886	160,257,556	138,272,355
Deposit for shares			-	130,416,872	-
Foreign currency translatio reserve	(1,341,036)	(10,156,642)	(8,660,486)	9,935,643	9,364,261
Other reserves arising on business combination and reorgainzation	(161,689,548)	(162,185,111)	(256,899,951)	(368,683,312)	(368,683,312)
Available for sale reserve					
Equity Attributable to Owners of the Company	**100,375,464**	**117,348,444**	**57,551,272**	**156,986,755**	**134,235,767**
Non-Controlling Interest	75,204,485	58,803,285	191,401,276	-	305,322
Total Equity	**175,579,949**	**176,151,729**	**248,952,548**	**156,986,755**	**134,541,089**
Loans and borrowings	116,001,594	142,942,656	68,221,773	68,715,378	172,373,209
Deferred tax liability	34,172,979	33,385,265	-	1,463,106	10,200,112
Provisions	3,124,736	3,160,336	2,200,640	3,472,388	3,645,751
Deferred revenue	2,368,466	2,133,748	1,554,673	1,518,467	2,597,602
Employee benefit obligation	8,978,941	1,496,257	3,780,162	4,916,931	4,729,183
Other long-term liabilities	-	4,354,991			
Non-Current Liabilites	**164,646,716**	**187,473,253**	**75,757,248**	**80,086,270**	**193,545,857**
Trade and other payables	67,463,165	76,846,591	114,457,059	113,000,180	80,537,816
Loans and borrowings	2,263,675	2,011,056	36,487,846	187,831,582	93,833,850
Current tax iabilities	1,553,878	1,268,688	1,311,906	3,251,525	1,156,231
Provisions	1,333,773	1,864,197	1,176,910	1,166,217	1,281,247
Derivative liability	-	-	-	4,212,406	244,176
Deferred revenue	234,718	234,718	234,718	110,732	315,452
Bank overdraft	2,870,628	3,334,239	22,995,462	31,081,780	35,280,945
Other liabilities					-
Dividends	-	3,828,017			-
Current Liabilites	**75,719,837**	**89,387,506**	**176,663,901**	**340,654,422**	**212,649,717**
Total Liabilites	**240,366,553**	**276,860,759**	**252,421,149**	**420,740,692**	**406,195,574**
Total Equity and Liabilites	**415,946,502**	**453,012,488**	**501,373,697**	**577,727,447**	**540,736,663**

Management

Owing to the acquisition of some of its competitors such as Ashaka and UNICEM, Lafarge's Board of Directors is comprised of seasoned professionals with diverse competencies and affiliations. The strategy of the team is to maintain a diverse spread of manufacturing plants across northern and southern Nigeria with a focus on proximity to raw materials. This helps the company to maintain its local appeal as well as reduce inbound logistics for the cement plants. The synergies of the merger with Ashaka and UNICEM are yet to materialize, as the management has struggled to keep cost down. However, the consolidation and fundraising expenses are considered one-off costs.

Lafarge's management team is currently led by Michel Puchercos, who started with Lafarge in 1982. He has a proven record of dramatically improving business results through change management practices and process standardization. His stewardship is particularly important now as the management works to consolidate stakeholders' interests and return the company back to its winning ways, following its intensive acquisition period.

Managing Director

Mr. Michel Puchercos

Chairman

Mr. Mobolaji Balogun

Mobolaji Balogun, Lafarge's Chairman, has been on the board of Lafarge since 2005. He is an astute executive with over 28 years of experience in investment banking and mobile telecommunications. Having served on numerous boards in various capacities, Mr. Balogun has leveraged his domestic network and parent company to ensure Lafarge remains a dominant player in the cement industry.

Going forward, the ability of the management to contain cost will tremendously affect the intrinsic value of Lafarge and rekindle investor interest in the stock.

What the bulls and bears say

Bulls say:

- Diversified products with strong brand equity
- Strong global brand (LafargeHolcim)
- Good market position
- Wide distribution network
- Product portfolio remains a pivotal input to narrowing the country's infrastructural gap
- Impending increases in Nigeria's infrastructural spend – roads and railway network
- High housing deficit
- Divestment of Lafarge South Africa Holdings
- Capacity expansion for economies of scale
- Positive but slow economic recovery in Nigeria

Bears say:

- Multiple mergers and acquisitions – increasing synchronization cost
- High operating cost environment squeezing profit margins
- Drop in volume sales across business units coupled with aggressive competition to gain market share
- Price taker due to the dominance of the industry leader in Nigeria

Risk and Outlook

The major risks that could prevent Lafarge Africa from achieving its goals of boosting earnings, increasing sales and managing costs is its exposure to credit, liquidity and market risk (currency and interest rate) arising from financial instruments.

Another cause for concern is the cost of synchronizing stakeholder interest. The new management will be saddled with the responsibility of aligning stakeholders with diverse cultures and backgrounds. As a result, there might be a delay in the fruition of a synergy in the short-term.

Appendix - Valuation

We derived our valuation for Lafarge Africa Plc by using the Discounted Cash Flow (DCF) methodology. Our fair value estimate per share for Lafarge stood at **N15.23**, which is a 10.76% upside on its current share price of N13.75 as at August 22, 2019. The discount rate [weighted average cost of capital (WACC)] of 18.1% is derived using a 14.55% risk free rate, a beta of 0.8792, and a market risk premium of 7.64%. The calculated long-term cash flow growth rate to perpetuity is 2.5%.

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