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In This Issue …

Nigeria Proposes a Conservative 2020 Budget

In unveiling its Medium Term Fiscal Framework (MTEF) and Fiscal Strategy Paper for 2020-2022, the Nigerian Finance, Budget and National Planning Ministry went for a more prudent, conservative and contractionary budget. Within the framework, the proposed budget size for 2020 is 2.78% lower than the total expenditure in 2019's budget (N10.07trn). When discounted for inflation, the contraction becomes more pronounced to 14.3%. The Keynesian school suggests that in times of a cyclical downturn the antidote is usually an expansionary, countercyclical budget. In other words, increasing the fiscal deficit will serve as a stimulus with an attendant multiplier effect on national income.

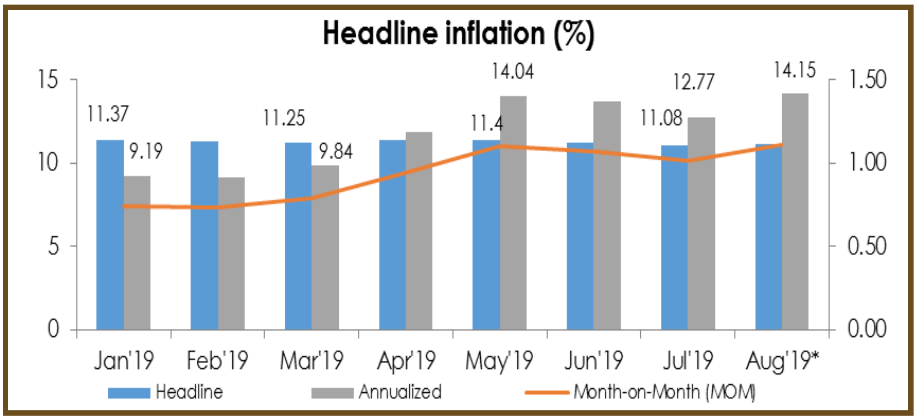
At the moment, it would appear that the Federal Government is emphasizing fiscal consolidation ahead of GDP growth therefore leaning towards a conservative budget. However, at a time when Nigeria's real GDP is slowing (1.94%), it would be difficult to justify this stance to many investors. It is likely therefore, that in view of the massive infrastructure gap the 2020 budget will be revised upwards.

Inflation Set to Inflect Upwards

A few skeptical analysts were of the view that the declining trend of inflation was too good to be true. The new projection from our inflation survey seems to confirm the saying that "if it is too good to be true, then it must be true". We are estimating a marginal increase in both headline and monthly inflation in August. The headline inflation is expected to inch up by 0.07% to 11.15% while the monthly inflation is projected to rise by 0.10% to 1.11% (14.15% annualized).

The trend of falling inflation is being bucked for a number of reasons including the partial closure of the land borders which led to temporary food shortages especially turkey, chicken and rice. The impact of this was a spike in the prices of these food items. The price of a 50kg bag of rice increased by almost 30% to N18,000 in August from N14,000 in July. It however curtailed smuggling of petrol and diesel, thus creating excess supply and driving down prices. The wholesale price of diesel fell by 3.15% to N215/liter.

Other inflation stoking factors that had hitherto been benign are now becoming potent. These include, adjustments in the exchange rate for computing custom duty to N326/$, forex restriction for dairy products and general food imports. Nigeria's annual food imports is estimated at $3.9bn.



[1]

Core Inflation to Continue Declining but Approaching an Inflection Point

The core sub-index (inflation less seasonalities) is likely to decline marginally by 0.05% to 8.75% in August. This will be buoyed by lower diesel prices as well as the stability in the exchange rate. The wholesale price of diesel fell by 3.15% to N215 per liter, thereby reducing logistics and distribution costs by approximately 3%. At the parallel market, the naira was stable at N360/$.

[1]NBS, FDC Think Tank

System Awash With Liquidity

Broad money supply grew by 1.36% to N28.27trn in July. In August, M2 growth was supported by an increase in the loan to deposit ratio (LDR), higher FAAC disbursement and net OMO inflows. FAAC allocation and net OMO bills amounted to N1.56trn (5.51% of broad money supply). In a bid to boost lending to the private sector, the CBN raised the LDR by 3% to 60% and reduced SDR to N2bn. This has compelled banks to increase lending, and do so at competitive rates.

Sub-Saharan Africa – Xenophobic Tit-for-Tat Likely to Heighten Inflationary Pressures

Inflation trend across the Sub-Saharan African (SSA) countries remained mixed. Three of the SSA countries under our review have released their August inflation numbers. Whilst Kenya and Uganda recorded a decline, Zambia posted an increase. The prevalence of drought in the country affected agric output and drove up food prices, thus pushing inflation to a 3-year high of 9.3%.

Inflationary pressures in South Africa, Africa's second largest economy, have been subdued in the last 3 months due to lower fuel costs. However, the recurrence of xenophobic attacks in South Africa, which led to significant disruptions in economic activities, could be a threat to this moderating inflation trend.

Country	August Inflation (%)		August Policy rate (%)	
Nigeria	11.15**	↑	13.5 (July)	↔
Angola	17.24*	↑	15.5 (July)	↔
Kenya	5	↓	9.0 (May)	↔
South Africa	4*	↓	6.5 (July)	↓
Ghana	9.4*	↑	16 (July)	↔
Uganda	2.1	↓	10	↔
Zambia	9.3	↑	10.25[2]	↔

Outlook

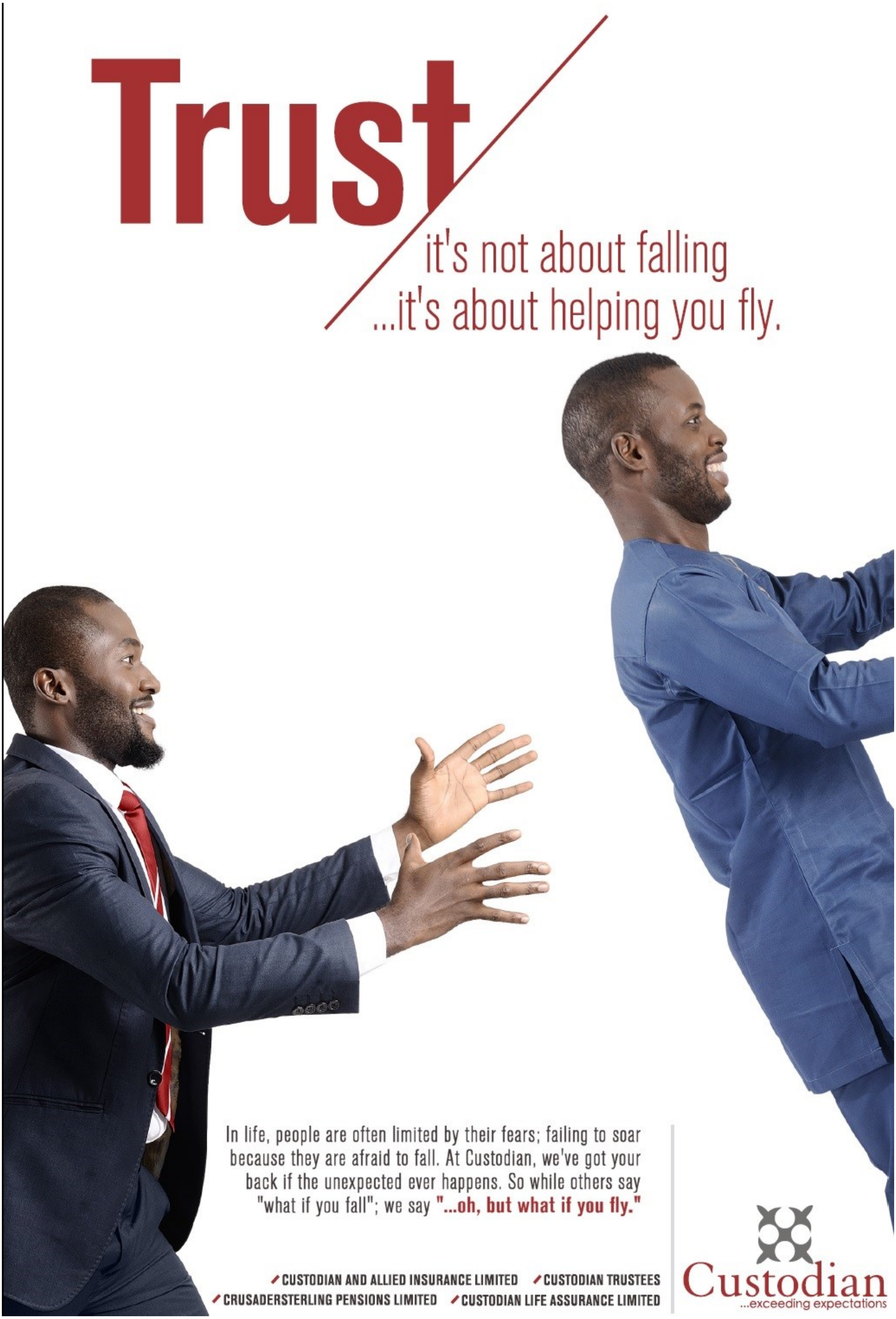
A possible reversal in the inflation trend will be a consideration at the next MPC meeting. This increases the probability of further tightening by an increase in interest rates. However, the committee will be mindful of a possible worsening of the cyclical downturn in the next quarter.

[2]Trading Economics, * July inflation numbers, **August forecast

Capital Inflows into Nigeria down 31.4% to $5.8bn in Q2'19

Capital imports into Nigeria declined by 31.4% to $5.8bn in Q2'19 from $8.49bn recorded in the previous quarter. Of the three components, Portfolio Investments accounted for the largest value of $4.29bn (73%) followed by Other Investments at $1.30bn (22.41% of total capital importation) and Foreign Direct Investment at $222.89mn (3.83%).

