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In This Issue ...

Nigeria's 2020 budget, its underlying assumptions and economic implications

Nigeria's 2020 budget appropriation bill was presented by President Muhammadu Buhari to the parliament on October 8, 2019. Aggregate expenditure was revised downwards to N10.33 trillion ($28.69 billion)[1] for the 2020 fiscal year, from the earlier proposed N10.73trn.

The key assumptions of the proposed budget 2020 are shown in the table below:

Variable	2019 budget	2020 budget
Crude oil production	2.30 million bpd	2.18 million bpd
Benchmark crude oil price	$60 per barrel	$57 per barrel
Exchange rate (NGN/USD)	N305/$	N305/$
GDP Growth Rate (%)	3.01%	2.93%
Inflation Rate (%)	9.98%	10.81%

[2]

The proposed increase in VAT to 7.5% from 5%, which is scheduled to take effect January 2020, is expected to result in an increase in tax revenue and contribute to total revenue. Despite expectations of a 16.74% rise in revenue, the 2020 budget remains a deficit plan, with a projected fiscal deficit of N2.17 trillion. This is higher than the fiscal deficit of N1.92trn projected in the 2019.

In comparison to this year's fiscal plan of N10.07trn ($27.97 billion), the 2020 Appropriation Bill, in nominal terms, is 2.58% higher. However, when adjusted for inflation, it is 7.60% lower. This means that the 2020 budget is contractionary. For a country that is in dire need of a fiscal stimulus, growing at an average of 2% and with an inflation rate of 11.02%, the budget should be expansionary and increased by at least 11% to offset the inflation effect. Ivory Coast, a West African economy similar to Nigeria, recently released its 2020 budget, which was a 10% increase from this year's budget. This country has a GDP growth rate of 7.4% and an inflation of 0.4%.[3, 4]

[1]Using an exchange rate of N360/$

[2]Federal Ministry of Finance, Budget and National Planning, 2019. "FGN 2020 Budget Call Circular". Budget Office of the Federation. https://www.budgetoffice.gov.ng/index.php/2020-budget-call-circular?task=document.viewdoc&id=731

[3]Trading economics, 2019. "Ivory Coast GDP Annual Growth Rate". Real time. https://tradingeconomics.com/ivory-coast/gdp-growth-annual

[4]Trading economics, 2019. "Ivory Coast Inflation Rate". Real time. https://tradingeconomics.com/ivory-coast/inflation-cpi

The Economic Recovery and Growth Plan (ERGP) is projecting an ambition growth rate of 7%. This means that the Nigerian economy is growing at a rate at least 200% below the target. To achieve the desired growth objective, the economy requires increased government spending and investment. This creates a quandary as the government also desires a low debt profile. The proposed debt service in the 2020 budget is 14.49% higher at N2.45trn. in order to attract cheaper debt, the country needs to have better credit ratings and this comes with meeting certain criteria.

The budgetary allocation for capital expenditure in the 2020 budget is 31.76% lower than the N3.18 trillion CAPEX allocation in the previous budget. Meanwhile recurrent expenditure recorded a 10.25% boost to N4.84 trillion from N4.39 trillion. About 21% of the budget (N2.14 trillion) was allocated to capital projects, while 46.85% was allotted for recurrent expenditure. The rise in fiscal spending in Nigeria should be channelled to productive investment projects instead of recurrent expenditure, if the government hopes to realize its aim of a 2.93% GDP growth by 2020.


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Private sector lending in Nigeria: The pros and cons of the LDR regulations amid current macroeconomic realities

The Central Bank of Nigeria (CBN) has continued to emphasize the role of private sector lending towards the realization of sustainable economic growth in the country. Nigeria's economic growth eased to 1.9% year-on-year in Q2'2019 from 2.1% in the first quarter, the second consecutive decline since Q4'2018.[5] It is expected that credit to the private sector especially SMEs would facilitate increased economic activities in the country and reverse the sluggish growth of the economy. However, high rate of non-performing loans (NPLs) coupled with a weak macroeconomic environment have been major concerns to financial institutions in the country. NPLs constitute about 9.4% of total bank loans in August, 88bps higher than the recommended 5%. [6]

CBN sets LDR target for banks to drive private sector credit

A benchmark ratio for deposit money banks loans to the private sector at 60% of total deposit was initiated by the apex bank in July.[7] Banks were required to raise their loan-to-deposit (LDR) ratio to the stipulated rate by September 30th or face a penalty of an increase in their cash reserve requirement to 50% of the lending shortfalls.[8] This directive was one of the major highlights of the CBN's 5-year plan as the apex bank commits to stimulating economic growth along with its primary function of ensuring macroeconomic stability in the country.[9]

About 12 banks reportedly defaulted in meeting the 60% LDR ratio on September 30th including top ranking banks like Zenith Bank, Citi Bank, Guaranty Trust Bank, First Bank and United Bank for Africa. The CBN in reaction to this extended the deadline to December while raising

[5]National Bureau of Statistics (NBS), 2019. "Nigerian Gross Domestic Product Report, Q2, 2019". Author. https://www.nigerianstat.gov.ng/
[6]Central Bank of Nigeria (CBN), 2019. "Central Bank of Nigeria Communiqué No. 126 of the Monetary Policy Committee meeting Of Thursday 19th and Friday 20th September 2019". Author. https://www.cbn.gov.ng/Out/2019/MPD/Central%20Bank%20of%20Nigeria%20Communique%20No.%20126%20of%20the%20Monetary%20Policy%20Committee%20Meeting%20of%20September%2019%20%20and%2020,%202019.pdf
[7]ibid
[8]Central Bank of Nigeria (CBN), 2019. "Central Bank of Nigeria Communiqué No. 126 of the Monetary Policy Committee meeting Of Thursday 19th and Friday 20th September 2019". Author. https://www.cbn.gov.ng/Out/2019/MPD/Central%20Bank%20of%20Nigeria%20Communique%20No.%20126%20of%20the%20Monetary%20Policy%20Committee%20Meeting%20of%20September%2019%20%20and%2020,%202019.pdf
[9]ibid

the benchmark LDR ratio to 65%. Defaulting banks (about 12 banks) are also set to be fined a total of N499 billion ($1.38 billion) for failing to meet the 60% LDR requirement at the stipulated date.[10]

The pros of the LDR regulation

* The LDR regulation has succeeded in facilitating increased private sector lending in the country. Private sector credit is up by 5.33% to N16.39 trillion in September from N15.56 trillion in May.[11]

* Credit to the private sector is expected to drive industrial activities in the country, bolster increased productivity and drive overall GDP growth.

* Industrialization would reduce Nigeria's dependence on the oil sector, improve non-oil sector growth and promote sustainable development in the country.

* Increased export and reduction in importation would impact positively on the country's external reserves and fiscal balances.

* Employment creation through increased private sector activities in the country would facilitate a reduction in the unemployment rate. Nigeria's unemployment rate is currently estimated at 23.1%.[12]

The cons of the LDR regulation

* The expected rapid rise in private sector lending could increase the ratio of NPLs which is currently above the CBN's prudential limit.

* High NPLs pose a risk on banks' capital adequacy ratio, which could affect their profitability and the stability of the country's financial system in the long run.

* High interest rate: banks would most likely not lend at low interest rates considering the risk attached. Meanwhile, investors would be unwilling to borrow at a high cost amid the realities of the macroeconomic environment.

[10]Business day, October 3, 2019. "CBN debits 12 banks N499.1bn for missing minimum loan target". Pg1&38. https://businessday.ng/exclusives/article/cbn-debits-12-banks-n499-1bn-for-missing-minimum-loan-target/
[11]ibid
[12]National Bureau of Statistic, 2019. "Labour Force Statistics - Volume I: Unemployment and Underemployment Report (Q4 2017-Q3 2018)". Author. https://nigerianstat.gov.ng/download/856

* Declining purchasing power of the citizenry: the federal government has initiated a number of policy actions recently, which have stoked inflationary pressures in the country with attendant implications on the purchasing power of citizens. Policies like the proposed VAT, increase in utility tariffs could aggravate the already stifling effect of the border closure on real disposable income.

* Low consumer spending or aggregate demand would negatively impact on business confidence and private sector activities, encouraging lower productivity.

Way forward

Private sector lending is critical to the development of the private sector which gives credence to the CBN's regulations and efforts to promote loans to the private sector. However, there's the need for synergy between monetary policies and fiscal policies in the country. If fiscal policies in the country continue to undermine consumers' purchasing power, private sector activities in the country would be affected which ultimately defeats the aim of the LDR initiative.

