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In This Issue …

Harnessing the benefits of the AfCFTA through Nigeria's cassava value chain

Creating One African Market

The African Continental Free Trade Area (AfCFTA) agreement was recently entered into by 53 African countries, with Eritrea still out of the trade pact. The main intent of the free trade pact is to expand the volume of intra-African trade, which stood at 16% in 2018.[1] With the AfCFTA, the United Nations Economic Commission for Africa expects intra-African trade to grow by 15%-25% by 2040.[2] Currently, trade in Africa remains dominated by raw materials and less processed products; on average, minerals and agriculture accounted for 44% and 16% of intra-African trade, respectively, between 2007-2017.[3] This is indicative of the limited scope for value creation in the continent.

Anecdotal evidence has shown that African economies that are more diversified, such as South Africa (the continent's second largest economy), are better positioned to benefit from the trade pact than others that are resource-based and agricultural dependent. Putting this in context, South Africa currently accounts for 40% of intra-African manufacturing imports. Meanwhile, resource-based countries such as Algeria, Egypt and Nigeria – which collectively account for approximately 50% of Africa's GDP –contribute only 11% to intra-African trade.[4]

[1]IMF. 2019. "Sub-Saharan Africa Regional Economic Outlook: Recovery Amid Elevated Uncertainty". https://www.imf.org/en/Publications/REO/SSA/Issues/2019/04/01/sreo0419
[2]United Nations Economic Commission for Africa. 2019. "African Trade Agreement - Catalyst for Growth". https://www.uneca.org/stories/african-trade-agreement-catalyst-growth
[3]IMF. 2019. "Sub-Saharan Africa Regional Economic Outlook: Recovery Amid Elevated Uncertainty". https://www.imf.org/en/Publications/REO/SSA/Issues/2019/04/01/sreo0419
[4]ibid

The Nigerian economy is highly dependent on crude oil for 90% of its export proceeds and over 60% of its fiscal revenues, yet agriculture remains the mainstay of the economy (accounting for 23% of the GDP). For Nigeria to harness the benefits associated with AfCFTA, and to strengthen its economic diversification efforts, the federal government needs to look to the agricultural sector for intra-African opportunities. Cassava is one such opportunity. As the world's largest producer of cassava, the development of the cassava value chain could serve as a test case for shifting from a resource-based to manufacturing-based economy.[5]

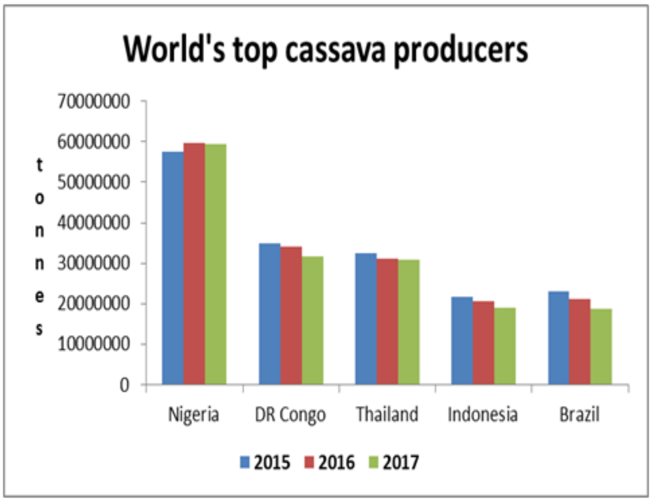
Other countries have been successful in their attempts and they enjoy high growth rates today. Examples are Indonesia, Thailand and Malaysia. They all belong to the Association of Southeastern Nations (ASEAN) and constitute the region's largest agribusiness exporting countries. Due to its increasing value addition creation, ASEAN has emerged the world's largest recipient of foreign direct investment compared to other regional blocs such as the North American Free Trade Area, the Pan-Arab Free Trade Area and African economic groupings such as ECOWAS, COMESA and SADC among others. The ASEAN members do not only benefit from increased inflows of foreign direct investment but also higher intra-regional trade flows by virtue of improving the local content of their exports. It was estimated that domestic value-added accounted for 60%-70% of total valued-added exports from ASEAN in 2013.[6]

Global trends of cassava production and exports

African countries dominate the world's cassava production, where the joint contribution of Nigeria and the Democratic Republic of Congo stood at 34% in 2017. Two Asian countries, Thailand and Indonesia, are the next biggest contributors, totaling 18% of the world's output. Brazil, which is Latin America's largest cassava producer, rounded out the big players in 2017 with a 9% contribution. A conventional theory of international trade, factors-proportion theory, states that a country should produce and export goods that use domestic resources intensively. It emphasizes the interplay between the relative abundance of resources and the relative intensity of resource use in the production of a commodity, with which a country has comparative advantage.[7] Theoretically, the largest cassava producer is expected to emerge as the world's largest exporter of cassava. This is not true in the case of Nigeria, where an insignificant portion of domestic cassava production was exported between 2015 and 2017.

[5]FAO. 2019. "Nigeria at a glance". http://www.fao.org/nigeria/fao-in-nigeria/nigeria-at-a-glance/en/
[6]ASEAN Promotion Centre on Trade, Investment and Tourism. 2017. "Global Value Chains in ASEAN – A regional perspective".https://www.asean.or.jp/ja/wp-content/uploads/sites/2/2017/08/GVC-in-ASEAN_paper-1_-A-Regional-Perspective.pdf
[7]Krugman, P.R. and Obstfeld, M. 2018. *International Economics – Theory and Policy*. Addison-Wesley (11th Edition).

Over the same period, Asia's largest cassava producer, Thailand, emerged as the world's largest cassava exporter. Nigeria's status as a small player in the global cassava market could suggest limited scope of value creation in domestic cassava production in line with international standards.