A further breakdown of the report showed that the largest source of capital investment into Nigeria was the United Kingdom ($3.13bn) followed by the United States ($1.15bn), the United Arab Emirates ($344mn) and South Africa ($314mn). Three of the top four countries are currently experiencing uncertainties. The United Kingdom's Brexit plan still remains unclear, while the trade war and incidents of xenophobia in the US and South Africa respectively could slow growth in both countries with ripple effects on the regional and global economy. These developments could limit the capital imports originating from these countries in subsequent quarters.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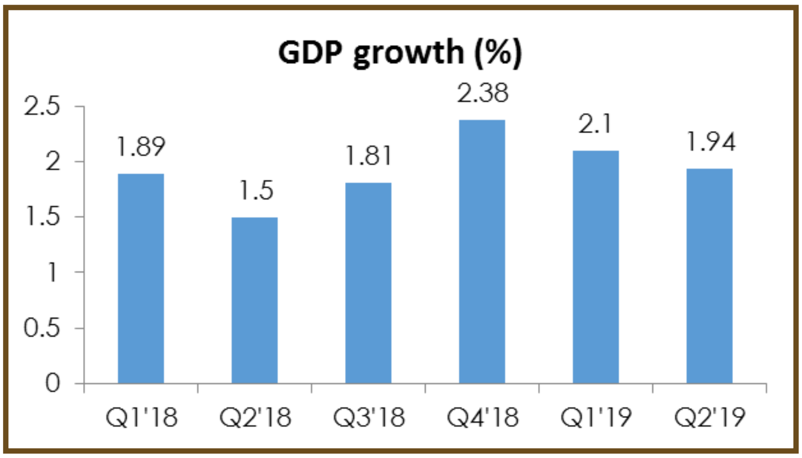
Q2 GDP Growth Slumps to 1.94%: A Call for a New Fiscal Stimulus

Nigeria's Q2 GDP growth came in lower by 0.16% to 1.94%. Though weaker than widely expected, the growth is the strongest Q2 GDP expansion since 2015. This year (Q1+Q2), the economy has achieved an average growth of 2.02%. This is 0.28% below the IMF forecast of 2.3%. To achieve this growth target, the economy needs to grow by at least 2.6% in H2'19. This calls for the use of proactive policies to boost aggregate investment and stimulate growth.

A breakdown of the GDP data shows that 6 activities expanded whilst 5 contracted and 8 decelerated (slowed). The contracting activities this quarter were mainly those that are labour intensive and interest rate sensitive. Seasonality played a major role in the GDP outcome. The planting season is usually a period of scarcity and high prices.



[3]

GDP reflects PMI trend

The purchasing managers' index (PMI), a measure of the performance of the manufacturing sector, declined to 49.9 points in June from 56.9 points in March. This sector is highly exchange rate sensitive and was hit by the adjustment in the exchange rate for computing custom duty to N326/$. For the first time in almost two years, the sector recorded a negative growth (-0.13%). Also noteworthy, is the relapse by the real estate sector (-3.84%) into contraction after a temporary recovery in Q1.

[3]NBS

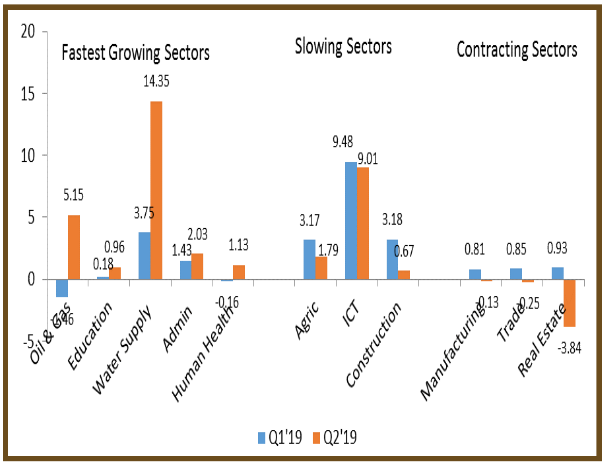
Petroleum Recorded Positive Growth Whilst Non-oil Either Slowed or Contracted

The oil sector expanded by 5.15% in Q2'19, after four quarters of negative growth. However, the non-oil sector growth slumped to 1.6% from 2.5% in Q1'19. This sluggish performance was due to slower growth in the agriculture, construction and ICT sectors alongside contraction in manufacturing and trading activities.

Sector Breakdown – 6 sectors expanded, 8 slowed while 5 contracted

A breakdown of the GDP shows that the fastest growing sectors were mainly in services – oil & gas (5.15%), human health (1.13%) and education (0.96%). These sectors contribute approximately 12% to GDP and employ less than 10% of the Nigerian labour force.

The decelerating sectors are also interest rate sensitive and employment elastic - agric (1.79%) and construction (0.67%). This tepid performance was largely due to seasonal factors. Q2 is usually the planting season of most agric commodities, thereby creating scarcity and pushing up prices. The rainy season also commenced in Q2 and slowed construction activities.



[4]

The sectors with negative growth include - manufacturing (-0.13%), trade (-0.25%), and real estate (-3.84%). These sectors employ more than 30% of the labour force.

Implications of the GDP Data on Policy Making

Fiscal Policy

The weak Q2 GDP growth indicates that the economy is in need of a fiscal stimulus. This should be the focus of the fiscal team as they formulate the 2020 budget and the medium term policy framework. The fiscal catalyst however needs to be supported by pro-cyclical monetary policy. Although, the 50bps cut in the monetary policy rate to 13.5%p.a. in May was expected to induce credit growth and boost output, the Q2 numbers suggests that this measure is inadequate or untimely.

[4]NBS

Sub-Saharan Africa – South Africa Vs Nigeria

Coincidentally, Africa's two largest economies who are embroiled in a xenophobic tit for tat released their GDP numbers within 24 hours of each other. South Africa expanded by 3.1% and Nigeria 1.94%. A rapprochement between this two will go a long way to boosting trade, investment and output.

	South Africa	Nigeria
Growth (%)	3.1 ⬆	1.94 ⬇
Population growth (%)	1.2	2.6
Income per capita ($)	6,509	2,154
Inflation (%)	4.0 ⬇	11.08 ⬇
Unemployment (%)	29 (Q2'19)	23.1 (Q3'18)
Economic Structure	Diversified	Commodity dependent [5]

Key Takeaways

The Q2 GDP growth corresponds with the Q2 PMI readings. The readings contracted (49.5 points) in July before recovering to 50.9 in August. If this growth momentum is sustained in September, it suggests that the level of economic activities will improve.

Also, the harvest season for most commodities is in the third quarter. This should have a positive impact on agric output. As the newly formed cabinet sets out to implement the 2019 budget, the construction and real estate sectors also stand to benefit from capital spends. Hence, we project a 0.16% increase in the Q3 GDP growth rate to 2.1%.

[5]Trading Economics, EIU, FDC Think Tank

South Africa and Nigeria- The tale of 2 countries

'Xenophobia – the fear/hatred of that which is perceived to be foreign or strange.'

The growing outcry of Nigerian youths concerning the ill treatment of Nigerian owned businesses in South Africa recently culminated in a reprisal attack from Nigeria. Peaceful protests became unruly and led to the damage of South African owned business properties.

Nigeria/South Africa trade & investment flows

The relationship between the giants of Africa – South Africa and Nigeria– has been in favour of Nigeria. There has been huge investment flows from South Africa into Nigeria across several sectors – MTN in the telecommunications sector, Shoprite in Fast Moving Consumer Goods (FMCGs), Stanbic IBTC and RMB in the banking sector amongst others. On the other hand, Nigerian owned businesses located in South Africa are largely small and medium scale enterprises and are in the informal sector.

In terms of trade relations, South Africa accounts for 4.5% of Nigeria's exports and 1.22% of its imports. Nigeria imports commodities such as plastics, machinery, edible fruits and exports commodities including mineral fuels, rubber and oil seeds from South Africa.

Impact of xenophobic attacks

The recurring incidence of xenophobia has not been without its negative impact. The aftermath of the attacks threatens macroeconomic stability in the coming months.

Economic disruption: The violent attacks against South African companies in Nigeria have resulted in the temporary closure of some of these organizations. Companies are also incurring increased costs to secure their assets and protect employees.

Diplomatic implications: In a bid to express its displeasure with xenophobic attacks on Nigerians living in South Africa, Nigeria has recalled its Ambassador to South Africa, Kabriu Bala. In addition, the nation has pulled out of the World Economic Summit, which held in Cape Town, South Africa. Zambia was also forced to boycott the friendly match scheduled with South Africa.

Outlook

The xenophobic attacks have triggered a conversation on poverty and income & opportunity inequality in South Africa and how foreigners have borne the brunt of aggrieved and impoverished South Africans. The South African government now recognizes that it may have more to lose in the event of continued reprisal attacks. We expect government officials — in both Nigeria and South Africa — to introduce strategic policies to stimulate inclusive growth that and boost youth employment.

FGN's Protectionist Stance Becomes More Restrictive

In the last four weeks, the FGN has intensified its protectionist policies in a bid to protect Nigeria's foreign reserves, improve the value of the naira and control smuggling. The policies introduced and their likely impact include:

1. ***Border Closure:*** The Seme border, a major border crossing between Nigeria and the Benin Republic has been closed since mid-August. Prior to this closure, the border was a hotbed for smuggling activities in Nigeria. Commodities including rice, petroleum etc. were 'transported' to neighboring countries such as Benin. The impact of the border closure on commodity prices has kicked in. There is already a shortage of rice, which has resulted in an increase in the price of a 50kg bag to N18, 000 from its previous price of N14, 000. On the upside, restricting access through the border has curtailed export smuggling of refined products. Due to this, the nationwide retail price of PMS declined to N144 per litre. Likewise, the price of diesel crashed to N210 per litre. While the step to restrict passage through the border is a good one, the question remains as to whether the timing is right. For this to count towards diversification and long-term growth, the government must carefully orchestrate policies that can enable the agricultural sector attain rapid improvements in productivity.