Solving the rising unemployment level in Nigeria

Unemployment is unquestionably one of the major macroeconomic problems affecting Nigeria, especially the youths, and it has continued its upward trend over the past five years. Despite all the policies put in place to reduce unemployment, Nigeria still ranks among the top ten countries with the highest unemployment rate.[13] As of Q3 2018, the most recent data available, Nigeria's unemployment stood at 23.1%.[14] And it is projected to rise further in the coming years as labor force growth continues to outpace job growth.[15] According to the National Bureau of Statistics (NBS), the labor force increased by 19.17% to 90.5 million in Q3'18 from 75.94million in Q3'15, while the number of people employed grew by 1.67% from 68.4 million in Q3'15 to 69.54 million in Q3'18.[16]

[17]

An alarmingly high unemployment rate has major social, political and economic consequences on a country. It slows down economic growth, contributes to crime rates and has an adverse effect on both physical and mental health. Crimes such as robbing, kidnapping, and fraud increase when unemployment increases, because of the widening disparity between the rich and poor. This leads to animosity, social tensions and the need to fend for oneself and family. Unemployment brings about the inability to take care of oneself properly due to the lack of a steady income, poor nutrition and often leads to depression.

[13]Trading Economics, 2019. "Unemployment rate: Africa". Real time. https://tradingeconomics.com/country-list/unemployment-rate?continent=africa
[14]Trading Economics, 2019. "Nigeria unemployment rate". Real time. https://tradingeconomics.com/nigeria/unemployment-rate.
[15]National Bureau of Statistic, 2019. "Labour Force Statistics - Volume I: Unemployment and Underemployment Report (Q4 2017-Q3 2018)". Author. https://nigerianstat.gov.ng/download/856
[16]ibid
[17]ibid

The Nigerian government has made attempts to curb unemployment. They used various policies and schemes such as the National Directorate of Unemployment (NDE, established in 1986. The NDE had a mandate to design and implement programs that reduce poverty, enhance wealth generation and promote attitudinal change.[18] As part of this mandate, it provided vocational training to youths. However, it did not have a job placement component nor did it provide access to start-up capital to encourage entrepreneurship.[19]

The National Accelerated Poverty Reduction program (NAPEP) was another attempt at addressing unemployment. Established in 2001, it focused on training youths for employment in the automobile industry. However, it ultimately achieved little as the majority of the funds went to administrative costs in offices spread over the country.[20]

The most recent initiative is N -Power. Introduced in 2017, its goal is to achieve inclusion and productivity in the country. It provides a skills development platform for Nigerians between the ages of 18 and 35 that has benefited about 200,000 people since inception. It is anticipated this number will grow significantly once the organization emerges from its start-up years.[21] However, N-Power is ultimately undermined by the same problems the NDE faced. It only provides training. There are no plans to ensure that the youth actually find gainful employment, and N-Power does little to support job creation. As a result, even once N-Power is running optimally, it may simply generate an influx of skilled workers without available jobs.[22]

In order to solve the high unemployment rate in Nigeria, the government needs to improve some of the policies that are already in place. The Federal government should look to Delta and Osun State. Delta State established two programs namely: the Youth Agricultural Entrepreneurs Program (2015) and the Skills, Training and Entrepreneurship Program(2017).[23] These programs provided skills training in vocations like baking, sewing, fashion design, fishing and more.

[18]National Directorate of Employment. 2018. "About NDE". https://nde.gov.ng/about-nde/
[19]Tunji Akande. 2014. "Youth Unemployment in Nigeria: A Situation Analysis". The Brookings Institution. https://www.brookings.edu/blog/africa-in-focus/2014/09/23/youth-unemployment-in-nigeria-a-situation-analysis/
[20]Ibid
[21]N-Power. 2019. "N-Power Program". Federal Government of Nigeria. http://www.npower.gov.ng/about-us.html
[22]Aisha Salaudeen. 2018. "N-power or no power". Stears Business. https://www.stearsng.com/article/n-power-or-no-power

[23]KelechukwuIruoma.2019. "Nigeria: How youth entrepreneurship programs reduce unemployment". This is Africa. https://thisisafrica.me/politics-and-society/nigeria-youth-entrepreneurship-progs-reduce-unemployment/

However, the programs also provided access to the start-up capital needed to encourage self-employment and allocated fish ponds in various local government areas to support the beneficiaries. This has led to the employment of over 2,300 youths, which have in turn trained and employed thousands of other entrepreneurs.[24]

Osun State created the Osun Youth Empowerment Scheme (O-YES). Similar to the N-Power plan, the O-YES scheme has a two-year training program. Meanwhile, the O-YES scheme is adequately monitored and has an exit program to ensure trainees have jobs after they graduate from the scheme. The exit program is a strategy that includes multiple deployments: to public schools, agricultural initiatives, the state's civil service, ICT opportunities, and in some cases, even sponsorship abroad for specialized training. The O-YES scheme is one of the most successful youth empowerment schemes in Nigeria with recommendations from the World Bank.[25] As a result, Osun is the state with the lowest unemployment rate in the country, with an unemployment rate of 10.1% as of Q3, 2018.[26]

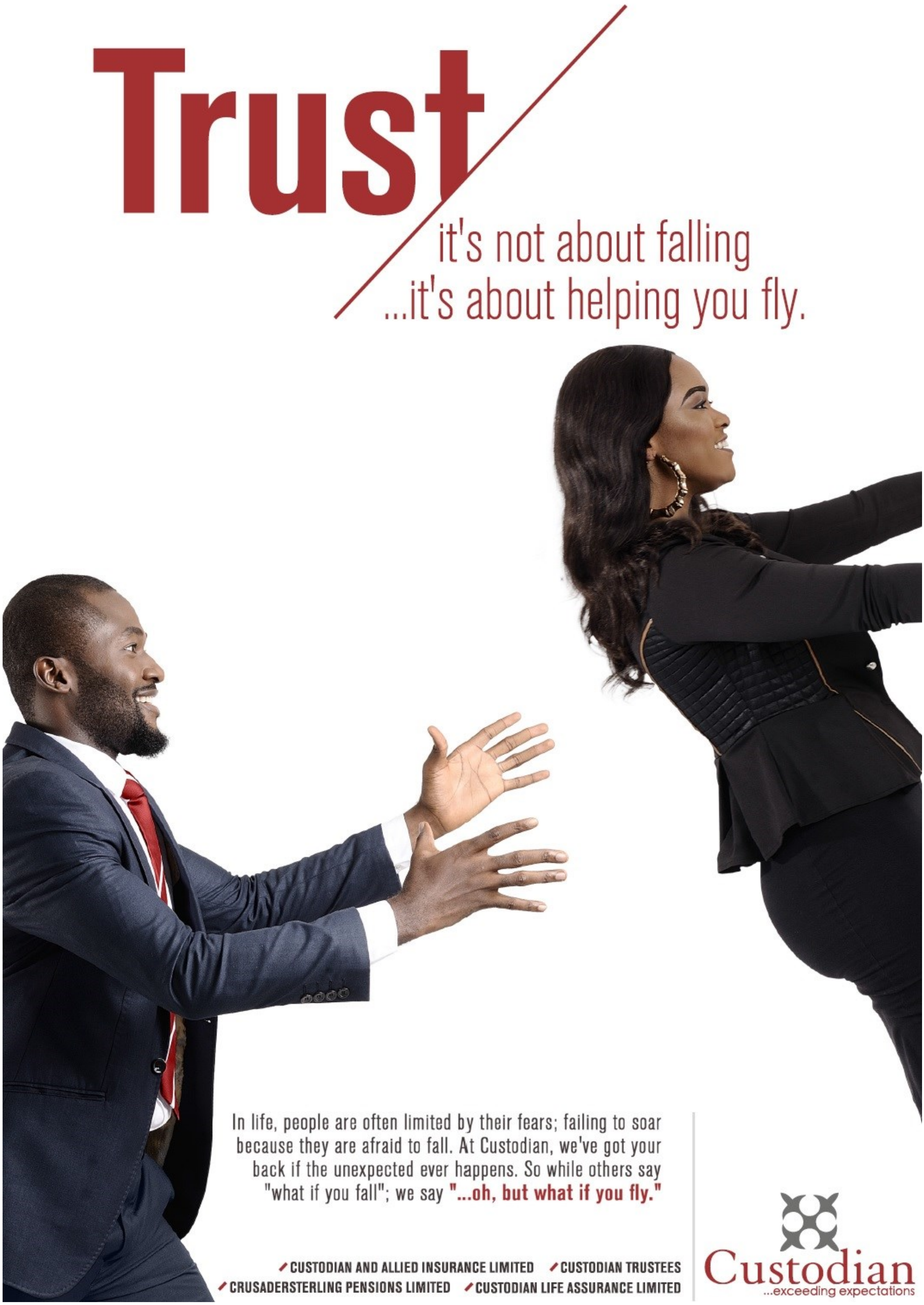
In conclusion, Nigeria's unemployment rate could improve if the government can implement functional policies with adequate monitoring, a clear support plan for its beneficiaries, and job creation or entrepreneurship empowerment. This should be spread across all 36 states in order to bring about a stronger impact on the country. When policies are well implemented and monitored they quicken the developmental process and alleviate poverty.[27]