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	Cassava Exports (tonnes)		
	2015	2016	2017
Thailand	7,299,015	6,417,986	6,402,289
Indonesia	6,015	37,784	5,563
Nigeria	428	634	180
Brazil	18	24	36
DR Congo	36	36	22

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Promoting the cassava value chain in Nigeria: lessons from Thailand

Thailand developed a vertically integrated system of cassava production, processing, and marketing with the participation of a large number of small-scale producers, particularly in the rural areas where cassava production is predominant. Thailand's Cassava production accounts for 8% of the country's agricultural land, making cassava the fourth major crop grown in Thailand after rice, para rubber and sugarcane. As of 2016, 1.42 million hectares were committed to cassava production, this has grown from less than 200,000 hectares in 1961. Similarly, crop yields rose by 33% to 23.1 metric tons per hectare in 2017 from 17.4 metric tons per hectare in 1961. By contrast, Nigeria's crop yields fell by 7% to 8.8 metric tons per hectare over the period 1961-2017.[10] Moreover, in response to concerns associated with the cassava value chain, such as reducing the bulkiness of cassava end-products and dust pollution, Thailand altered its processing system, shifting production from cassava feeds and chips to pellets and chips. From near zero in 1960, Thailand's exports of chips and pellets jumped to eight million metric tons annually in 1992-1994. The Ministry of Commerce requires farmers to sell 90% of raw cassava to chip producing factories and the remaining 10% to starch processing factories.[11] Today, Thailand has emerged as the regional hub for the manufacturing of cassava-based starch.

[8]FAOSTAT. 2019. "Crops". United Nations. http://www.fao.org/faostat/en/#data/QC
[9]ibid
[10]ibid
[11]Arthey, T., Srisompun, O. and Zimmer, Y. (2018). "Cassava production and processing in Thailand". A value chain analysis commissioned by FAO. http://www.agribenchmark.org/fileadmin/Dateiablage/B-Cash-Crop/Reports/CassavaReportFinal-181030.pdf

Promoting cassava local content in industrial production

As part of the efforts to reduce reliance on the export market (particularly, China) for cassava chips and pellets, the government recently launched a 10-year plan (2017-2026) to make the cassava value chain more efficient and effective. The government has successfully implemented a local content law that puts the use of cassava along the domestic production chain at 20-25%. By comparison, Nigeria's age-long plans to promote the use of cassava flour in bread making have been undermined by an increasing preference for imported wheat by the various flour mills in the country. Wheat imports have increased from just 10,000 metric tons in 1960 to 5.69 million metric tons in 2017.[12] It is also important to note that cassava chips produced in Thailand are shared among three uses in the following order: exports (60%), domestic animal feed (30%) and 10% for processing in ethanol producing factories.[13] This signifies the extent to which the government encourages the local processing of cassava along the production value chain.

Conclusion

According to George Santayana, "those who do not remember the past are condemned to repeat it".[14] The economic recession of 2016 could have been avoided if the Nigerian government had taken steps to reduce the country's vulnerability to global shocks, such as the sharp decline in crude oil prices. The issue with Nigeria is not about cassava production; the country remains the number one producer in the world. The challenge is about encouraging domestic processing and consumption of cassava value-added products, such as cassava-based bread among others. It is therefore imperative for the country to assume its rightful position in the global market for cassava end-products such as chips, starch and pellets. This would allow Nigeria to exploit the potential opportunities offered by AfCFTA through well-diversified export base. This is one viable strategy that the country could adopt to reduce its vulnerability to global shocks.

[12]FAOSTAT (2019). "Crops". United Nations. http://www.fao.org/faostat/en/#data/QC
[13]Arthey, T., Srisompun, O. and Zimmer, Y. 2018. "Cassava production and processing in Thailand". A value chain analysis commissioned by FAO. http://www.agribenchmark.org/fileadmin/Dateiablage/B-Cash-Crop/Reports/CassavaReportFinal-181030.pdf
[14]George Santayana Quotes (no date). BrainyQuote.com. Retrieved November 4, 2019, from BrainyQuote.com website: https://www.brainyquote.com/quotes/george_santayana_101521

US Fed cuts interest rates

At its penultimate meeting of 2019, the US Fed voted to cut its benchmark interest rate by 25bps to a range of 1.5%-1.75% pa. This represents the third time the Fed has cut interest rates so far in 2019.

Justification for the decision

The decision of the US Fed to cut rates was due largely to a slowdown in the US economy driven by trade disputes and weak global growth. According to official data, the US economy slowed to 1.9% in Q3'19, down from its previous growth rate of 2% in Q2'19. While this growth rate beat analysts' expectations of a growth rate of 1.6%, the decline in private domestic investment and business spending represents red flags to policy makers, investors and analysts. Notwithstanding, inflation rate at 1.7% remains below the Fed's target of 2% and unemployment rate is at a 50-year low of 3.5%. In addition, the IMF has cut its 2019 global growth forecast to 3% from its earlier forecast of 3.3% in April 2019.

Impact on Nigeria

The adoption of quantitative easing by central banks in advanced economies such as the US reduces the threat of capital outflows from Nigeria. This is because the inflation/interest rate differential changes in favour of Nigeria. This is positive for Nigeria's external reserves and reduces the pressure on its currency.

Outlook

According to the Fed Chairman, Jerome Powell, it is likely that the Fed would hold off on further rate cuts in the near term. This is because the Fed is of the opinion that the current monetary policy stance is 'well positioned' for global and domestic externalities. However, the Fed reiterated his commitment to act as appropriate in light of global uncertainties.