2. ***Revision of payment method for milk importation:*** The CBN has replaced the use of "Bill for Collection" as a payment method for milk importation with irrevocable confirmed Letters of Credit. This comes one month after the apex bank stated its intent to include milk to its forex restriction list at its last Monetary Policy Committee (MPC) meeting (on July 22/23). While a bill for collection is an instrument where the exporter is willing to dispatch goods based on an agreed period of credit to the importer, a letter of credit is a letter from a bank guaranteeing that a buyer's payment to a seller will be received on time. If the buyer defaults on payment, the bank will be required to cover the full amount of the purchase. A bill for collection can easily be manipulated, as the conditions attached to the payment method are not as strict as those attached to a Letter of Credit. A shift to irrevocable confirmed letters of credit would introduce stricter checks and balances, which would limit importers from overstating the volume of imported milk.

What does this mean for dairy producers?

Following an indication by the CBN to include milk on its forex restriction list, dairy producers in Nigeria are concerned about the short run impact of higher unemployment and lower profits on their business. However, the modification of the payment style would ease the concerns of the sub-industry. Milk importers can continue the importation of the commodity, albeit with increased monitoring and supervision.

Other Policy Developments – CBN revises Prudential Guidelines for Deposit Money Banks in Nigeria

The Central Bank of Nigeria (CBN) has released its exposure draft on new prudential guidelines to microfinance banks, deposit money banks, mortgage refinance companies, finance companies and development finance companies. The review was necessitated by the changing banking environment, which has seen increased competition from financial technology companies, increased loan impairments, weaker corporate governance practices, amongst other issues. The guidelines address various aspects of bank operations, such as loan-loss provisioning, corporate governance, risk management, anti-money laundering and counter terrorism financing. Some key guidelines are listed below:

In the new risk management guidelines, the CBN directed banks to prepare comprehensive credit policies, which would be approved by the Board of Directors. The policy is expected to cover loan administration, disbursement and appropriate monitoring mechanisms, which should be reviewed at least every other 3 years. The new guideline also stipulates that the tenure of external auditors in a given bank shall not exceed 10 years from date of appointment.

a. Banks' total exposure to any single entity fixed at a maximum of 20%

In terms of loan exposure, the total outstanding exposure by a bank to any single person or a group of related borrowers is fixed at a maximum of 20% of the bank's shareholders' fund unimpaired by losses, while aggregate large exposures in any bank should not exceed 8 times the Shareholders' fund unimpaired by losses. The guidelines also defined significant shareholding as a holding of at least 5% by individuality or in aggregate of a bank's equity, adding that a bank's total exposure on contingent liabilities should not be more than 150% of its shareholders' fund unimpaired by losses.

Moreover, banks are directed to obtain credit reports from at least two credit bureaus before granting any facility to their customers. Similarly, banks should provide evidence that a search has been conducted on the borrower in the CBN's Credit Risk Management System database. Addressing margin lending, the guidelines stipulated that all banks involved in margin lending must comply with the guidelines issued by the CBN as well as the Securities and Exchange Commission (SEC) on Margin lending for banks, brokerage firms, asset managers and other financial institutions.

b. Banks prohibited from paying dividends until all expenses are written off

Importantly, the guidelines prohibit banks from paying dividend on its shares until all its preliminary expenses, operating expenses, shares selling commission, brokerage and other capitalized expenses not represented by tangible assets have been completely written off and the bank has complied with all capital ratio requirement as specified by the monetary authority.

The apex Bank also set a maximum non-performing loan to total gross loans ratio for financial companies (FC) at 10%. The FCs are also required to invest a maximum of 20% of their shareholders' funds unimpaired by losses in fixed assets. The financial assets-to-total assets ratio is pegged at a maximum limit of 75%. The maximum total borrowing by the FCs is fixed at 10 times their shareholders' funds unimpaired by losses. The aggregate external borrowing of an FC is not expected to exceed 125% of its shareholders unimpaired losses.

The implementation of these among other provisions is expected to take effect from January 1, 2020. These provisions should help improve banks' asset quality and safeguard the financial system.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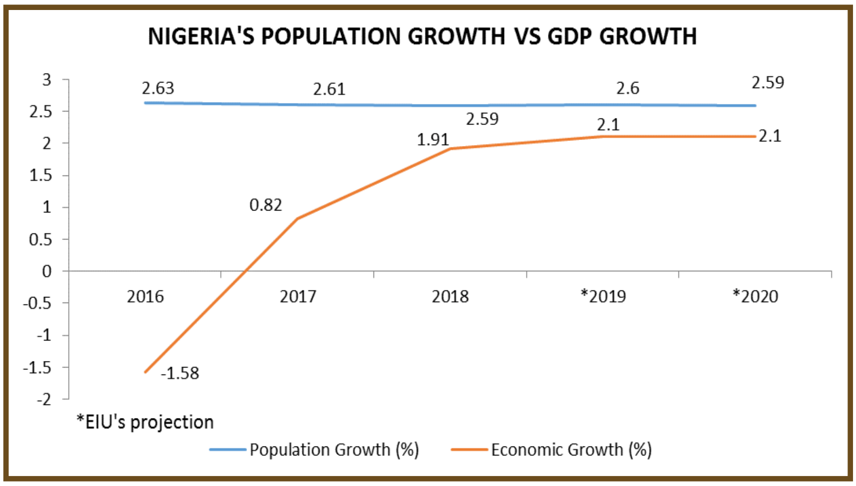
Matching Economic and Population Growth Rates in Nigeria

Population growth has consistently outpaced economic growth in the last three years, with 2018 numbers seeing an economic growth of 1.91% and a population growth rate of 2.59%.[6, 7] The next two years are expected to maintain this trend, setting the stage for negative economic implications, such as a further increase in unemployment, higher inflation and a reduction in the standard of living. The good news is that an increase in capital investments and lower interest rates can be a panacea, as seen in highly populous countries such as China, India, and the US. If implemented in Nigeria, these policies could boost economic growth and enable it to match or exceed the population growth rate.

Nigeria's population growth and economic growth trajectory

The Nigerian economy grew by an average of 0.38% over the last three years, compared to the average population growth rate of 2.61% in the same period.[8] By the Economist Intelligence Unit's projection, the economic growth of the country will remain below the population growth rate in 2019 and 2020 if macroeconomic policies remain broadly the same. [9]

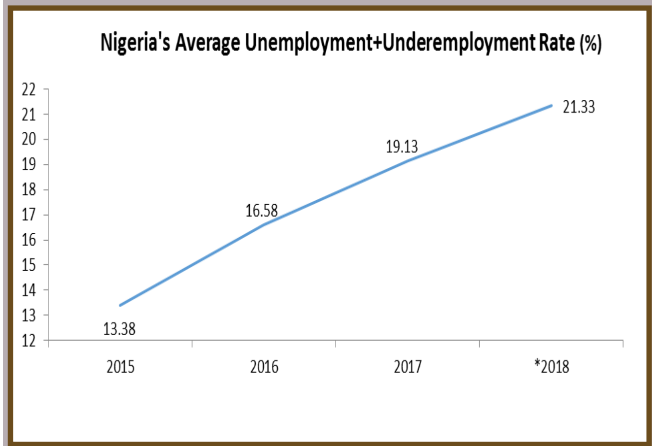


[10]

[6]National Bureau of Statistics. 2019. "Nigerian Gross Domestic Product Report (Q4 & Full Year 2018)". Federal Government of Nigeria, http://nigerianstat.gov.ng/elibrary?queries[search]=gdp
[7]The World Bank. 2019. "Nigeria". World Bank Group, https://data.worldbank.org/country/nigeria
[8]Ibid
[9]The Economist Intelligence Unit. 2019. "Country Forecast Nigeria". Pp. 1 & 12
[10]Ibid

Implications of the mismatch

If output growth remains below population growth, as the projections show, there will be negative economic implications. First, unemployment and underemployment rates in the country could increase further. The rates have been on the increase since 2016, which coincides with the years that the population growth rate has exceeded economic growth. A higher unemployment/underemployment profile also has its social effects. It could increase the crime rate and worsen the country's perception to foreign investors.



11

A second problem is the inflationary impact. A fast-growing population usually leads to an increase in the demand for goods and services. When the growth in output fails to meet this demand, there can be demand pull inflation. Although Nigeria's inflation rate has not increased in tandem since 2016, due to some inflation dousing factors such as an appreciation in the value of the naira and positive base year effects, the base year effects have waned and the naira has been stable so far this year.

Finally, there is also the risk of a lower standard of living. The real GDP per capita, which is a proxy for measuring the standard of living in a country, is calculated as real GDP divided by the country's population. The figure tends to fall if the numerator (real GDP) is growing less than its base (population). Therefore, in order to maintain or improve living standards, an economy's growth rate must exceed or be equal to its population growth. All of these suggest that urgent measures should be taken to boost the economic growth rate in Nigeria.

The way forward: a tale of the world's top three most populous countries

Nigeria is the 7th most populous country in the world.[12] The three most populous countries – China, India and the US – have economies that have grown faster than both Nigeria and their respective populations in the last three years.[13] It is rational that an economy with a high GDP does not grow fast because of the base effect, but these countries bucked the principle with GDP growth ranging from 3.2% to 6.4%. Nigeria can definitely do better.