[24]ibid

[25]Tunji Akande. 2014. "Youth Unemployment in Nigeria: A Situation Analysis". The Brookings Institution. https://www.brookings.edu/blog/africa-in-focus/2014/09/23/youth-unemployment-in-nigeria-a-situation-analysis/

[26]National Bureau of Statistic, 2019. "Labour Force Statistics - Volume I: Unemployment and Underemployment Report (Q4 2017-Q3 2018)". Author. https://nigerianstat.gov.ng/download/856

[27]Yemisi Joel-Osebor. 2016. "How to Cope with Entrepreneurship in Nigeria: For Youths". Toki Mabogunje & Co. https://tmc.com.ng/blog/2016/09/how-to-cope-with-entrepreneurship.html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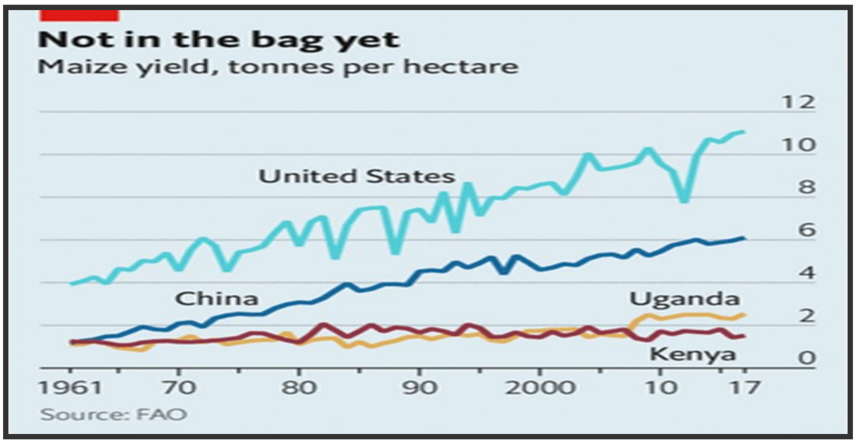
Sub-Saharan Africa industry: Agriculture – The underground revolution

African farmers can grow far more, but the seeds they need are hard to come by

AN AIR OF Malthusian gloom hangs over small hold farmers in Sironko, in eastern Uganda. In the old days, they say, their parents reaped plentiful harvests from fields fed with manure. Now the soil needs to be coaxed into life with chemical fertilizers they cannot afford. As the population grows, farmers squeeze onto shrinking plots of land. The weather has become erratic: the growing season might begin with a week of downpours followed by drought. The rain and the sun no longer balance, complains one farmer, Zaituni Mudondo, banging a maize cob on the ground.

So there is something unusual about Ruth Akello, who lives just down the road. Her house is sturdier than the rest, with a solar panel outside. She is also building another home in a nearby town. Asked about maize--Uganda's most ubiquitous crop, which accounts for about 20% of people's overall calorie intake--she pulls out a record book and phones her husband to check the numbers. The couple have grown 100 bags this year (about ten tonnes) and sold almost all of it. Her neighbours use old-fashioned methods of farming, she explains. "But me, I use the modern way."

One crucial difference between Ms Akello and her neighbours is the seed she uses. Whereas most smallholders keep some of the previous year's crop to plant, as they have done for generations, she buys improved hybrid seeds. Her plot hints at the huge difference that modern seeds can make to the lives of Africa's hundreds of millions of farmers. It also raises a question: why don't more people plant them?



The green revolution began with seeds. By the early 1960s scientists had created dwarf varieties of rice and wheat, which put more of their energy into edible bits and did not topple over when fed with fertilizer. Agricultural productivity duly took off in Asia and Latin America, making everybody richer. Douglas Gollin, an economist at Oxford University, and others estimated last year that a 10% increase in the share of land planted with high-yielding crops by the year 2000 is associated with 10-15% growth in GDP per head. Maize, which is easier to hybridize than many crops, has steadily become more productive in countries such as America and China.

Sub-Saharan Africa is decades behind. Some of its poorest countries, such as Chad and the Democratic Republic of Congo, scarcely have seed markets. Uganda has several seed producers and a president, Yoweri Museveni, who exhorts the *wananchi* ("common people") to adopt modern farming practices. But it has a long way to go. Surveys five years ago revealed that only 21% of maize farmers and 15% of all crop farmers in the country used hybrid seeds.

Uganda's wealthier neighbour, Kenya, ought to be doing much better. Hybrid maize seeds have been widely available there since the 1970s, and about three-quarters of farmers use them, according to the Tegemeo Institute in Nairobi, which conducts surveys. Kenya is also a leader in research. On a 200-hectare farm south-east of Nairobi, CIMMYT, an international institute, tests new strains in deliberately tough conditions. Thanks to a technique known as doubled haploid breeding, it can churn out new varieties quickly.

Yet Kenya is no Eden either. As its population has grown, crop farmers have moved onto parched soils that used to be seen as fit only for cattle ranching. Climate change may also be having an impact: three out of the past five years have been poor for maize. Farmers are now being assailed by fall armyworm, a hungry caterpillar. Gradual improvements in farming methods have not been enough to overcome these challenges. Like Uganda, Kenya awaits a proper green revolution.

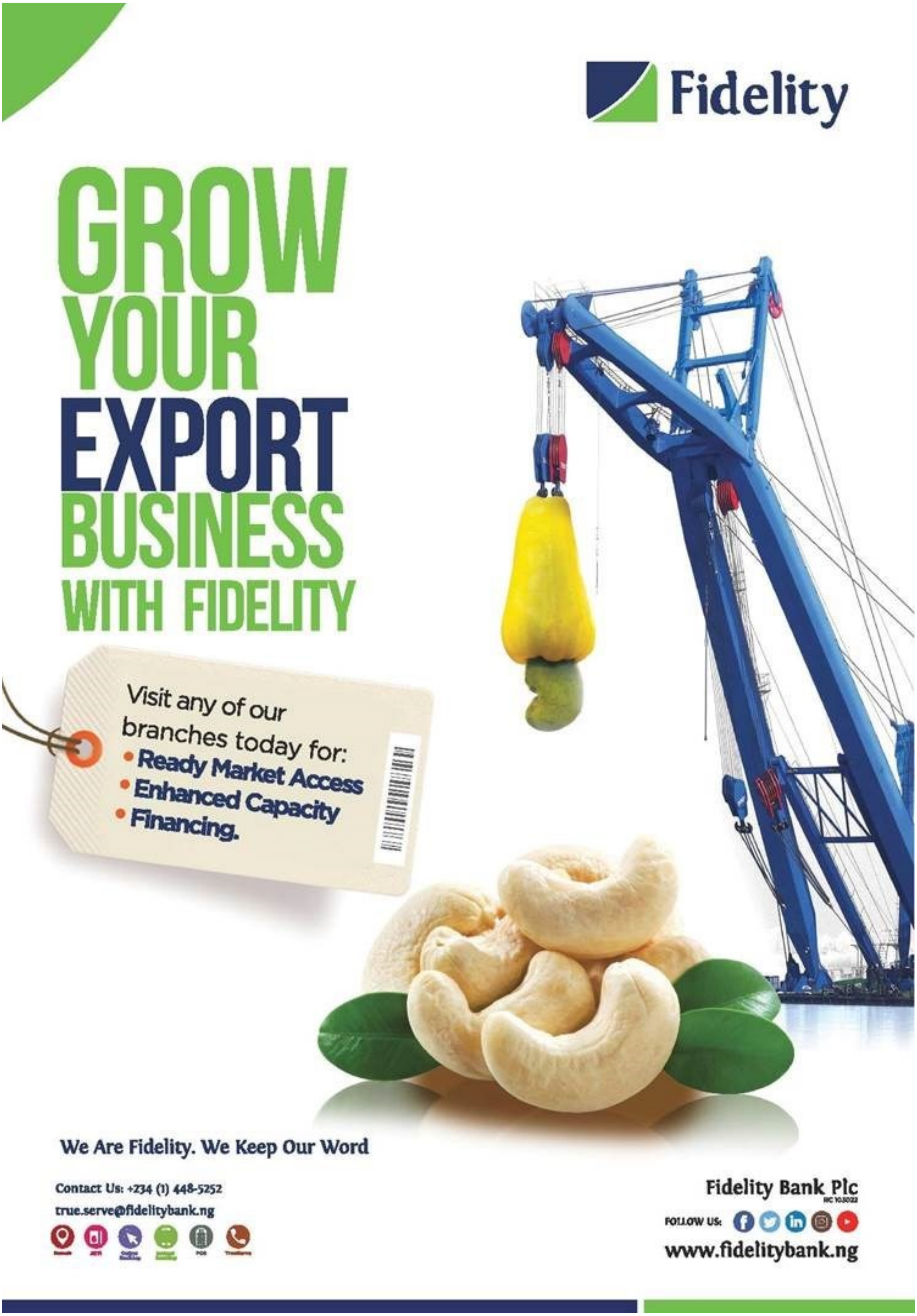
In Kenya and many African countries supposedly high-yielding seeds do not always work. Emilia Tjernstrom of the University of Wisconsin in America has tested seeds bought from local dealers. On average only 76% of the seeds germinated and in some samples none did. Fake hybrid seed is widespread, says Mary Wangeci, an agricultural supplier in Machakos, near Nairobi. Clued-up farmers are gradually learning to scan the bar codes on seed packets with their phones to see if the product is genuine. Unfortunately, the neediest farmers are not so savvy.