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Nigeria's unending battle with corruption

The current administration led by President Muhammadu Buhari was elected in February 2015, partly on a mandate to stamp out corruption. However, progress has been limited. Nigeria certainly has major issues with corruption. The country ranked 144th out of 180 countries in Transparency International's 2018 Corruption Perceptions Index (CPI) and for the past decade it has stayed in the last quarter of the index.[15] Previous administrations have over the past two decades introduced various reforms to curb corruption, but often failed to alter public perception of the quality of governance in the country, partly because too often reforms are poorly implemented and do not result in greater transparency or better management.

Corruption is entrenched in the state

Fighting corruption is a long, difficult and complex process, even when a democratic government commits itself to action. President Buhari frequently voices his frustration at the way Nigeria's cumbersome legal system has hindered the battle. But corruption in Nigeria is even more complex than top government officials stealing from the state and hiding the proceeds in foreign bank accounts. Instead, it is somewhat institutionalized, with the problem of mid- and lower-ranking workers in public institutions demanding bribes from ordinary Nigerians arguably even more of a challenge for the administration to tackle.

[15]Transparency International, 2018 Corruption Perception Index, *https://www.transparency.org/cpi2018*

Nigeria's statistics agency, the National Bureau of Statistics (NBS), published a large-scale household survey on corruption in 2017, asking 33,000 households across the country whether they had been asked for bribes, and whether they had complied.[16] The report, *Corruption in Nigeria, Bribery: public experience and response*, revealed that 82.3 million bribes were paid in the 12 months prior to the survey (equivalent to roughly one bribe per adult) and around N400bn was spent by Nigerians on bribes to public officials. Bribe payers spend about 13% of their salary on bribes, often paid to obtain basic services.

The total amount that ordinary Nigerians paid to gain access to state services was estimated at $4.6bn, with the most common reasons for payment being to facilitate simple bureaucratic procedures like getting a driver's license, to avoid a bigger fine and to avoid losing a public utility like water or electricity. Law-enforcement officers were found to be the most common recipients of bribes, followed by vehicle and driving licensing officers, tax and customs officers and public utilities officials. This highlights how widespread corruption could endure in Nigeria even if the officials who divert state funds were caught and punished more frequently. It seems that this low-level public corruption that Nigerians encounter in their everyday lives continues to shape the public's perception of the success or failure of the administration's anti-corruption drive more than announcements about funds recovered from former state officials. Furthermore, although some stolen money has been returned by Nigeria's elites, in many cases it has been discreetly handed over to avoid prosecution. This is faster than initiating dozens of criminal cases against former officials. However, it is limiting the deterrence effect of the anti-corruption campaign.

[16]National Bureau of Statistics, August 2017. 'Corruption in Nigeria, Bribery: public experience and response' https://eeas.europa.eu/sites/eeas/files/2017.08.16_survey_findings_policy_implications.pdf

Some progress has been made but suspicion of political partisanship remains

It would be wrong to say that Nigeria's anti-corruption efforts have been futile. Since his return to power, President Buhari has taken steps to tackle graft, including the arrest of some high-ranking members of the political elite. There are also promising signs that the administration has made it harder to move stolen funds out of the country and made foreign actors more wary of attempting to bribe Nigerian officials. European countries like the UK are co-operating with Nigeria to trace and return funds hidden abroad. Moreover, several former international oil executives and Nigeria's former oil minister, Dan Etete, are currently on trial in Italy over corruption allegations relating to a sale of an oil bloc to Royal Dutch Shell and Eni in 2011.

However, there remains a suspicion that political partisanship has played a role in the current Nigerian government's choice of targets. The administration has overseen the Economic and Financial Crimes Commission (EFCC) launch investigations into several members of the previous administration of the People's Democratic Party (PDP). This focus on the PDP administration has led to accusations that the anti-corruption drive is more about a political witch-hunt than a genuine desire to tackle high-level graft.

Radical reforms to boost transparency are required

Much more needs to be done to reduce corruption. Achieving this would require more radical reforms to boost transparency and the restructuring of government operations to increase efficiency. However, given powerful vested interests, it would require strong political commitment throughout the administration.There will need to be a pattern of arrests, charges being levied, prosecutions and imprisonments in order to show that the administration is serious about tackling corruption, whoever is involved. This would enhance the deterrence effect of the anti-corruption drive and perhaps alter the public’s attitude towards paying and collecting bribes.

Tracking the forces threatening the World's hottest economies

Twenty years ago, China's economy was a tenth the size of the United States. In 2019, it is two-thirds as big. In 2039, on the current trajectory, it will be more than 10% bigger. India will have leapfrogged Japan and Germany to claim the No. 3 spot in the global rankings. Vietnam will be closing in on the top 20.

Disruptive forces are sweeping the global economy. Populist regimes are throwing out the policy rulebook. Protectionism is deadening the trade flows that drove China's rise. Automation and the digital economy are boosting productivity for some, eroding old sources of advantage for others. The threat of climate change looms.

The path to prosperity followed by such success stories as Korea and Japan is increasingly hard to follow.

From Beijing to Brasilia, getting the right mix of smart investment, skilled workforce, innovation capacity and effective governance in

place is already tough to do. Combating disruptive forces—which, from protectionism to climate change, threaten an outsize impact on low- and middle-income economies—adds to the challenge.

The New Economy Drivers and Disrupters Report captures the new forces narrowing the path to development and upending the pattern of winners and losers in the global economy.

Drivers and Disrupters

How economies are positioned to deal with disruptive forces

The Report covers 114 economies, accounting for 98% of global gross domestic product. Drawing on data from official, academic and market sources, we build a series of indexes to gauge performance on the traditional drivers of development: labor force, investment and productivity.