[11] National Bureau of Statistics. 2019. "Unemployment and Underemployment Report". Federal Government of Nigeria, https://nigerianstat.gov.ng/elibrary?queries[search]=unemployment
[12] The World Bank, 2019. "Population, total". World Bank Group, https://data.worldbank.org/indicator/SP.POP.TOTL?view=chart
[13] Ibid

Countries	GDP (2018)	Population (2018)	GDP growth in Q1'19 (%)	Population growth (%)
China	$13.61 trillion	1.39 billion	6.4	0.43
India	$2.73 trillion	1.35 billion	5.8	1.02
USA	$20.49 trillion	327.17 million	3.2	0.6
Nigeria	$397.27 billion	195.87 million	2.01	2.59

[14]

Lessons for Nigeria

Theoretically, expansionary fiscal and monetary policies are recommended when an economy is attempting to stimulate growth. Expansionary monetary policies could be: lowering the cash reserve ratio of commercial banks, reducing the liquidity ratio, cutting interest rates, or implementing other measures that could boost money supply. On the other hand, an expansionary fiscal policy could be a tax cut or an increase in government aggregate expenditure, which could be on salaries, capital projects and so on. However, evidence from other highly populous countries suggests that an increase in capital investment and lower interest rates are the specific tactics Nigeria needs to stimulate growth at this time.

For example, China, the world's most populous country, has a total capital investment to GDP ratio of 42.57% and a benchmark interest rate of 4.35% per annum.[15] The economy is currently growing at 6.4% (sufficiently higher than its population growth rate of 0.43%).[16] Also, India, which has a capital investment to GDP ratio of 28.87% and an interest rate of 5.75% per annum, is recording an economic growth rate of 5.8%, above a population growth rate of 1.02%.[17] In the US, the capital investment to GDP ratio is 20.45% and the interest rate is set between 2.25% and 2.5% per annum.[18] The economy is growing at 3.2%, which is higher than its population growth of 0.6%.[19] In Nigeria's case, the capital investment to GDP ratio is just 14.72% and interest rates are currently at double digits (13.5% per annum).[20] The impact of this has been a lower GDP growth rate relative to population growth.

The level of capital investment in Nigeria is too low compared to its GDP. Interest rates are also high. Nigeria needs to follow the example set by the three largest countries by increasing capital investments and reducing interest rates. Nigeria risks higher unemployment and lower living standards if these measures are not implemented.

[14]Ibid
[15]The World Bank, 2019. "Gross fixed capital formation (% of GDP)". World Bank Group, https://data.worldbank.org/indicator/NE.GDI.FTOT.ZS
[16]Ibid
[17]The World Bank, 2019. "India". World Bank Group, https://data.worldbank.org/country/india
[18]The World Bank, 2019. "United States". World Bank Group, https://data.worldbank.org/country/united-states
[19]Ibid
[20]Ibid

Trump's Trade Shocks Risk Recession Central Banks Can't Prevent

Central bankers attending the Federal Reserve's annual Jackson Hole symposium encountered lengthy delays in checking into the mountain resort on Thursday before the conference's start. The reason: the hotel's computer system wasn't working. It was a telling metaphor for the position that the world's monetary policy makers find themselves in as they try to reboot the global economy amid increasing doubts over their ability to do so. Not only are they saddled with interest rates that are already super low, they're also confronting a mounting deglobalization shock of uncertain proportions triggered by President Donald Trump's trade policies. There is "a growing risk of a global liquidity trap" in which easier monetary policy fails to offset shocks to demand, Bank of England Governor Mark Carney told the Kansas City Fed-sponsored symposium on Friday. There's a lot at stake. The risk of a global recession has ratcheted higher as the U.S.-China trade confrontation escalated to a potentially irreversible level with Trump's announcement on Friday of a wave of higher tariffs on Chinese imports.

Global Perspective: culled from Bloomberg

The Fed, the European Central Bank and the Bank of Japan will all ease policy next month in response, along with a number of other central banks, according to JPMorgan Chase & Co. Chief Economist Bruce Kasman and his team. But those "actions will likely be of limited value if growth momentum falters badly," they wrote in an Aug. 23 report.

"Central bank interest rates are low all over the place, which means if you find yourself in a position where you need to cut, you don't have much you can do," former Fed Vice Chairman and Jackson Hole attendee Alan Blinder said in an interview. "In Europe, interest rates are negative. In Japan, interest rates are negative." That's led to calls for fiscal policy makers to fill in the gap with stimulus measures of their own, such as increased government spending. It's also spawned suggestions of greater policy coordination, both internationally among major countries, and nationally between governments and their independent central banks.

That's unlikely to happen while Trump is in charge. He's alienated U.S. allies by threatening to slap tariffs on imports of Japanese and European cars, though he said Sunday at the Group of Seven summit in Biarritz, France, that Japan and the U.S. had reached a trade agreement in principle. Trump also vociferously attacked the Fed again on Friday, going so far as to ask whether chairman Jerome Powell was a bigger enemy than Chinese President Xi Jinping shortly after the central bank chief spoke to the Jackson Hole symposium. Treasury Secretary Steven Mnuchin told "Fox News Sunday " that the president's tweeted comment shouldn't be taken literally.

"The big policy uncertainty now, of course, is Trump. It's obvious," said economist Gauti Eggertsson. The Brown University professor suggested central bankers at this year's confab were short of ideas about how to cope with a possible downturn in the current low-rate environment, and more than a little distracted by what might come next from the U.S. president -- always just one tweet away. "When Powell was giving his speech, I could see everybody on their iPhones, refreshing Twitter, waiting for the tweet from Trump," said Eggertsson, a former New York Fed economist. "The most powerful central bankers in the world, all in the same room, would -- rather than listen to Powell, they're checking on Twitter waiting for when Trump is going to tweet."

Powell steered clear of commenting on Trump in his speech at Jackson Hole. But former Fed Vice Chairman Stanley Fischer was not as reticent.

"The trouble one has is not in" the international monetary system, Fischer, widely seen as the doyen of the central banking community, told the symposium. "It is in the president of the United States. We are in a system in which things are getting worse day by day."

Powell did, though, use his appearance at Jackson Hole to lay out the damage that heightened trade tensions are having on the U.S. and the global economies, and the challenge that the Fed has in dealing with them. There are "no recent precedents to guide any policy response to the current situation," he said. "While monetary policy is a powerful tool that works to support consumer spending, business investment and public confidence, it cannot provide a settled rule book for international trade." Powell declared that the U.S. economy was in a "favorable place," but nevertheless suggested that the Fed was ready to cut rates when it meets Sept. 17-18.

The risk is that rapidly-evolving political uncertainties surrounding trade will mean that the Fed will be slow to respond and thus not fully insulate the economy from the fallout, said conference attendee and BNY Mellon chief economist Vincent Reinhart. "The fulcrum or center of gravity of the U.S. economic policy today is not monetary policy, it is trade uncertainty," Dallas Fed President Robert Kaplan told Bloomberg Television on Friday at Jackson Hole. "If we have a severe slowdown, I don't think monetary policy is going to be enough to arrest it."

ECB, BoJ to Ease

The ECB is already facing a slump in Europe's biggest economy, Germany, which slipped into contraction last quarter. Central bank officials have said they're planning an additional round of stimulus, with investors expecting an interest-rate cut and the potential restart of bond purchases. Blinder, now a Princeton University professor, questioned how much further the ECB could reduce rates into negative territory and wondered how much impact bond buys would have, given the low level of European yields.

In Japan, the BOJ may have to "reluctantly" reduce its negative rates even further next month if the yen strengthens too much, said former board member Sayuri Shirai. "A major concern for the central bank in Japan is the exchange rate," Shirai, now a visiting researcher at the Asian Development Bank Institute, told Bloomberg Television on Aug. 22.

Policy Challenges

While many fretted, conference attendee and former Bank of England policy maker Kristin Forbes suggested that the pessimism about how much central banks can achieve may be overdone. "We're certainly not out of ammunition," Forbes, now a professor at the Massachusetts Institute of Technology, said in an interview. But Reserve Bank of Australia Governor Philip Lowe cautioned that central bankers have limited ability to cushion the global economy from the headwinds of mounting political uncertainty.

"Monetary policy is carrying too much of a burden," he told the closing session of the Jackson Hole conference on Saturday.

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Macroeconomic Indicators (August 1st –September 2nd)

Power Sector

During the review period, the average power output stood at 3,510MWh/h, 4.28% lower than the average output in the relative period in July (3,667MWh/h). Total revenue loss within the review period was N64.06 billion (annualized at N708.54billion).[21]

Nigerians are set to pay more for electricity as the federal government through the Nigerian Electricity Regulatory Commission (NERC) proposes to increase the tariff on electricity.

A breakdown of constraints to power generation is as shown below:

Constraint (MWh/hour; total)	July 1st – August 2nd	August 1st – September 2nd
Gas	55,008.50	45,795.60
Grid	68,358.90	83,072.30
Water	870	-

[22]

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 likely to average between 3,500 – 3,800MWh/hour in the coming weeks.

Impact

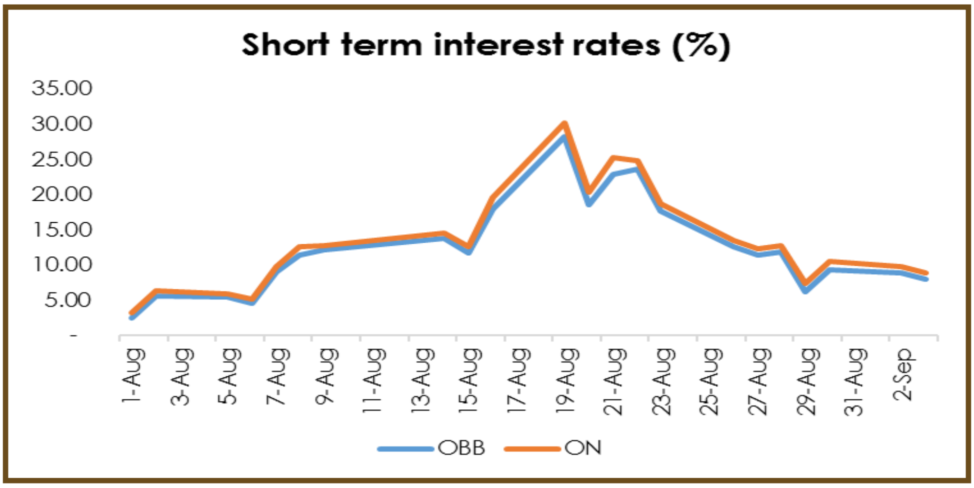
An increase in power supply will affect economic activities positively, especially businesses that operate solely on the supply of power. It will also lead to a decline in the dependency on alternative power supplies.