And the commercial seeds on the market do not always produce bountiful harvests. Because scientists are always working on maize, new hybrids are generally better than old ones. Plants also need to be appropriate for local conditions, which vary more in Africa than in other parts of the world. But Kenya's bestselling maize seed, known as 614, was released in 1986. And although it grows well in the rainy highlands, it fares poorly in the hotter, drier parts of the country.

Maize 614 is produced by a state-controlled outfit, the Kenya Seed Company, which dominates the market. It is cheaper than seeds produced by rival companies, partly because the government holds down its price. Launching a competitor is difficult for other reasons. Getting approval is expensive and takes five years--"if you're really sharp, four years", says Saleem Esmael, who runs the Western Seed Company. The stringent trials that the government insists upon are supposed to protect small farmers, but the result is old, inferior seeds on the market. Stephen Mugo of CIMMYT compares the system to a bicycle with 100 padlocks--safe, but not useful.

Uganda has a less cumbersome approval process and a more open seed market. But its government still finds ways to meddle unhelpfully. In 2013Mr Museveni launched "Operation Wealth Creation", which involved troops distributing seeds, fruit trees and cows. By 2017 private companies were selling half of their maize seed to the government. It typically takes three seasons, or 18 months, to ramp up production; reputable growers could not keep up with the sudden surge in demand. Seeds reached farmers late, or grew badly. The government then cut its purchases just as suddenly as it had started them. Companies were left with warehouses of seed they could not sell.

Under tight security at CIMMYT's research station in Kiboko, which includes a man who shoots inquisitive monkeys with a catapult, some unusual maize plants are growing. Created by multinational companies, these are genetically modified to resist fall armyworm. So far, the trial has been a success: the modified plants have hardly been touched, while nearby control plants are shredded. But farmers are unlikely to be able to plant the new maize soon, since both Kenya and Uganda ban genetically modified crops. Few sights are more frustrating.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Macroeconomic Indicators (September 1st – 30th)

Power Sector

During the review period, the average power output stood at 3,473MWh/h, 1.50% lower than the average output in the corresponding period in August (3,526MWh/h). Although grid constraint declined by 4.80% to an average of 2363.24MWh/h from 2482.46MWh/h the previous month, power output during the review period was primarily affected by grid constraint. Total revenue loss within the review period was N59.71billion (annualized at N726.67billion).[28]

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

Constraint (MWh/hour; total)	August 1st – August 31st	September 1st – September 30th	Change
Gas	43,320.00	51,061.10	↑
Grid	76,956.20	70,897.10	↓
Water	-	-	↔

[29]

Outlook

Grid constraint fell by 43.69% to 1,776.20 MWh/h on September 30th from 3,154.10 MWh/h at the beginning of the month. The decline in grid constraint suggests prospect of improved power output in the near term. Also, we expect water constraint to remain muted owing partly to the rainy season.

Impact

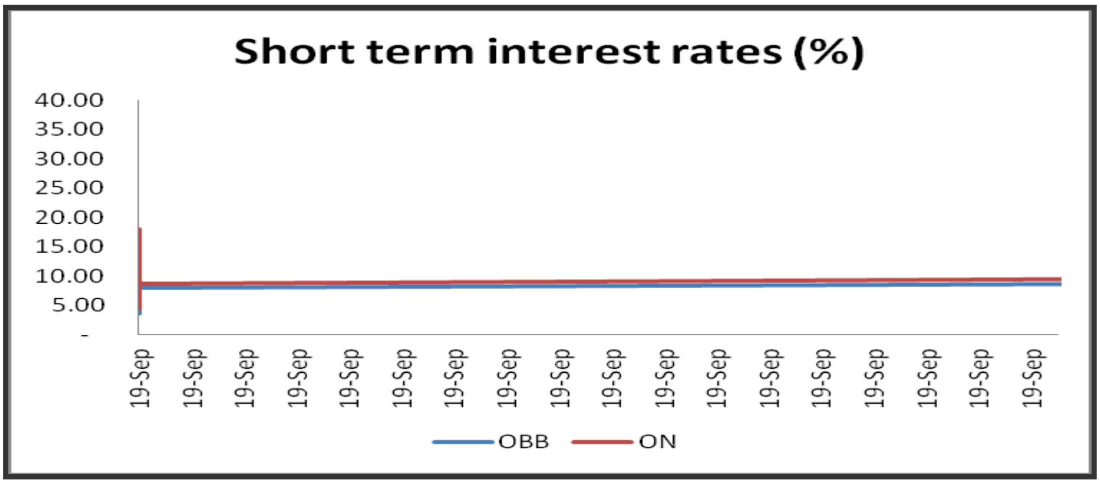
An increase in power supply bodes well for economic activities in the country. Operating cost of business in the country should fall due to reduced dependency on alternative energy sources like diesel and petrol.

[28]FG, FDC Think Tank
[29]FG, FDC Think Tank

Money Market

Average liquidity within the banking system during the period rose sharply by 109.50% to N185.87bn compared to N88.72bn recorded in the corresponding period in August. The NIBOR (OBB/ON) rates averaged 10.80%p.a. and 12.84%p.a. respectively in September, 907bps lower than the corresponding period in August (11.95%p.a./13.95%p.a). The rates reached a period-high of 33.86% p.a and 36.36% p.a respectively on September 16th, before declining to close the period at 8.00% p.a and 8.79% p.a respectively.

Total OMO sales during the period was N1.40trn relative to maturities of N1.85trn. This resulted in a net inflow of N450.00bn, which is 42.88% lower than the net inflows of N787.78bn recorded in the same period in August.



[30]

At the secondary market, all the yields moved in the same direction at an average of 1,240bps. Meanwhile, at the primary market, the 91-day yield was flat; 182-day tenor fell by 5bps while the yield for the 364-day tenor inched up by 1bp.

T/bills Tenor	Secondary market rates as at September 2nd (%pa)	Secondary market rates as at September 30th (%pa)	Direction	Primary market rates as of July 31st (%pa)	Primary market rates as of August 18th (%pa)	Direction
91	13.00	12.22	↓	11.10	11.10	↔
182	13.60	11.90	↓	11.80	11.75	↓
364	13.85	13.08	↓	13.29	13.30	↑

[30]FMDQ, CBN

NITTY Tenor	Rates on September 2nd (%pa)	Rate on September 30th (%pa)	Direction
30	13.31	12.33	⬇
90	13.30	12.61	⬇
180	14.48	12.88	⬇

[31]

The Nigerian Inter-Bank Treasury True Yield (NITTY) rates declined across all the three tenors by an average of 109bps.

Outlook

The money market is expected to remain illiquid for the rest of the year as banks strive to meet the minimum loan to deposit (LDR) ratio demands of the central bank. The Central Bank of Nigeria (CBN) has raised the LDR requirement to 65% and extended the deadline to December.

Impact

Low market liquidity may result in a spike in interbank interest rates. However, this would be moderated by competition among banks to give out loans and to prevent a penalty for defaulting to meet the LDR requirement.