Uniquely, we also measure performance on the big disrupters—populism, protectionism, automation, digitization and climate change—showing which economies are exposed to heightened risk and which are poised to seize opportunities.

The main finding: Catching up is getting harder to do. Low- and middle-income economies are, in general, poorly positioned to adapt to coming disruptions. Without an early and ambitious response forged at a national and international level, the number moving from low- to middle-income, and then on to high-income status—already limited—could dwindle further.

Take China. On the traditional drivers of development, China outperforms. Rapid modernization of infrastructure, advances in education, investment in research and development and can-do government has delivered four decades of stellar growth. Searching for a development model, policy makers are now as likely to look East as to the West for an example.

When it comes to some of the changes sweeping the global economy, though, China is less well-placed. Protectionism threatens to hammer trade flows and slow technology catch-up with global leaders. Climate change will compound stresses on a long coastline and a population already threatened with water scarcity. High inequality and limited social mobility pose a medium-term threat to political stability.

China's Challenge

Barriers to trade threaten to slow China's path to prosperity

For China and other low- and middle-income economies, getting it right on the traditional drivers of development remains a necessary condition for economic success. On its own, though, it is no longer sufficient. The right response to disruptive forces is essential.

Starting from a position of greater strength, advanced economies face the same challenge.

For the U.S., an immigrant-enhanced workforce and trade-boosted gains in productivity could support annual GDP growth at 2.7% in the next decade. Without those drivers, projections by Bloomberg Economics show that growth could slump to 1.4%. The U.K., with Brexit threatening a blow to growth, provides an even more immediate example of how disruptions can upend economic fortunes.

Protectionist Perils

The origins of many of the changes sweeping the global economy can be traced to two sources: trade and technology.

Trade is a driver of prosperity. Trade without agreement on the rules of the game, and without compensation for losers, has resulted in a protectionist backlash that is anything but. Bloomberg Economics estimates that the cost of the U.S.-China trade war could reach $1.2 trillion by 2021, with the impact spread across the Asian supply chain. Brexit and U.S. threats of tariffs on auto imports add to the price tag.

Our protectionism index starts with a calculation of the risk economies face from the current trade war. We use two metrics: the share of GDP exposed to U.S.-China trade, Brexit, U.S. automobile tariffs and other disputes; and a measure of trade uncertainty developed by IMF economists HitesAhir and DavideFurceri and Stanford's Nicholas Bloom.

In addition, we incorporate exposure to future protectionist risk, gauging the importance of trade to the economy, trade balance with the U.S., current tariff levels, sophistication of exports and participation in global value chains.

China, directly engaged in the trade war and with its own high barriers to market entry, appears as one of the most vulnerable major economies. The U.K., with Brexit threatening to break its ties with the world's biggest free trade zone, also features high on the list. For late developers such as Vietnam that aim to follow the exporters' path to prosperity, the door to global markets is creaking closed. Without free trade, development becomes a harder slog.

Robots Rising

Automation is delivering advances in productivity and profits at the expense of increased job insecurity. McKinsey Global Institute estimate that by 2030, some 14% of the global workforce—375 million workers—may have to find new occupations. Rapid progress in artificial intelligence and machine learning, increasing the range of tasks that can be automated while reducing the cost, could push that number even higher.

Badly managed, the result for advanced economies will be a further polarization in income, with a growing divide between high-skill haves and low-skill have-nots.

For emerging markets, lower wages reduce the incentive to automate. That doesn't mean the risk of disruption is low. Automation is rapidly approaching the level at which a substantial share of low value-added work can be done by machines, undermining low-cost advantage of developing markets. Harvard's Dani Rodrik finds that the combination of globalization and automation has resulted in "premature deindustrialization" in low- and middle-income economies, blocking their path to prosperity.

Our automation index starts with data from a study by IMF economists Mitali Das and Benjamin Hilgenstock. The authors cross-reference data on which tasks are easily automated with national surveys showing the composition of labor markets. The results show that high-income economies face the most direct risk from automation.

That's not the end of the story. The ability to maximize the benefits and minimize the costs of automation also depends on policy choices. We incorporate a measure of workforce skills and flexibility, spending on workforce training and income support, and the share of the population with university education. The first two of those capture the ability of the workforce to adapt. The last gauges capacity to benefit from complementarities with new technology.

The results show that markets with a high share of workers in routine jobs, low spending on support for displaced workers, and a small university-educated population face the highest risks. Of course, the data doesn't capture all the factors at work. Japan, for example, faces high exposure to automation, but also benefits from the competitiveness of its robotics industry, as well as labor market conventions that promote low unemployment.


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Digital Divide

Driven by rapid reductions in the cost of the communication, the digital economy holds out the promise of dramatic increases in productivity. Globally, close to four billion people are connected to the internet. In high-income markets, four out of five are online. In developing economies, internet use is at 45% and rising rapidly.

The economic impact is far-reaching. Digital platforms such as China's Taobao connect entrepreneurs to new customers, empowering both sides of the transaction with a high degree of transparency. A massive increase in data flows is driving what international economist Richard Baldwin calls the "third unbundling," with the potential for more services to be outsourced across borders, as with manufacturing.

Done right, digitization holds out the promise of higher productivity, with the potential for low- and middle-income economies to leapfrog along the development process. In China, for example, e-commerce is creating new opportunities for entrepreneurs and consumers in support of economic rebalancing. Done wrong, and the digital divide will exacerbate income polarization in high-income economies, and make it harder for the rest to tap the mainstream of global opportunity.

Our digital economy index assesses preparedness across four dimensions: quality of internet infrastructure and engagement of business, households and governments. Measures include speed of mobile and broadband connections, number and share of the population active online, business spending on information and communications technology, and the World Bank's gauge of the depth and breadth of online government services.