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

Money Market

Average liquidity within the banking system within the period was N92.45bn, 71.67% lower than the average of N326.38bn recorded in the corresponding period in July. Within the review period, the market witnessed five consecutive days of negative opening position. The decline in liquidity within the money market could be partly due to the CBN's regulatory measures deadline of September 30.

In response to the illiquidity, the NIBOR (OBB/ON) rates leaped up to a 4-month high of 28.29%pa and 30.29%pa respectively on August 19, before retreating to close the period at 8.86%pa and 9.86%pa respectively on September 2nd.



[23]

At the secondary market, all the yields moved in the same direction at an average of 314.33ps while at the primary market, they moved in different directions. The 91-day tenor declined by 5bps while the yields for the 91-day and 364-day tenors inched up by 78.5bps.

T/bills Tenor	Secondary market rates as at August 1st (%pa)	Secondary market rates as at September 2nd (%pa)	Direction	Primary market rates as of July 31st (%pa)	Primary market rates as of August 18th (%pa)	Direction
91	9.82	13.00	↑	9.75	9.70	↓
182	10.53	13.60	↑	10.60	11.35	↑
364	10.67	13.85	↑	11.18	12.00	↑

[23] FMDQ, CBN

NITTY Tenor	Rate on August 1st (%pa)	Rate on September 2nd (%pa)	Direction
30	9.66	13.31	↑
90	9.99	13.30	↑
180	11.16	14.48	↑

[24]

The Nigerian Inter-Bank Treasury True Yield (NITTY) rates increased across all the three tenors by an average of 342.67bps.

Outlook

There is likely to be illiquidity in the banking system as the Central Bank of Nigeria (CBN) ordered banks to give out a minimum of 60% of their deposits as loans by September 30, 2019. Therefore, this puts pressure on banks to meet up with this goal in order to refrain from facing sanctions.

Impact

Cost of borrowing (NIBOR rates) have an inverse relationship with the opening position. Lower liquidity within the banking system would likely lead to higher 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.

[24]FMDQ

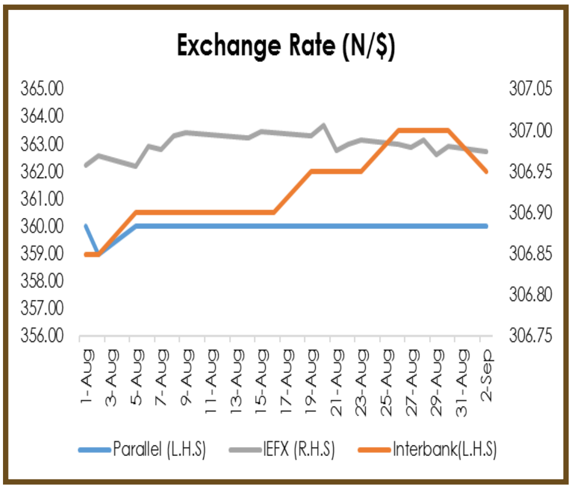
Exchange Rate

At the parallel market, the naira temporarily appreciated against the dollar to N359/$ on August 2nd before retreating to close the period at N360/$. The apex bank intervened with a total of $787.96mn during the period, 35.04% lower than $1.21bn sold in the corresponding period in July. Whilst the currency strengthened against the pound to close the period at N445/£, it traded within the band of N396-398/€ against the euro.

At the interbank market, the naira depreciated by 0.16% to close at N306.95/$ on September 2nd. In the same vein, the currency weakened by 0.14% to close at N362.73/$ at the IEFX window. Total forex traded increased to $6.87 billion compared to the total of $4.68 billion in the corresponding period in July.

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 naira to trade within a band of N361-N363/$ at the parallel market in the coming weeks as the CBN continues to intervene in the forex market.



[25]

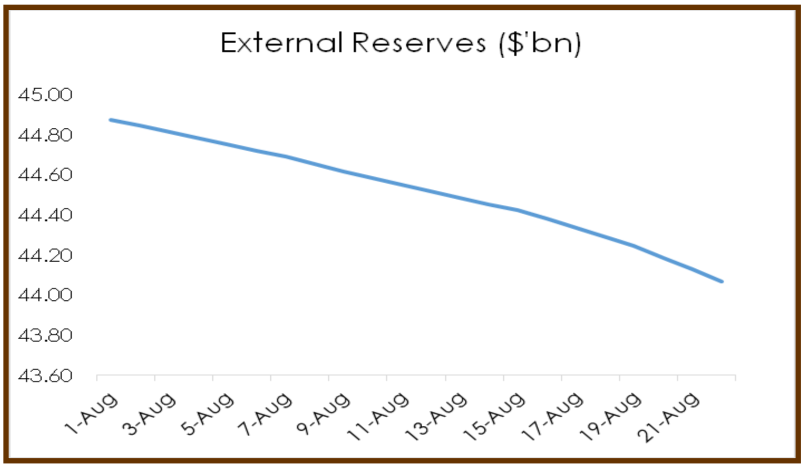
Impact

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 has continued its downward trend since the beginning of the review period. It declined by 3.39% to close the period at $43.36bn compared to $44.88bn on August 1st. Subsequently, Nigeria's import cover has dropped to 10.80 months from 11.17 months on August 1.

[25]FMDQ, CBN, FDC Think Tank



[26]

Outlook

The expectation of the CBN to intervene in the foreign exchange market to defend the currency from demand pressures would negatively affect the external reserves. Therefore, Nigeria's external reserve may decline further to between 42-43 billion dollars.

Impact

A decrease in the level of external reserves will affect the CBN's ability to intervene with the currency, which will reduce the country's buffers against negative external shocks.

[26]CBN

Commodities Market- Exports

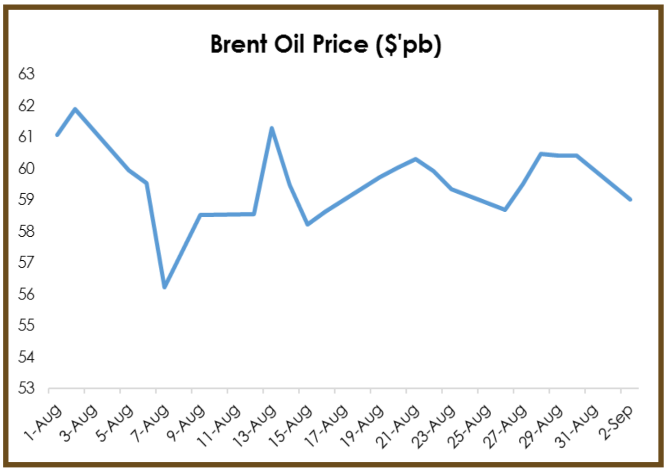
Nigeria is an export dependent economy. It derives over 80%-90% of its export revenue from crude petroleum and LNG.

Oil Prices

Brent price averaged $59.44pb in the review period, 7.08% lower than the average of $63.97pb in the corresponding period in July. This was largely driven by a decline in the global demand for oil coupled with the ongoing trade tensions between the US and China. The International Energy Agency (IEA) has also cut its 2019 oil demand growth to 1.1mbpd from an earlier forecast of 1.5mbpd.

Outlook

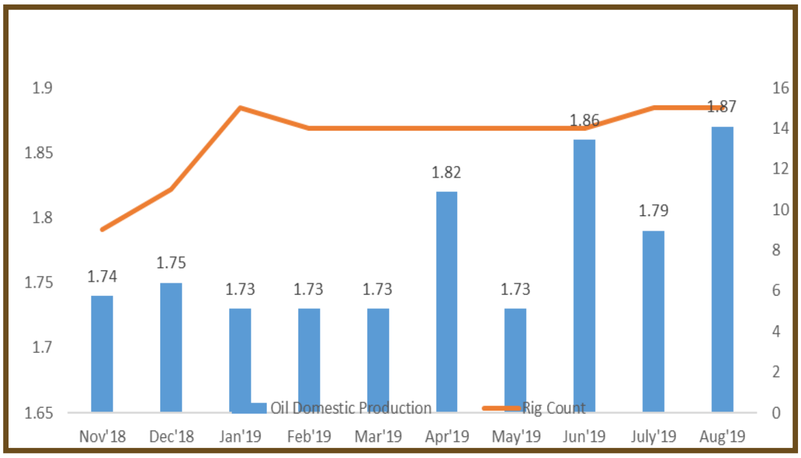
We expect oil prices to rise in the coming weeks due to the slowdown in the US Shale inventory as well as the OPEC'S output cut extension to March 2020.



27

Oil Production

According to OPEC's latest monthly report, Nigeria's oil production increased by 5.06% to 1.87mbpd in August. This was despite a flat rig count of 15. Meanwhile, OPEC's crude oil production increased by 136tb/d to an average of 29.74mbpd. This was due to an increase in output in Saudi Arabia, Nigeria, Iraq and the UAE.