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.

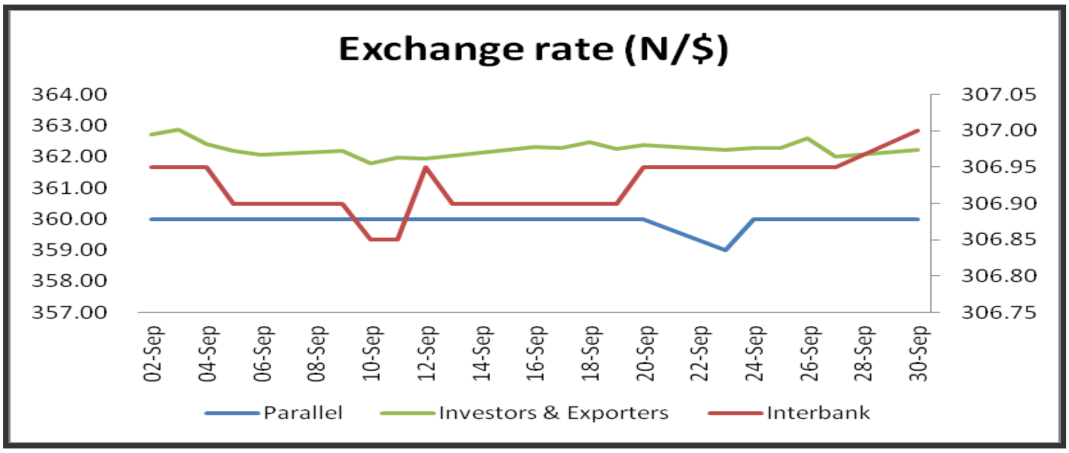
Exchange Rate

The naira was relatively stable at N360/$ at the parallel market during the review period. At the interbank foreign exchange market, the naira was N306.95/$ at the start of the month, it appreciated slightly to N306.90/$ and N306.85/$ between Sept 10th and 19th before

[31]FMDQ

retreating to N307/$ on Sept. 30th. However, at the IEFX window, the currency strenghtened by 0.14% to N362.23/$ from N362.73/$ at the beginning of the month. Total turnover at the IEFX window fell by 34.41% to $4.46bn from $6.80bn in the corresponding period in August.

CBN intervention at the forex market totalled $845.11mn during the review period. This is 7.25% higher than the corresponding period in August ($787.96mn). Whilst the currency weakened against the pound to close the period at N453/£ from N445/£, it appreciated against the euro to N395/€ from N398/€ on September 02.



[32]

Outlook

The naira is likely to come under pressure partly due to increased forex demand for payment of tuition fees and forex restriction for food imports. The government is also embattled by a $9billion fine amid declining external reserves. However, CBN's continuous intervention at the forex market should moderate the effect of the pressures and keep the naira at N360/$-N362/$ in the coming weeks.

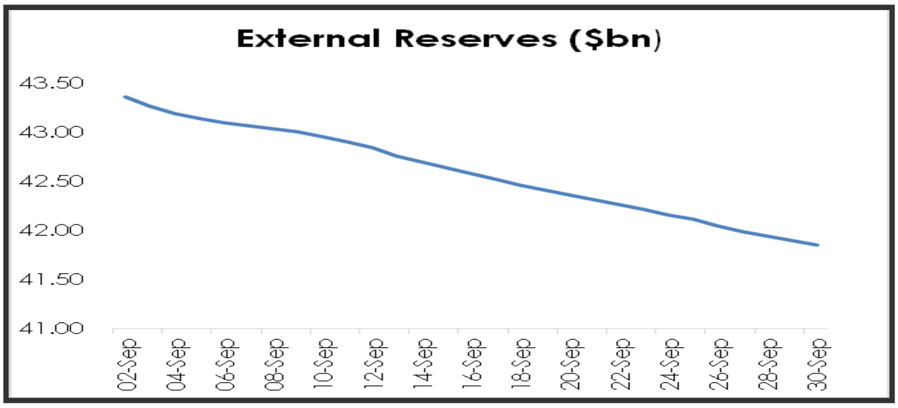
Impact

A depreciation of the currency would weigh on manufacturing activities in the country and overall economic productivity. This is because the manufacturing sector generally depends on foreign exchange for majority of its inputs.

[32]FMDQ, CBN, FDC Think Tank

External Reserves

Nigeria's gross external reserves recorded a steady decline during the review period. It declined by 3.48% to close the period at $41.85bn compared to $43.36bn on September 2nd. Subsequently, Nigeria's import cover has dropped to 10.45 months from 10.80 months on September 2nd.



[33]

Outlook

The CBN is expected to continue to intervene in the foreign exchange market to defend the currency against prospective demand pressures. Therefore, external reserves may maintain a downward stride in the near term.

Impact

External reserves has fallen below the psychological resistance level of $42bn. This could affect the CBN's ability to intervene in the forex market and reduce the country's buffers against negative external shocks.

[33]CBN

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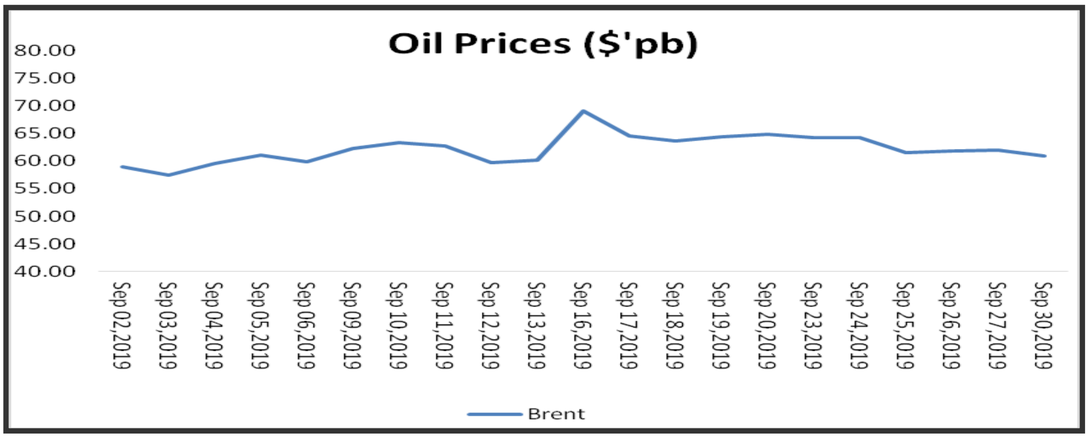
Commodities Market- Exports

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

Oil Prices

Brent price averaged $62.21pb in the review period, 4.29% higher than the average of $59.65pb in the corresponding period in August. This was largely driven by an attack on Saudi Arabia's oil facility, which temporarily reduced the country's oil output by about 50%. Oil production in Saudi Arabia was however salvaged by inventories which helped to moderate the effect of the shock on global oil price.



[34]

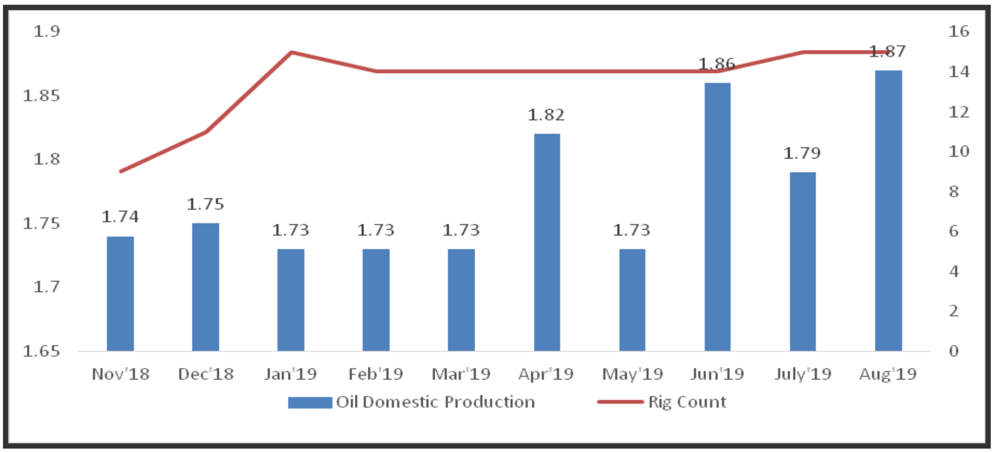
Outlook

Oil prices is expected to decline in coming weeks supported by a recovery of Saudi Arabia's oil production and a surge in US crude stockpiles.