The results show a stark digital divide. High-income economies—with Singapore and Korea topping the list—have high-quality infrastructure and high levels of engagement across business, consumers and government. With a few exceptions, their low- and middle-income counterparts do not. The digital economy presents a new opportunity for development. Many are ill-placed to seize it.

Populist Politics

Trawling data on elections back to 1870, a team of researchers led by Manuel Funke at the Free University of Berlin found that financial crises trigger a surge in support for populist parties.

The 2008 crisis was no exception. From the U.S. to Italy, a tide of resentment has redrawn the political map. We define populist rulers as those who advocate for the common people against corrupt elites, common sense solutions versus complex policies, and national unity over international engagement. Following that definition, 43% of GDP in G-20 economies is now under the control of populist rulers, up from 8% in 2016.

On the evidence so far, populist rulers are better at identifying problems than they are at finding solutions. The result, in various configurations, has been protectionism, opposition to immigration, unfunded tax giveaways, attacks on central bank independence and head-spinning policy uncertainty.

Populist rulers differ. (Some even question the value of the term as a catch-all category.) A family of factors contributes to their rise. High inequality, low social mobility and high unemployment triggered by recession or financial crisis are common denominators. Other factors—rising immigration, imports displacing domestic manufacturing, high crime rates and weak political institutions—are frequent contributors.

Taking account of all these factors, our results show the highest risk in low- and middle-income economies. This reflects a combination of high inequality, low social mobility and weak governance. Turkey—where policy missteps have already contributed to a current-account crisis—shows up among the most vulnerable.

Climate Calamity

Inward-looking leaders are ill-placed to confront an additional systemic risk: climate change. The consequence of temperatures 1°C above pre-industrial levels are already evident. Extreme weather events, from floods in Thailand to category-five storms battering the U.S., are wreaking havoc on housing, infrastructure and supply chains. Insurance losses have risen fivefold since the 1980s.

As temperatures continue to move higher, the economic impacts will be wide-ranging. Uncertainty about climate risks and the impact of mitigation measures creates a disincentive for businesses to invest. Higher temperatures reduce labor productivity. The need for climate adaptation diverts resources away from more productive uses. And while the transition to a low-carbon economy brings new opportunities, a trade-off between emissions and growth may be tough to avoid.

Putting a dollar value on the economic impact is tough to do. The Intergovernmental Panel on Climate Change puts the cost from 0.2% to 2% of global GDP a year. Even at the lower end of that range, the costs will be measured in hundreds of billions of dollars annually. At the upper end, they reach the trillions.

To capture the risk from climate change, we use the Notre Dame Global Adaptation Initiative vulnerability index. The index tracks exposure to climate change across food, water, health, ecosystem services, human habitat and infrastructure.

Low- and middle-income economies with high temperatures, reliance on agriculture, exposed populations and limited resources to adapt are the most exposed in the Notre Dame index. Among major economies, India and Vietnam show up among the most vulnerable.

Driving Development

Even as disruptive forces loom, low- and middle-income economies face a continued challenge in mobilizing traditional drivers of growth.

We track traditional drivers of development across four pillars:

* A growing labor force—either through natural increase or immigration—provides a basis for growth. We incorporate projections on growth in the working-age population through 2030.

* Expansion in the capital stock, efficiently allocated, boosts labor productivity. We measure investment as a share of GDP. As proxies for the quality of that investment, we use the Heritage Foundation's Investment Freedom Index and gross government debt as a share of GDP.

* Productivity-boosting policies unleash the economy's potential. We incorporate a set of measures to capture education, macro-economic stability, openness to trade, financial market development, innovation, business climate and governance.

* Distance from the frontier gives low- and middle-income economies space to grow simply by learning from advanced technology and management practices in the developed world. We measure GDP per capita as a percentage of the U.S.

Unsurprisingly, the results show that on the traditional drivers of development, high-income economies have a considerable advantage. Sweden, Switzerland and Denmark top the rankings, reflecting high levels of education, openness and effective governance.

China tops the ranking for emerging markets, bolstered by strong investment, support for innovation and considerable scope to raise income toward advanced economy levels.

Other emerging markets have found China's example tough to follow. In Brazil, the foundation of high-quality basic education is missing, and high government borrowing has crowded out private investment. In Russia, Poland and other former communist countries, a shrinking working-age population is a drag. Argentina, which has spent a third of the time since 1950 in recession, demonstrates the cost of economic instability.

Race to Develop

Explore how economies are positioned relative to their peers on traditional drivers and new disrupters of development

Looking Forward

Data, it must be acknowledged, have their limitations. Cultural and institutional factors are hard to capture. Portugal suffered higher unemployment than Italy in the wake of the European sovereign debt crisis, but hasn't had the same surge in populism. Japan's workers and employers are aligned around the objective of low unemployment, offsetting risks from automation.

Behind our results are judgments about which inputs to use and what weight to give them. Our judgments are based on careful reading of the academic literature. Where possible, we have supplemented that with our own econometric analysis. Still, they are judgments, and different judgments would produce different results.

They would not change the big picture:

* Low- and middle-income economies are more vulnerable to coming disruptions to the global economy. Protectionism is blocking access to global markets. Populism is taking policy off track. Climate change looms. The path to prosperity is getting harder to follow.

* Policies matter. Within the low- and middle-income group, those that have moved early to get traditional drivers of development in place will be better positioned to adapt. China is making major investments in innovation—necessary to move the economy up the value chain. Brazil is not.

* Among high-income economies, those with a dynamic response to disruptive forces are better placed. Denmark is investing heavily in workforce training and providing support for displaced workers—a cushion against automation. The U.S. is not.