28

[27] Bloomberg
[28] OPEC and Baker Hughes

Outlook

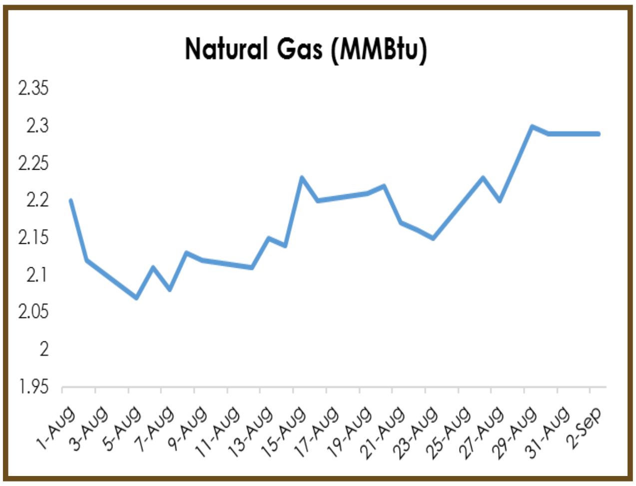
Nigeria's current oil output is 10.98% above the country's OPEC quota of 1.685mbpd. Although we expect the country's production to increase, there might be increased pressure to comply with output quota of 1.685mbpd.

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 trickle-down effect on proxies such as FAAC disbursements, external reserves and exchange rate stability.

Natural Gas

The average price of natural gas declined by 5.22% to $2.18/MMBtu during the review period from the average price of $2.30/MMBtu in the parallel period in July. This was due to an increase in global supply.



[29]

Outlook

We expect prices to rise in subsequent weeks due to expectations of an increase in the global demand.

Impact

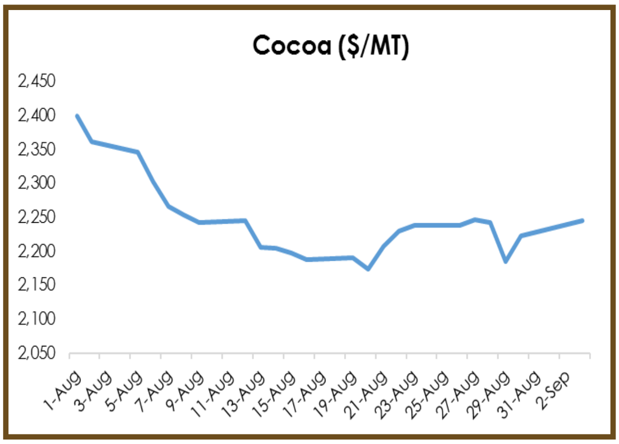
Nigeria's second-biggest export is LNG, accounting for approximately 12%[30] of the country's export revenue. An increase in global price will increase the country's export revenue as well as have a positive impact on the country's fiscal position.

Cocoa

Cocoa prices averaged $2,245/MT during the review period, 8.37% lower than $2,450/MT in the relative period in July due to the US' plan to place an embargo on Ivorian cocoa.

[29]Bloomberg
[30]EIU

Outlook



[31]

The anticipation of favorable weather conditions in Ivory Coast and Ghana will likely cause prices to decrease further.

Impact

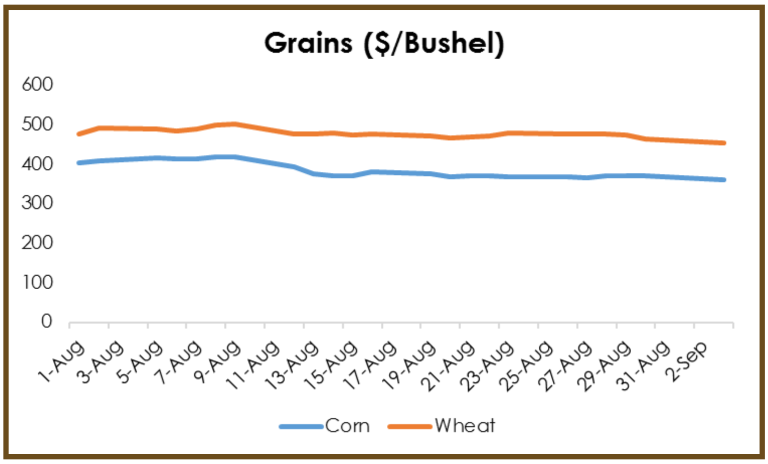
Nigeria is one of the largest producers of cocoa globally, producing 245,000 tonnes annually. A decline in the price of cocoa will have a negative impact on the country's non-oil export earnings.

Commodities Market- Imports

Grains (wheat & corn)

The global prices of wheat and corn moved in the same direction during the review period. The average wheat price declined by 4.98% to $477.42/bushel from the average price of $502.44/bushel recorded in the corresponding period in July. Driven by increased supply in the EU and Russia.

Similarly, the price of corn averaged $384.43/bushel in the review period, 11.08% lower than the average price of $432.31/bushel recorded in the corresponding period in July. This was due to a stronger yield in the US harvest.



[32]

[31]Bloomberg
[32]Bloomberg

Grains- Outlook

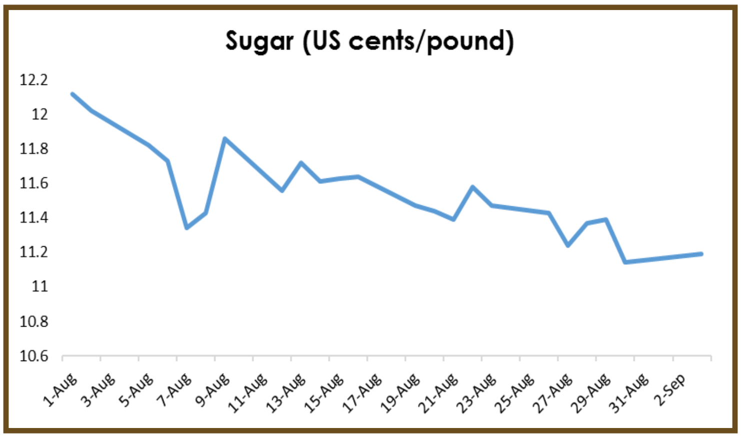
Expectations of adverse weather conditions in the Midwest is likely to slow down production and potentially raise prices in the near term.

Impact

Many manufacturing companies in Nigeria depend largely on imported grains. Therefore, an increase in the global prices of grains will translate to higher production costs for these companies.

Sugar

The average price of sugar during the review period was $11.55/pound, 4.78% lower than the average price of $12.13/pound recorded in the corresponding period in July due to a strong global supply.



[33]

Outlook

We anticipate a further decline in the price of sugar due to an increase in India's sugar stockpile.

Impact

Nigeria is the largest importer of sugar in Sub Saharan Africa and the 10th largest in the world. A decrease in the price of sugar will lead to a decrease in the import bill of the country. In addition, it will mean a lower production cost for the local producers in the country.

[33] Bloomberg

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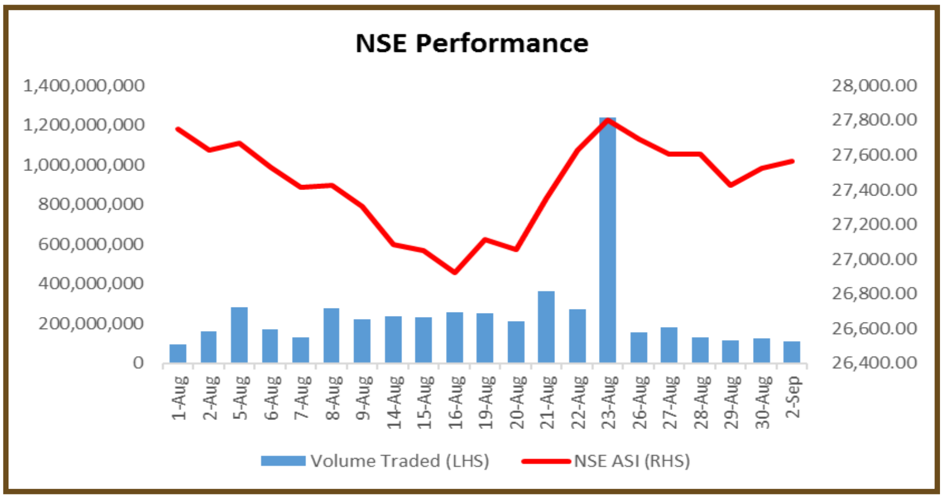
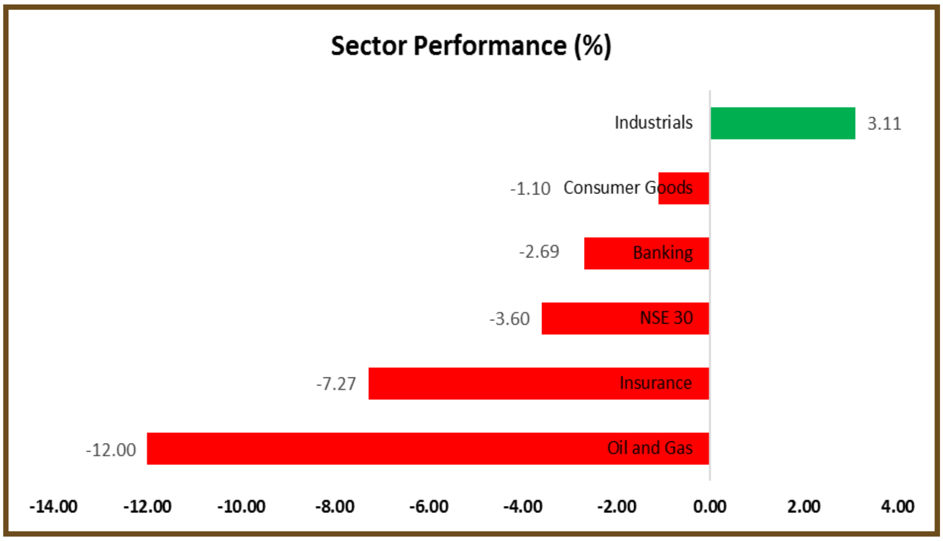
Stock Market Review

The NSE ASI lost 0.55% to close at 27,565.09 points on September 2nd relative to its close of 27,718.26 points on July 31st. This was despite strong H1 earnings from the banking sector. However, assigning of portfolios to the ministers bolstered the bourse for four consecutive days but the bullish momentum was not sustained. In the same vein, market capitalization fell by 0.74% (N100bn) to N13.41trn. In the 21-trading day period, the market lost in eleven days and gained in ten.