Oil Production

Nigeria's oil production was 1.87mbpd in August, up 4.47% from 1.79mbpd in August.[35] This was in spite of 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.

[34]Bloomberg
[35]OPEC



[36]

Outlook

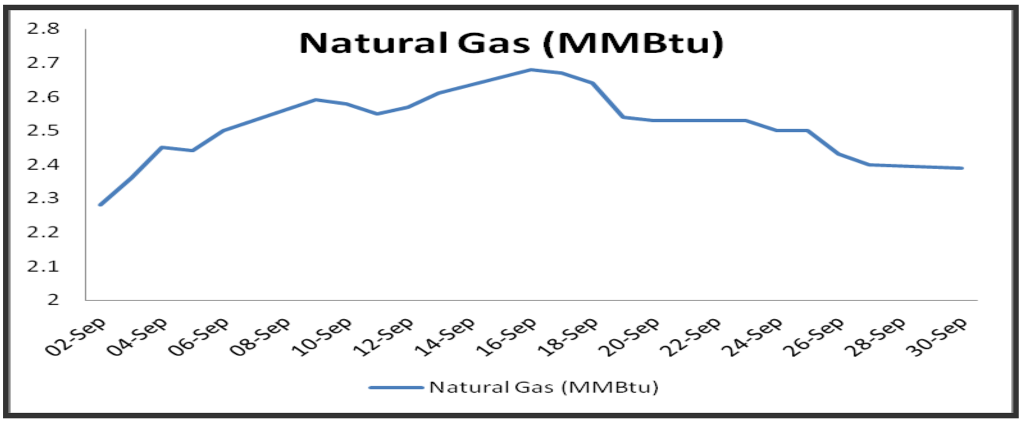
The Nigerian government has pledged to comply with the OPEC production quota of 1.685mbpd. Nigeria's current oil output is 10.98% above the country's OPEC quota of 1.685mbpd. Therefore, oil production could decline in subsequent weeks.

Impact

Crude oil accounts for approximately 90% of Nigeria's export revenue. A decline in output would weigh on the country's weak 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 rose by 15.67% to $2.51/MMBtu during the review period from the average price of $2.17/MMBtu in the corresponding period in August. This was due to a surge in global supply.



[37]

[36]OPEC and Baker Hughes
[37]Bloomberg

Outlook

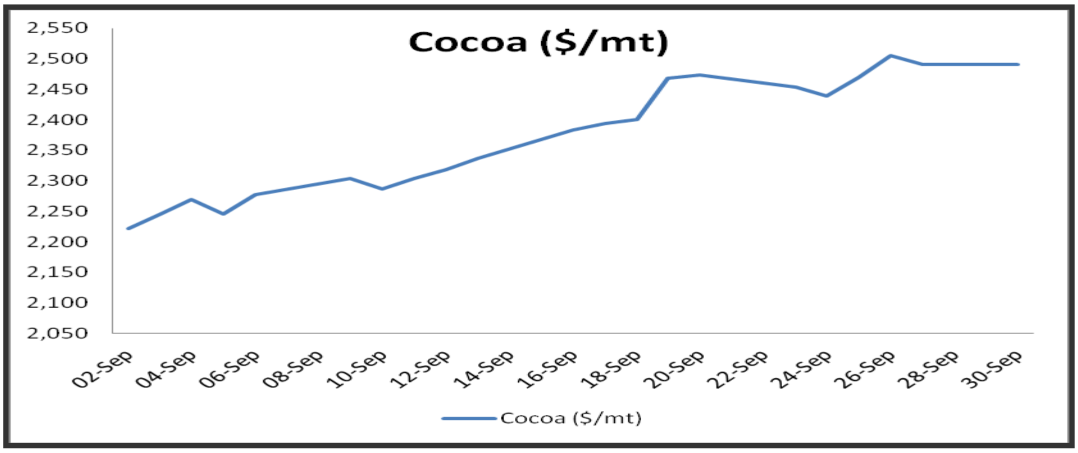
We expect LNG prices to fall in subsequent weeks due to expectations of an increase in the global supply and a relatively favourable weather condition in the US.

Impact

Nigeria's second-biggest export is LNG, accounting for approximately 12%[38] of the country's export revenue. A decline in global price will impact negatively on the country's export revenue and fiscal balances.

Cocoa

Cocoa prices averaged $2,245/MT during the review period, 5.48% higher than $2,368/MT in the relative period in August driven by strong global demand and expectations of a decline in cocoa production in the near term.



[39]

Outlook

Ivory Coast, the world's largest cocoa producer has proposed a cap on cocoa production after the cocoa price ceiling to prevent a price crash. This is likely to push cocoa prices upwards.

Impact

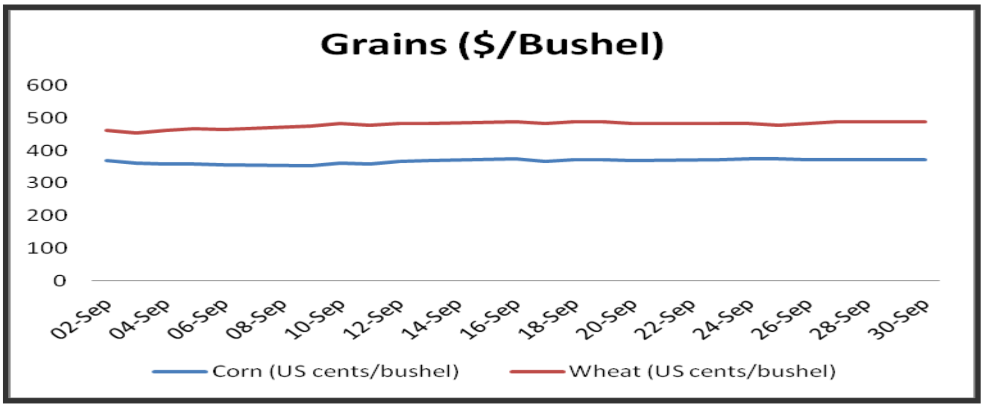
Nigeria is one of the largest producers of cocoa globally, producing 245,000 tonnes annually. An uptick in the price of cocoa bodes well for the country's non-oil export earnings.

[38]EIU
[39]Bloomberg

Commodities Market– Imports

Grains (wheat & corn)

The global prices of wheat and corn followed a similar trend during the review period. The average wheat price declined by 0.03% to $478.39/bushel from the average price of $478.51/bushel recorded in the corresponding period in August. In the same vein, the price of corn averaged $367.18/bushel, 4.75% lower than the average price of $385.50/bushel recorded in August. The decline in prices was driven by improved grain supply in the US.



[40]

Grains- Outlook

We expect concerns over adverse weather conditions in the US to cause a delay in the harvest of grains. This would weigh on global supply of grains and support prices in the near term.

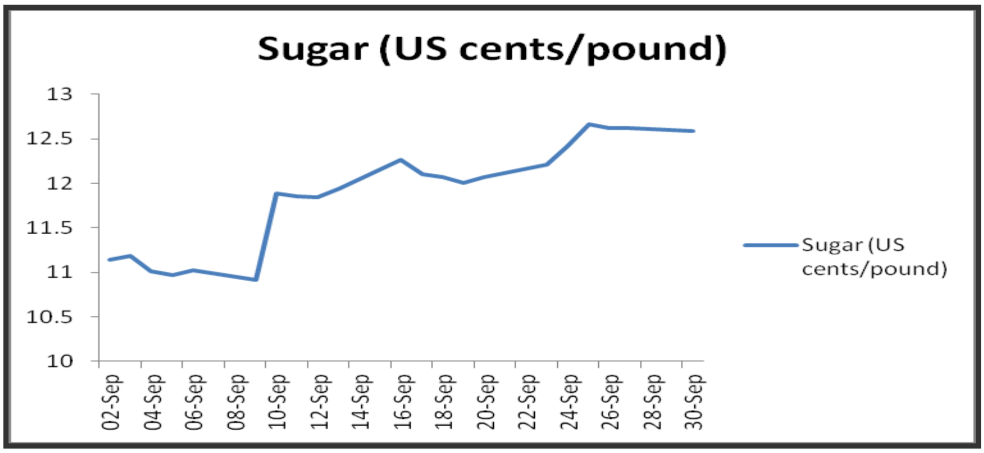
Impact

Manufacturing companies in Nigeria mostly depend on grain import, which suggests an increase in the global prices of grains would result in higher cost of production for these companies.

Sugar

The average price of sugar during the review period rose by 2.77% to $11.88/pound from $11.56/pound in the corresponding period in August partly due to lower production from Brazil, which is a major sugar producer.