* Looking forward, forging the right response requires action at national and international levels:

* At a national level: policy that creates the right environment for investment and innovation, provides training for workers adapting to automation, and opens opportunities in the digital economy.

* At an international level: new rules of the road on trade in goods, preparation for the digital surge in trade in services, and renewed momentum in the fight against climate change.

Combining the two—and part of the motivation for the New Economy Forum—opportunities to learn from best practice and steer clear of missteps. As this report makes clear, some economies are getting it right, and some are not. For those in the second category, the results are a wake-up call—and an opportunity.

Methodology and Rankings

The Drivers and Disrupters Report evaluates economies on two sets of metrics. One captures the drivers of development, while the other captures exposure to the disruptive forces creating new risks and opportunities in the global economy.

Economy	Drivers Rank	Score	Disrupters Rank	Score
Sweden	1	72.9	3	80.8
Switzerland	2	72.8	8	74.2
Denmark	3	70.0	5	76.6
China	4	69.6	50	59.0
Australia	5	69.4	2	84.5
United Kingdom	6	69.3	20	69.0
Netherlands	7	69.2	13	72.9
Israel	8	69.1	6	75.2
Finland	9	69.0	4	77.5
Ireland	10	68.8	44	59.9
New Zealand	11	68.4	1	86.8
Germany	12	68.3	10	73.2
Norway	13	67.9	9	74.2
South Korea	14	67.5	15	72.1
Canada	15	67.1	38	61.1
Luxembourg	16	66.8	14	72.7
United States	17	66.6	27	65.9
Singapore	18	64.4	7	74.4
France	19	64.0	19	70.1
Hong Kong	20	63.7	34	63.8

Drivers

The drivers consist of a composite gauge of productivity, as well as the projected growth in the labor force, the scale and quality of investment, and a measure of distance from the development frontier.

Weights for these measures in the overall drivers index are set at different levels for high-income and low- and middle-income economies. The weights reflect evidence in the academic literature, as well as empirical analysis by Bloomberg Economics.

The productivity gauge includes six underlying indicators. As with the overall drivers index, weights for these factors reflect separate panel regressions for high-income and low- and middle-income economies.


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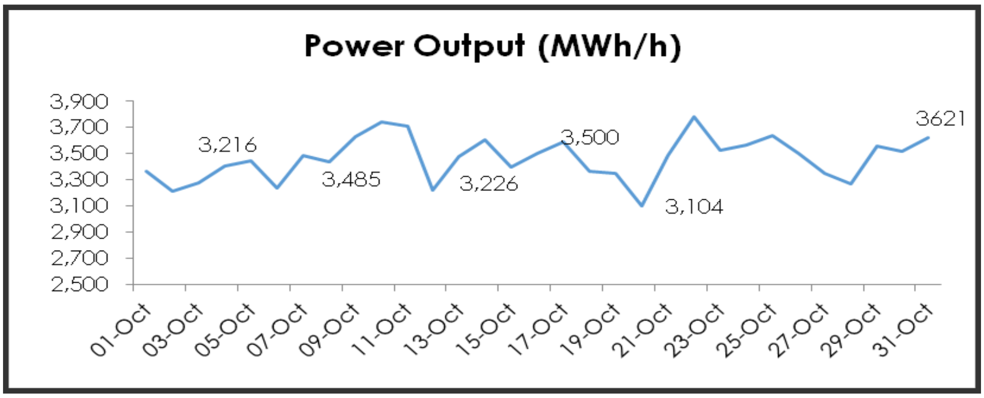
MACROECONOMIC INDICATORS

Power Sector

In October, the average power output sent out from the national grid declined by 0.29% to 3,464MWh/h from an average of 3,474MWh/h in September. This was in spite of the increased rainfall witnessed in the month. The reduction in the on-grid power output was as a result of insufficient gas supplies amid distribution and frequency constraints. A total of 135,038.70MWh/h was lost in the month owing to the constraints. The sector lost approximately N65.41bn, annualized at N784.92bn.



[17]

Outlook

We expect rainfall to subside in the coming months. Hence, power output will be largely dependent on gas availability.

Impact

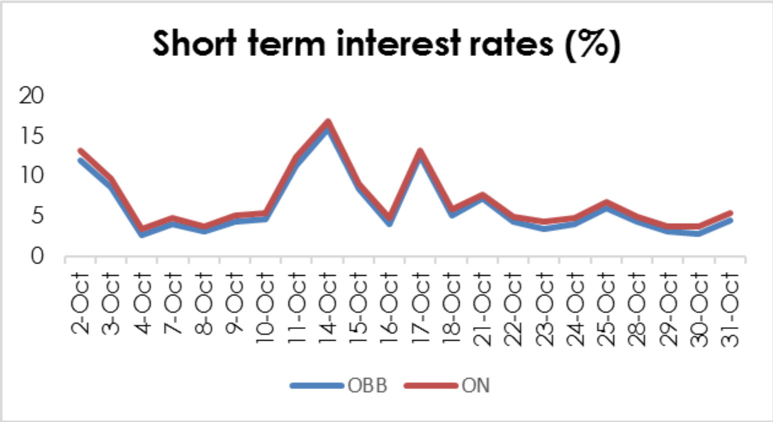
A decline in power supply will imply that companies will have to source for alternative energy, pushing up their operating costs.

Money Market

The average opening position of the interbank money market spiked by 75.41% to N326.04bn in October from N185.87bn in the preceding month. This resulted in a sharp fall in the average short-term interbank rates. Average NIBOR (OBB, O/N) declined by 471bps to 6.61% p.a. from an average of 11.32% p.a. in September. Open buy back (OBB) and overnight (ON) rates touched a peak of 16.00% p.a and 16.79% p.a respectively on October 16th, before declining to close the month at 4.46% p.a and 5.36% p.a respectively.