The NSE traded at a price to earnings (P/E) ratio of 7.07x as of September 2nd, 5.61% lower than the close of July 31st (7.49x). The market breadth was negative at 0.45x as 26 stocks gained, 58 lost while 82 stocks remained unchanged.



The market also saw a significant rise in activity level. Average volume traded rose by 26.32% to 248.94mn units compared to the same period in July, while the average value of trades rose by 21.03% to N3.03bn.



All indices except industrial sector (3.11%) lost within the review period, with oil and gas recording the worst performance (-12.00%).

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 (302.65%), C & I Leasing Plc (32.73%), Berger Paints Nigeria Plc (31.58%), and Cement Company of Northern Nigeria Plc (21.95%).

TOP 5 GAINERS (N)				
Company	**Jul 31'19**	**Sep 02'19**	**Absolute Change**	**% Change**
Nigerian-German Chemical Plc	0.2	3.62	3.42	1710.00
UAC of Nigeria Plc	1.13	4.55	3.42	302.65
C & I Leasing Plc	5.5	7.3	1.80	32.73
Berger Paints Nigeria Plc	5.7	7.50	1.80	31.58
Cement Company of Northern Nigeria Plc	12.3	15.00	2.70	21.95

The laggards were led by Niger Insurance Plc (-94.48%), UAC Property Development Company Plc (-81.55%), Rak Unity Petroleum Company Plc (-25.00%), Okomu Oil Palm Plc (-22.79%) and International Breweries Plc (-22.00%).

TOP 5 LOSERS (N)				
Company	**Jul 31'19**	**Sep 02'19**	**Absolute Change**	**% Change**
Niger Insurance PLC	3.62	0.20	-3.42	-94.48
UAC Property Development Company Plc	5.8	0.88	-4.92	-84.83
Rak Unity Petroleum Company Plc	0.40	0.30	-0.10	-25.00
Okomu Oil Palm Plc	52.00	40.15	-11.85	-22.79
International Breweries Plc	12.5	9.75	-2.75	-22.00

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 (Naira)
Banking	Zenith Bank	331.59 2.91%	111.68 4.02%	88.88 8.74%	2.83
	Guaranty Trust Bank	146.45 -8.39%	115.79 5.62%	99.13 3.71%	0.20
	Stanbic IBTC	117.37 2.77%	44.65 -11.99%	36.25 -15.87%	342
	United Bank for Africa	204.89 9.4%	70.27 20.86%	56.74 29.57%	0.20
	Fidelity Bank	103.66 12.31%	15.05 15.68%	13.69 15.63%	0.47
Consumer Goods	Guinness	131.50 -8.03%	7.10 -28.56%	5.48 -18.37%	2.50
	PZ Cussons	74.34 7.7%	1.94 16%	1.16 40%	0.15

Outlook

We expect the ASI to continue its bearish performance in the short term. However, bottom-fishing actions from investors as well as improved business and economic outlook will likely drive prices up further.

Equity Report: Nigerian Breweries Plc

Analyst note

The Nigerian food and beverage industry was one of the hardest hit during the recession. In spite of an improved economy (positive growth and stable exchange rate), the industry continues to face challenges such as high input costs, low consumer confidence and high competitiveness. The decline in consumers' purchasing power led to a shift from premium products to value-branded products. Sales and profit margins have been dampened by accelerating input prices and high unemployment and underemployment. In the same vein, weak macroeconomic factors, such as high-interest rates, continue to affect the industry negatively.

Competitiveness within the industry continues to weigh on the financial performance of Nigerian Breweries. The company recorded a decline of 1.43% in revenue to N170.19 billion in H1'19 from N172.66 billion in H1'18. Although the challenging business environment coupled with stiff competition may have a negative impact on performance, the company's planned focus and execution of its twin agenda of cost and market leadership, supported by innovation, could boost financial performance in the coming years. As a result, our valuation, which is derived using intrinsic valuation, shows that the company is precisely valued. Accordingly, we place a HOLD rating on Nigerian Breweries Plc.

Analyst Recommendation: HOLD

Market Capitalization: N405.84bn

Recommendation Period: 12 months

Current Price: N50.75

Industry: Food, beverage and tobacco

Target Price: N55.84

Competition hinders Nigerian Breweries's ability to grow sales

Nigerian Breweries posted revenue of N170.19 billion in H1'19 which represents a 1.43% decline of N2.47 billion compared to H1'18. This decline was driven primarily by lower sales volume growth due to consumers down-trading from premium products to low priced products.

High operating expenses weigh on operating profit

Nigerian Breweries reported a weak operating profit for H1'19. Operating profit declined by 22.62% to N26.46 billion from N31.62 billion in the corresponding period in 2018. This was due to a decline of 1.91% in other income and an increase of 10.46% in marketing and distribution expenses. This, coupled with a 2.03% increase in the cost of sales, had a significant impact on margins.

High finance cost dampens bottom-line

The company's profit before tax declined by 29.54% to N19.41 billion from N27.55 billion in 2018. This was due to an increase in the company's finance cost by 22.51% and a decline of 9.65% in its finance income. The increase in finance cost could be attributed to the company's use of commercial paper for financing as banks were reluctant to lend money to the private sector. Commercial papers are short term debt used for raising money. The strategy is similar to getting loans from the deposit money banks especially in terms of the fixed cost of funds. The CBN's motive to reduce banks' appetite for government securities, coupled with an accommodative monetary stance, would lead to lower finance costs.

Profit after tax declined by 27.76% to N13.32 billion from N18.43 billion in H1'18 despite a decline in the company's income tax. The income tax for the period declined by 33.16% to N6.09 billion in H1'19.

Industry and company overview

The Nigerian brewery industry dates back to the pre-independence era when beer from different brands was imported into the country before World War II. Nigerians acquired a taste for continental European beer, leading to a great increase in the quantity of imported beer during and after the war. This created an opportunity for a brewery to be set up in Nigeria. The local brewery industry is the largest sub-sector of the food, beverage and tobacco sector in Nigeria, and the second-largest beer market in Africa. It has evolved over the years from a duopoly, with two firms sharing the market, to an oligopolistic market structure with a strong multinational presence.[34] The Nigerian brewery sector has also evolved from solely bottling activities to a diversified industry involved in the production of canned drinks (non-glass bottled drinks). The government has put incentives in place to drive growth and attract investors. These include a ban on the importation of bottled/can beer for trade and a seven-year tax holiday for pioneer companies engaged in the brewing of hops.

Nigerian Breweries Plc was incorporated in November 1946 as Nigerian Breweries Ltd and was converted to a public limited company in 1990. It started trading on the Nigerian Stock Exchange (NSE) on September 5, 1960 and is currently the second-largest capitalized stock on the NSE. Heineken NV, one of the largest brewing companies in the world, currently owns a majority shareholding (55.19%) in Nigerian Breweries. Its primary business activities involve the brewing, marketing and selling of alcoholic and non-alcoholic beverages (lager, stout, non-alcoholic malt drinks and soft drinks).

The company is Nigeria's largest brewing company, accounting for over two-thirds of the brewery industry's market. The company pioneered brewing in Nigeria, starting with its first bottle of STAR lager brewed in June 1949 from its premier brewery, Lagos Brewery. Over the years, it has undergone several development processes to improve efficiency.

[34] A state of limited completion in which a small number of brewing multinationals battle for position in the Nigerian beer market space

The company has since evolved rapidly across the country through the construction of new breweries and the acquisition of existing ones. Ever since its commissioning in 2003, the Ama Brewery (Enugu state) has maintained its position as the biggest and most modern brewery in Nigeria. The company also acquired majority shares in Sona Systems Associates Business Management Ltd and Life Breweries Company Ltd in 2011. Following its merger with Consolidated Breweries Plc in 2014, it acquired Imagbon (Ogun state), Awo-Omamma (Imo state) and Makurdi Breweries. Nigerian Breweries currently has an extensive facility of 11 breweries and two malting plants across the country.

The company also has a rich portfolio of high quality alcoholic and non-alcoholic products, popular in Nigeria. The company has a wide range of brands that cater to the needs of different segments of the market. These include Heineken, Star, Gulder, "33" Export, Goldberg, Legend Extra Stout, Maltina, Amstel Malt, Hi-malt, Star Radler and Star Lite. Most of its brands are leaders in their segmented markets. Nigerian Breweries has a growing export business that dates back to 1986. It covers global sales and marketing of its brands. While the domestic market remains the dominant market for these brands, some of the products are exported to over 13 countries across the UK, South Africa, West Africa, Middle East, and the US.

In order to ensure efficient and seamless distribution of its products, Nigerian Breweries has 26 sales depots across the country. These are complemented by an extensive network of key distributors, wholesalers, bulk breakers and retail stores scattered nationwide.