[40]Bloomberg



[41]

Outlook

We anticipate a decline in the price of sugar due to a surge in global supply amid weak demand for sugar.

Impact

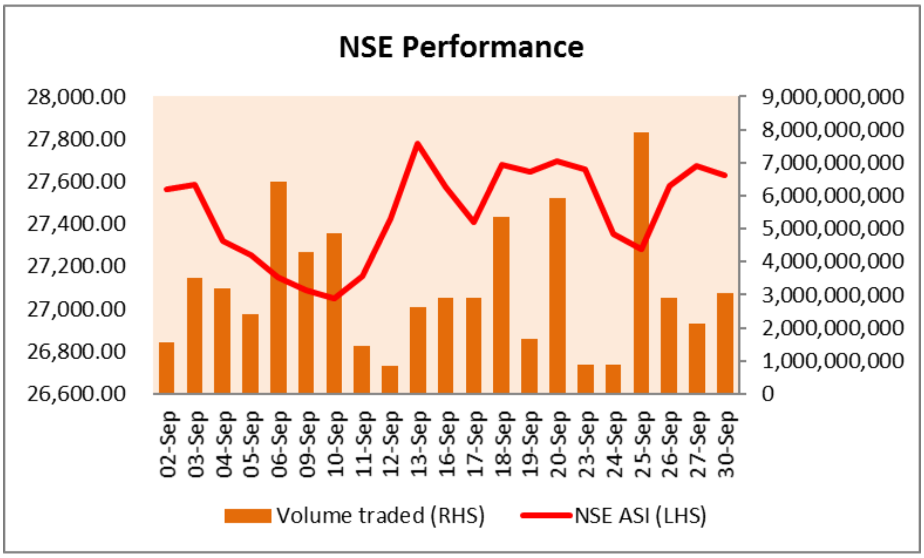
A decline in global sugar prices is expected to yield a fall in Nigeria's import bill because the country is a huge importer of the commodity. Nigeria is reportedly the largest importer of sugar in Sub Saharan Africa and the 10th largest in the world. Also, sugar-based manufacturing firms in the country would record a decline in cost of production.

[41]Bloomberg

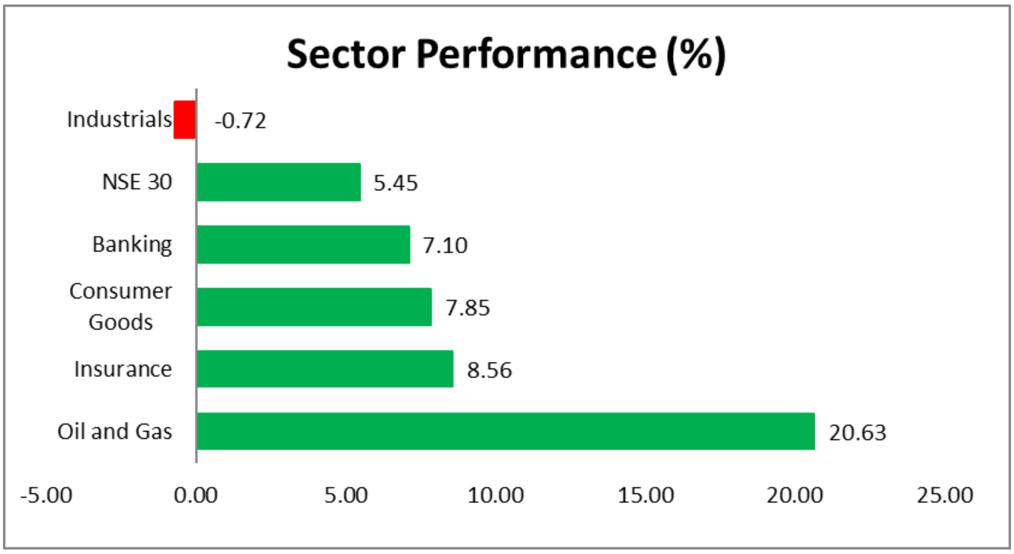
Stock Market Review

The NSE ASI gained 0.38% to close at 27,630.56 points on September 30th relative to its close of 27,525.81 points on August 30th. This was due to an increased demand for bellwether stocks. In the same vein, market capitalization rose by 0.49% (N60bn) to N13.45trn. In the 21-trading day period, the market gained in eleven days and lost in ten.

The NSE traded at a price to earnings (P/E) ratio of 7.06x as of September 30th, 0.28% higher than the close of August 30th (7.04x). The market breadth was positive at 1.14x as 42 stocks gained, 37 lost while 87 stocks remained unchanged.



On the other hand, the market saw a mixed movement in activity level. The average volume traded declined by 10.88% to 227.97mn units compared to the same period in August, while the average value of trades increased by 4.19% to N3.23bn.



All sector indices gained during the review period except the industrial sector index (-1.62%). Oil and Gas sector topped the gains with 20.63%, followed by the banking sector (8.56%) and Consumer goods sector (7.85%).

UAC Property Development Company Plc topped the gainers' list with a 752.27% increase in its share price. This was followed by Cornerstone Insurance Plc (100.00%), Continental Reinsurance Plc (42.76%), Seplat Petroleum Development Company (39.55%) and Okomu Oil Palm Plc (32.41%).

TOP 5 GAINERS (N)				
Company	**Aug 30'19**	**Sep 30'19**	**Absolute Change**	**% Change**
UAC Property Development Company Plc	0.88	7.5	6.62	752.27
Cornerstone Insurance Plc	0.21	0.42	0.21	100.00
Continental Reinsurance Plc	1.45	2.07	0.62	42.76
SEPLAT Petroleum Development Company	397.7	555	157.3	39.55
Okomu Oil Palm Plc	41.5	54.95	13.45	32.41

The laggards were led by UAC of Nigeria Plc (-79.00%), Champion Breweries Plc (-24.84%), NEIMETH Pharmaceuticals International (-20.00%), Sterling Bank Plc (-20.00%) and Learn Africa Plc (-19.42%).

TOP 5 LOSERS (N)				
Company	**Aug 30'19**	**Sep 30'19**	**Absolute Change**	**% Change**
UAC of Nigeria Plc	5.00	1.05	-3.95	-79.00
Champion Breweries Plc	1.53	1.15	-0.38	-24.84
NEIMETH Pharmaceuticals International	0.50	0.40	-0.10	-20.00
Sterling Bank Plc	2.50	2.00	-0.50	-20.00
Learn Africa Plc	1.39	1.12	-0.27	-19.42

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	Access Bank	343.31 19.70%	74.12 61.76%	63.02 39.86%	1.93

Outlook

We expect the market to remain volatile in the near term due to low investor confidence. However, bargain hunting on low-priced stocks could support gains in the near term.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Equity Report: Cadbury Nigeria Plc

Analyst Recommendation: HOLD

Market Capitalization: N18.50billion

Recommendation Period: 365 days

Current Price: N9.85

Industry: Consumer Goods

Target Price: N11.64

Analyst note

Cadbury Nigeria (Cadbury) returned to its winning ways in the first half of 2019 (H1'19) despite some economic headwinds. The combination of an aggressive revenue drive and containing operating costs helped the company record a profit in H1'19, from its negative position in H1'18.

Impressive growth in turnover

Cadbury's turnover spiked by 10.82% to N19.45 billion in H1'19 compared to N17.55 billion in the corresponding period in 2018. The surge in the company's turnover is a result of an improvement recorded in its reported business segments (refreshment beverages and confectionary). Refreshment beverages revenue increased by 19.41% while confectionary increased by 15.08%.

Cadbury reverts to positive earnings

The company reported an operating profit of N888.78 million which is 941.40% higher than the operating loss of N105.63 million reported in the corresponding period in 2018. The positive operating profit can be attributed to the boost in revenue. While administrative expenses grew by 0.58% from the previous year, the growth was lower than previous years.

During the period, the company did not incur any financial cost. This had a positive impact on the company's H1'19 profit before tax (an increase of 325.84% to N957.06 million) as well as profit after tax (an increase of 258.09% to N669.94million).

The country's robust demographics with a population growth rate of 2.6%, Cadbury's product portfolio, and an impressive route to market strategy bode well for future profitability in a more stable economy. However, intense competition, especially in the beverage segment, remains a threat to the company's growth. Hence, in determining Cadbury's intrinsic valuation, we considered current financial performance, growth prospects, expansion plans, competitive positioning and macroeconomic fundamentals. We believe that Cadbury's current share price is exactly valued. Accordingly, we place a HOLD rating on the company's stock.