In October, a total of N1.45trn in OMO sales was issued while N2.35trn matured, compared to N1.40bn OMO sales and N1.85bn OMO maturity in September. This resulted in total net inflows of N900bn, 50% above the net inflows of N450bn in September.

[17]FGN, FDC Think Tank



[18]

At the primary and secondary markets, T/bills yields declined for all tenors.

Primary Market

/bills Tenor	Rate on Oct 2nd (% pa)	Rate on Oct 30th (% pa)	Direction
91	11.08	9.50	↓
182	11.60	10.45	↓
364	13.20	11.50	↓

Secondary Market

T/bills Tenor	Rate on Oct 2nd (% pa)	Rate on Oct 31st (%)pa	Direction
91	11.86	11.45	↓
182	12.04	11.68	↓
364	13.06	13.00	↓

Outlook

Interest rates movement is a function of market liquidity. The CBN has mandated banks to increase their loan-to-deposit ratio to 65% by December 31st, 2019. As banks strive to meet up with this deadline to avoid facing sanctions, banking liquidity could reduce.

Impact

A reduction in market liquidity could push up short term interbank rates.

Forex Market

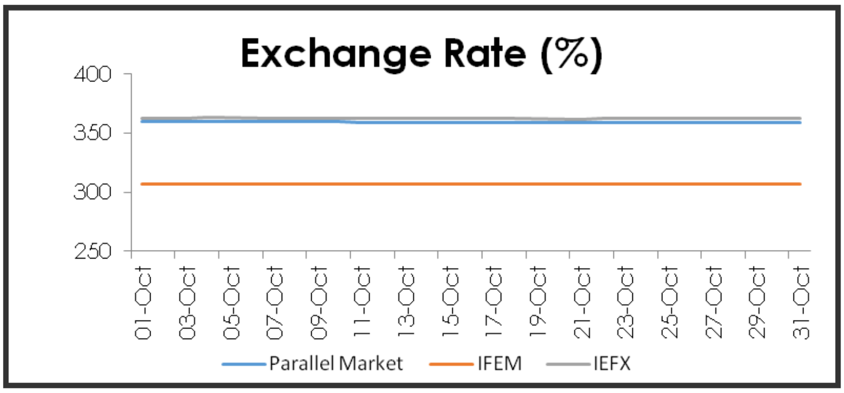
The Nigerian forex market is segmented with multiple exchange rates. The most important rate is the Investors and Exporters window (IEFX). No less than 55%-60% of Nigerian forex transactions are traded on this window. The CBN and most exporters and investors use this window. It serves not only as a source of price discovery but also a barometer for measuring potential and actual CBN intervention in the market. Some of the exchange rate determinants are balance of payments, capital inflows and trade balance.

[18]FDC Think Tank

Exchange Rate

The exchange rate was relatively stable across all market segments in October. At the parallel market it traded at N360/$ for the first 10 days in the month, before appreciating to close the month at N359/$. The naira opened at the interbank foreign exchange market at N307/$, appreciated to N306.9/$ on October 16th before depreciating to close at N307/$ on October 31st.

At the IEFX window, the exchange rate traded within the tight band of N361.82/$-N362.77/$. During the review period, there was an increase in activities at the window, reflected by the 6.28% rise in total forex traded to $4.74bn from $4.46bn in the previous month. Total forex intervention fell by 24.63% to $637mn.



[19]

Outlook

The naira is expected to trade flat at N359/$-N360/$ in the coming week as forex demand pressures remain tepid.

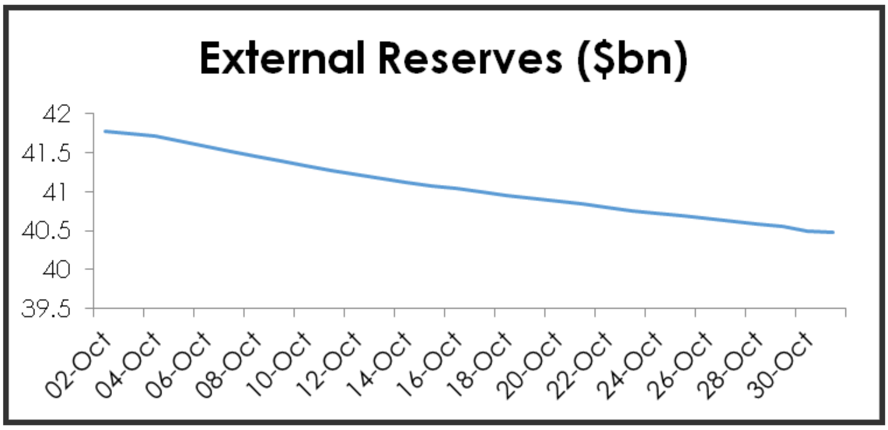
Impact

Exchange rate stability is positive for key sectors such as manufacturing that are highly dependent on imported inputs.

External Reserves

Nigeria's gross external reserves sustained its declining trend in October. It lost 3.09% ($1.29bn) to close at $40.48bn on October 31, from $41.77bn at the beginning of the month. Subsequently, Nigeria's import cover declined to 10.08 months from its previous level of 10.40 months on October 2nd. The steady depletion of the external reserves was partly due to capital flow reversals and lower oil prices. Total forex intervention was down 24.63% to $637mn from $845.11mn in September.

[19]FDC Think Tank



[20]

Outlook

Gross external reserves are likely to fall below the $40bn threshold in the coming weeks, partly due to the dwindling oil prices.