The company's growth can be seen through increases in its total assets and revenue. Between 2012 and 2016, revenue increased by 6% and total assets by 10%. A snapshot of Nigerian Breweries' latest annual financials is shown below.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Income Statement for Nigerian Breweries Plc					
N'000	2014	2015	2016	2017	2018
Revenue	266,372,475	293,905,792	313,743,147	344,527,216	324,388,500
Cost of Sales	(130,788,296)	(149,736,072)	(178,218,528)	(201,034,636)	(197,484,694)
Gross Profit	**135,584,179**	**144,169,720**	**135,524,619**	**143,492,580**	**126,903,806**
Other Income	1,717,491	483,910	615,662	2,239,867	885,364
Marketing and Distribution Expenses	(42,200,086)	(58,454,978)	(61,312,319)	(66,863,604)	(70,052,363)
Administrative Expenses	(28,240,685)	(23,969,498)	(21,924,801)	(21,747,783)	(20,785,259)
Operating Profit/EBIT	**66,860,899**	**62,229,154**	**52,903,161**	**57,121,060**	**36,951,548**
Finance Income	697,320	503,607	416,503	172,074	361,923
Finance Cost	(6,096,398)	(8,217,788)	(13,645,146)	(10,663,076)	(7,891,519)
Profit Before Tax (PBT)	**61,461,821**	**54,514,973**	**39,674,518**	**46,630,058**	**29,421,952**
Income Tax Expense	(18,941,568)	(16,458,850)	(11,257,553)	(13,581,499)	(9,984,008)
Profit After Tax (PAT)	42,520,253	38,056,123	28,416,965	33,048,559	19,437,944

Balance Sheet for Nigerian Breweries Plc					
N'000	**2014**	**2015**	**2016**	**2017**	**2018**
Non-Current Assets					
Property, Plant and Equipment	193,800,450	197,298,847	191,181,700	195,230,394	203,492,850
Intangible Assets and Goodwill	97,969,253	100,612,728	99,477,826	98,277,166	97,135,708
Investment	150,000	150,000	150,000	150,000	150,000
Other Receivables	189,710	321,509	623,331	551,862	662,022
Prepayments	187,889	354,394	1,154,399	525,831	538,187
Total Non-Current Assets	**292,297,302**	**298,737,478**	**292,587,256**	**294,735,253**	**301,978,767**
Current Assets					
Inventories	28,478,459	28,409,703	31,244,703	42,728,862	32,506,824
Trade and Other Receivables	16,357,156	16,511,648	19,974,024	20,384,112	35,153,451
Prepayments	1,822,499	1,041,780	301,169	1,038,885	1,356,282
Deposit for Imports	364,674	2,233,797	8,429,048	7,474,027	2,474,279
Cash and Cash Equivalents	5,700,257	5,106,891	12,156,432	15,866,954	14,793,266
Assets Held For Sale	4,208,816	4,177,379	2,453,836	-	-
Total Current Assets	**56,931,861**	**57,481,198**	**74,559,212**	**87,492,840**	**86,284,102**
Total Assets	**349,229,163**	**356,218,676**	**367,146,468**	**382,228,093**	**388,262,869**
Equity					
Share Capital	3,781,353	3,964,551	3,964,551	3,998,451	3,998,451
Share Premium	4,567,967	64,950,103	64,950,103	73,770,356	73,770,356
Share Based Payment Reserve	241,676	365,702	571,106	748,450	750,534
Retained Earnings	102,726,500	102,959,007	96,343,708	99,692,668	88,216,674
Equity Contribution Reserve	60,565,334	-	-	-	-
Total Shareholders' Equity	171,882,830	172,239,363	165,829,468	178,209,925	166,736,015
Non-controlling Interest	81,433	82,140	84,300	88,502	92,437
Total Equity	**171,964,263**	**172,321,503**	**165,913,768**	**178,298,427**	**166,828,452**
Non-Current Liabilities					
Loans and Borrowings	24,670,000	-	17,000,000	8,000,000	41,127,565
Deferred Tax Liabilities	27,833,732	31,914,564	29,876,508	13,209,837	16,056,953
Employee Benefits	10,735,596	11,903,504	10,101,065	26,666,864	24,554,471
Total Non-Current Liabilities	**63,239,328**	**43,818,068**	**56,977,573**	**47,876,701**	**81,738,989**
Current Liabilities					
Loans and Borrowings	-	3,000,000	-	-	-
Trade and Other Payables	83,283,072	85,246,002	111,184,310	127,947,023	114,151,861
Bank Overdraft	230,380	19,214,988	870,611	470,930	1,469,810
Dividend Payable	7,563,291	12,399,599	12,676,038	8,028,742	7,931,759
Current Tax Liabilities	22,948,829	20,218,516	19,024,168	19,606,270	14,579,020
Provisions	-	-	500,000	-	1,562,978
Total Current Liabilities	**114,025,572**	**140,079,105**	**144,255,127**	**156,052,965**	**139,695,428**
Total Liabilities	**177,264,900**	**183,897,173**	**201,232,700**	**203,929,666**	**221,434,417**
Total Equities and Liabilities	**349,229,163**	**356,218,676**	**367,146,468**	**382,228,093**	**388,262,869**

Other leading players in the brewery industry include Guinness Nigeria (a subsidiary of Diageo) and International Breweries (a subsidiary of ABInBev).

The intense competition in the brewery sector is majorly from International Breweries whose cheap pricing strategy, strong mainstream products (Trophy and Hero) and new capacity of 2.5 million hectolitres, enabled it to gain market presence in major regions in the country.[35] Although NB may lose some market share, it will remain a market leader in the brewing industry.

Management

Capable of capitalizing on potential growth opportunities in the food industry

Nigerian Breweries management's ability to remain a major player in the brewery industry in a period of fragile economic growth can be attributed to its series of acquisitions and capacity enhancement projects.

To further drive growth and improve earnings, management intends to consolidate its earnings and profitability through market penetration with innovative products. The team launched the brand - Stella Lager Beer - into the market on December 7, 2017 targeted at young Nigerians. The product is just gaining market acceptance and is expected to have a positive impact on the company's 2019 sales.

Management plans to mitigate foreign exchange challenges by intensifying its local sourcing of raw materials. Nigerian Breweries' current sourcing level of local materials is at 50%. The company is optimistic that it will achieve its 60% target before 2020 through aggressive investments in the cassava and sorghum value chain. The company also plans to deploy a new hybrid of sorghum varieties and make significant progress with its partners - International Fertilizer Development Centre (IFDC) and Psaltry International (local processing company) - on the extraction of maltose syrup derived from cassava for the company's production. In a bid to further manage its costs efficiently, management continues to assess its price adjustment strategy to ensure a balance in minimizing input costs and the price consumers are willing to pay.

[35]FSDH

Mr. Jordi Borrut Bel has served as the Managing Director and Chief Executive Officer of Nigerian breweries since January 22, 2018. His career started with Heineken, Spain, in 1997 as the sales representative/wholesale manager. He has since gained over 20 years of extensive experience in the brewing industry across France, Slovakia and the Netherlands. He is currently the managing director of Brarudi S, a subsidiary of Heineken in Burundi. He successfully led the company through turbulent periods by strengthening the company's route-to-market and launching successful innovations. He is also a board member of Bralirwa Ltd, a subsidiary of Heineken in Rwanda.

Managing Director

Mr. Jordi Borrut Bel

Chief Kolawole B. Jamodu has been the chairman of the board of directors, since January 1, 2008. He was appointed to the board as a non-executive director in 2006. Chief Kolawole is a chartered accountant, an industrialist and a former minister of industry of the federal government of Nigeria. He previously worked as the chairman and group chief executive of the PZ Group. He has also led organizations such as Universal Trust Bank Plc, Manufacturers' Association of Nigeria, and United Bank for Africa Plc. He has served as part of the national economic management team under former president, Goodluck Jonathan.

Chairman

Chief Kolawole B. Jamodu

Management is expected to be more proactive in managing its controllable cost items which are growing at a rate faster than the revenue growth rate.

What the bulls and bears say

Bulls say:

- Large market size and market leadership
- Continuous product innovation
- Rich product portfolio for both alcoholic and non-alcoholic drinks
- Portfolio of leading brands
- Strong and effective channels to the market
- Relative stable exchange rate and improvement in access to foreign exchange
- Upward review of minimum wage could bolster consumer spending

Bears say:

- Intense competition from new and existing players such as Guinness, ABInBev
- Aggressive competition by way of discounts and promotions
- Shift of market preference to low-priced products
- Congestion at the port
- Unfriendly business environment

Risk and outlook

The major risks that could prevent Nigerian Breweries from achieving its goals of boosting earnings, increasing sales and managing costs are its exposure to credit, liquidity, and market risk (currency and interest rate) arising from financial instruments as well as persistent macroeconomic challenges. The board established the risk management committee to develop and monitor the company's risk management policies in co-operation with its internal audit.

In managing foreign currency risk, the company participates in financial instruments provided by the central bank of Nigeria including forward contracts and futures.

In managing interest rate risk, the company aims to reduce the impact of short term fluctuations on earnings by opting for a mix of fixed and variable interest rates in its financing operations, coupled with the use of other financial instruments such as commercial paper.

The security challenges that have affected the company's sales in the northern part of the country may continue to have a negative impact on growth projections and market penetration. The company mitigates capital risks by maintaining an efficient capital structure through adjusting its debt to equity ratio.

The shift of consumers to value products instead of premium brand products poses a threat to Nigerian Breweries' sales prospects. While the company's effective sales team is ensuring that its products are available at every location possible, consumers view alcoholic and soft drinks as luxury goods and may significantly cutback spending on such items.

The risks facing Nigerian Breweries could limit the achievement of its long term objectives. Even though management has put structures in place to ensure sales growth and cost efficiency, the macroeconomic headwinds facing the company may be beyond the control of its competent management.

Appendix - Valuation

We derived our valuation for Nigeria Breweries Plc by using the Discounted Cash Flow (DCF) methodology. Our fair value estimate per share for Nigerian Breweries Plc stood at N55.84, which is an 9.12% upside on its current share price of N50.75 as of September 11, 2019. The discount rate [weighted average cost of capital (WACC)] of 1.0168% is derived using a 14.55% risk-free rate, a beta of 1.0209, and a market risk premium of 7.64%. The calculated long-term cash flow growth rate to perpetuity is 3.5%.

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

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