Industry and company overview

Cadbury was incorporated in Nigeria in January 1965 and subsequently listed on the Nigeria Stock Exchange (NSE) in 1976. Before listing on the NSE, Cadbury predominantly re-packed imported bulk products, but with its listing, it grew rapidly into a full-fledged manufacturer. The parent company, Mondelēz International (formerly Kraft Foods Inc.) has a majority equity interest of 74.97% in Cadbury through its holding in Cadbury Schweppes Overseas Limited. Mondelēz International is one of the largest confectionary food and beverage companies in the world. It remains a dominant player for chocolate, biscuits and gum and candy offerings.

Cadbury Nigeria currently produces and markets branded fast-moving consumer goods such as refreshment beverages and confectionaries. It also exports intermediate cocoa products to Europe and the rest of Africa.

The beverage segment accounts for 58% of revenue. Confectionary accounts for 26% and intermediate cocoa products for 16%.

Cadbury Plc's rivals remain Nestlé and Unilever. Nestlé Nigeria Plc is currently the largest in the food and nutrition segment with bottom-line earnings over N33.12 billion in 9M'18, compared to Cadbury's N171.85 million. Nestlé continues to benefit from a favorable volume-product mix, as it remains the dominant player in most of its segments.

Local players in the industry include UACN, SweetCo Foods and Promasidor, who are also diversified food companies. Like Cadbury, they have lagged compared to Nestlé due to a combination of production constraints and the intense rivalry in a highly price-sensitive market.

Income Statement for Cadbury Nig					
N'000	**2014**	**2015**	**2016**	**2017**	**2018**
Revenue	30,518,586	27,825,194	29,979,410	33,079,446	35,973,479
Cost of sales	(22,134,829)	(18,894,967)	(23,119,007)	(25,644,312)	(28,017,413)
Gross profit	8,383,757	8,930,227	6,860,403	7,435,134	7,956,066
Other income	38,151	21,263	76,434	99,337	20,192
Selling & distribution expenses	(4,878,200)	(5,621,160)	(5,595,702)	(5,228,425)	(4,706,544)
Administrative expenses	(1,488,817)	(1,909,714)	(2,073,988)	(1,594,681)	(1,571,420)
Operating profit	2,054,891	1,420,616	(732,853)	711,365	1,698,294
Finance income	331,000	156,796	187,780	186,915	116,768
Finance costs	-	-	(17,798)	(547,963)	(592,231)
Net finance income	331,000	156,796	169,982	(361,048)	(475,463)
Profit before tax	2,385,891	1,577,412	(562,871)	350,317	1,222,831
Income tax (expense)/credit	(248,572)	(424,117)	266,468	(50,319)	(399,746)
Profit/(loss) for the year (PAT)	2,137,319	1,153,295	(296,403)	299,998	823,085

Balance Sheet for Cadbury Nigeria Plc					
N'000	**2014**	**2015**	**2016**	**2017**	**2018**
Non-current assets					
Property, plant and equipment	16,132,914	15,365,655	14,187,437	13,882,124	13,291,154
Intangible asset	342,076	283,218	397,439	300,635	207,767
Prepayments	-	23,148	-	-	-
Total non-current assets	**16,474,990**	**15,672,021**	**14,584,876**	**14,182,759**	**13,498,921**
Current assets					
Inventories	2,392,926	1,936,455	5,020,938	6,252,367	5,865,105
Trade and other receivables	6,093,315	5,166,194	4,968,703	4,890,318	3,770,169
Prepayments	164,950	234,118	823,169	499,656	303,641
Cash and cash equivalents	3,685,105	5,408,217	3,011,314	2,598,022	4,090,204
Total current assets	12,336,296	12,744,984	13,824,124	14,240,363	14,029,119
Total assets	**28,811,286**	**28,417,005**	**28,409,000**	**28,423,122**	**27,528,040**
Equity					
Share capital	939,101	939,101	939,101	939,101	939,101
Share premium	272,344	272,344	272,344	272,344	272,344
Other reserves	3,436,348	3,436,348	3,436,348	3,436,348	3,436,348
Share based payment reserve	42,492	30,266	42,634	49,698	62,927
Retained earnings	8,059,166	7,607,238	6,366,306	7,045,300	7,965,426
Total equity	**12,749,451**	**12,285,297**	**11,056,733**	**11,742,791**	**12,676,146**
Non-current liabilities					
Deferred tax liabilities	523,867	348,294	187,708	290,024	734,382
Employee benefits	3,235,863	4,131,780	4,328,231	3,860,721	4,032,108
Total non current liabilities	3,759,730	4,480,074	4,515,939	4,150,745	4,766,490
Current liabilities					
Trade and other payables	11,742,702	11,104,368	12,582,771	8,860,338	10,017,011
Current tax liabilities	559,403	547,266	102,192	69,488	68,393
Bank overdrafts	-	-	151,365	1,902,047	-
Short-term loan	-	-	-	1,697,713	1,697,713
Total current liabilities	12,302,105	11,651,634	12,836,328	12,529,586	11,783,117
Total liabilities	**16,061,835**	**16,131,708**	**17,352,267**	**16,680,331**	**16,549,607**
Total equities and liabilities	**28,811,286**	**28,417,005**	**28,409,000**	**28,423,122**	**29,225,753**

Management

Cadbury's leadership team has been focused on three key initiatives: accelerating consumer-centric growth, driving operational excellence, and building a winning growth culture.

In a bid for Cadbury to sustain returns and drive growth in a period of fragile and slow economic growth, the management aims to continue to reposition the company for improved cost efficiency. This has been achieved by continuous investment in human capital, innovative initiatives and acquisition of world class technology which in turn will strengthen the company's capabilities and improve shareholder value. In addition, the business will continue to be built on price competitiveness, aggressive route to market initiatives, sustained customer driven activations and exponential growth in portfolio.

Furthermore, management will strive to improve sales through continued promotional activities such as price discounts.

The board of Cadbury is under the stewardship of Mr. Atedo Peterside, founder of Stanbic IBTC, a leading financial institution in Nigeria. He has also served on the board of several companies such as Flour Mills of Nigeria and Nigerian Breweries. Experiences and lessons from serving on these large corporations help keep the leadership abreast of industry trends in Nigeria.

Mrs. Yimika Adeboye is the current Managing Director (MD) of Cadbury Nigeria. She is a Chartered accountant and joined the Company's Board in 2008 as the Finance and Strategy Director. She has worked with Arthur Andersen & Co. and Midgley Snelling & Co., Chartered Accountants.

Non-Executive Chairman

Mr. Atedo Peterside

Managing Director

Mrs. Yimika Adeboye

What the bulls and bears say

Bulls say:

- A dominant player in the food and beverage industry in Nigeria
- Superior and recognizable brand value
- Strategic alliance and support from parent company
- Upward review of the minimum wage to bolster consumer spending
- Innovative initiatives to improve appeal and customer satisfaction

Bears say:

- Intense competition from other leading players such as Unilever and Nestlé
- Persistent macroeconomic headwinds could dampen consumer demand
- Shift of market preference to low-priced products

Risk and outlook

The major risks that may prevent Cadbury from achieving its goals of improved earnings, boosted sales and managed costs include persistent macroeconomic challenges, credit risk, liquidity risk, market risk (currency, interest rate and equity prices), and capital management risk.

The company's exposure to credit risk is mainly influenced by the individual characteristics of each customer. The company mitigates this risk by establishing a credit policy where each customer is analyzed for creditworthiness.

Liquidity risk is the risk that the company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. The company mitigates this risk by ensuring that it always has enough liquidity to meet its liabilities when due without incurring unacceptable losses or risking damage to the company's reputation.

Market risk is the risk that is generated by market prices, foreign exchange rates, interest rates and equity prices and how they will affect the company's income or the value of its holdings of financial instruments. The company mitigates this risk by ensuring that its net exposure in respect of monetary assets and liabilities denominated in foreign currencies are kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short term imbalances.

In order to maintain investor, creditor, and market confidence, and to sustain future development of the business, the company continues to maintain a strong capital base as well as monitor the return on capital.

Appendix - Valuation

Using the Discounted Cash Flow (DCF) methodology, we estimate a stock price of N11.64, which is an 18.17% upside on the current price of N9.85 as of October 10, 2019. The discount rate (Weighted Average Cost of Capital (WACC)) of 18% was derived using a 14.55% risk-free rate, a Beta of 0.4212, an after-tax cost of debt of 23%, and a market risk premium of 7.64%. The long-term cash flow growth rate to perpetuity calculated is 4%.

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