Impact

Continuous depletion of the external reserves could reduce the quantum and frequency of the CBN's intervention in the forex market.

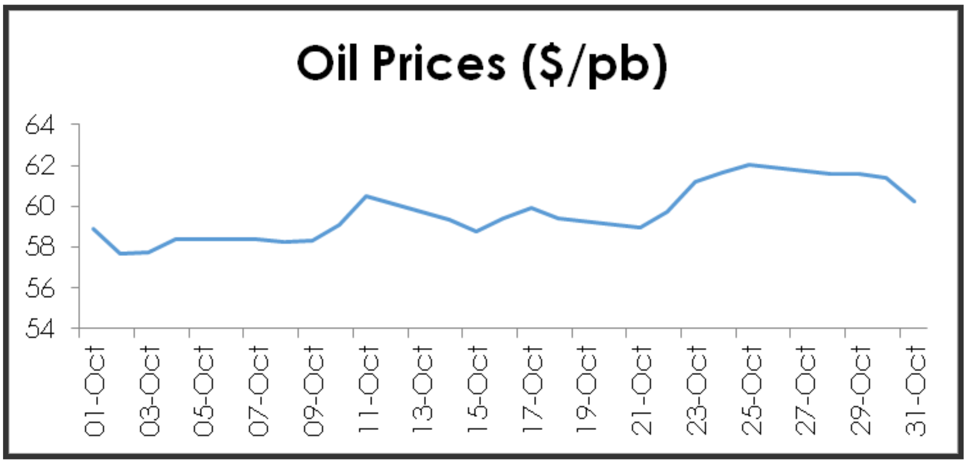
[20]CBN, FDC Think Tank

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

The average price of Brent crude fell by 4.21% to $59.67pb in October from $62.29pb in September. However, oil futures rose by 2.28% to $60.23pb on October 31st from $58.89pb on October 1st. This was partly due to prospects of disruption to Iraq's oil production. Economic activities in Iraq, OPEC's second largest producer, has been hampered by political protests since October 2nd.



[21]

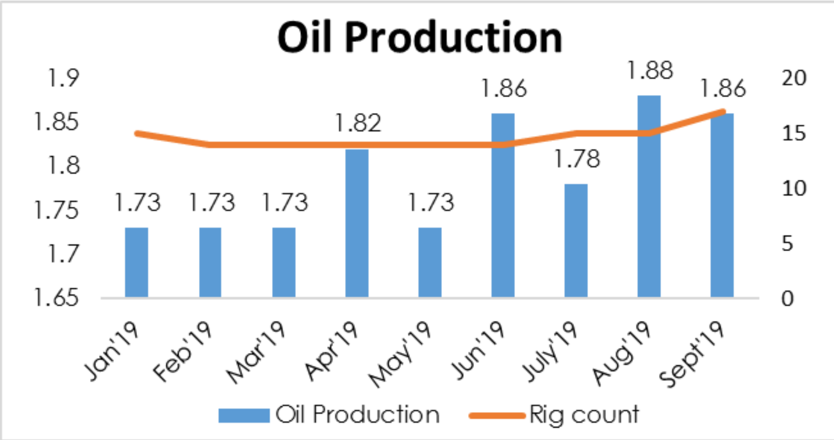
Outlook

Oil prices are expected to remain bearish in the near term due to weak global demand amid expectations of an increase in US inventories by 4.7 million barrels.

Oil production

Oil production declined marginally by 1.06% to 1.88mbpd in September. This was in spite of an increase in the country's rig count to 17 from 15 in August. OPEC's crude oil production fell by 1,318bpd to an average of 28.49mbpd. This was due to an increase in output in Saudi Arabia, Venezuela, Iraq and Iran.

[21]Bloomberg, FDC Think Tank



[22]

Outlook

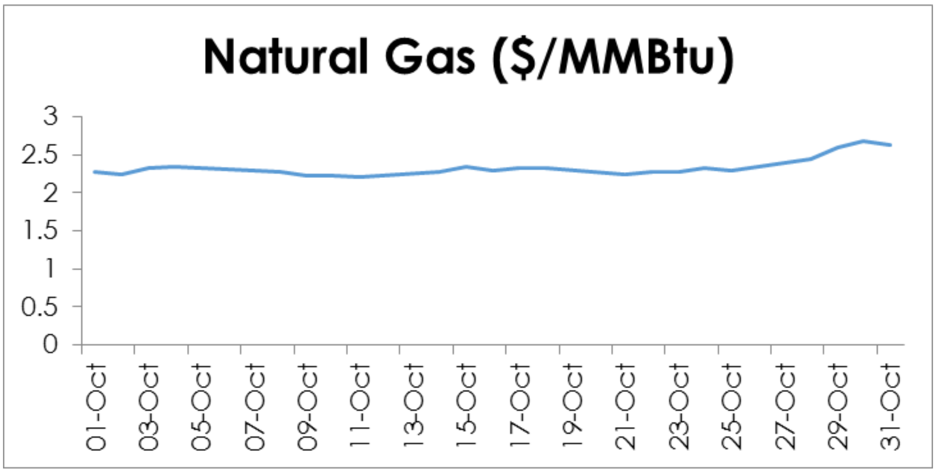
Oil production is projected to increase to 1.88mbpd in the coming month, provided there are no disruptions in the oil producing states.

Impact

Crude oil accounts for approximately 90% of Nigeria's export revenue. An increase in output will be positive for the country's weak fiscal and external buffers. This will have a positive trickle-down effect on proxies such as FAAC disbursements, external reserves and exchange rate stability.

Natural Gas

The average price of natural gas was $2.34/mmbtu in October, 7.12% lower than the average of $2.52/mmbtu in September. Natural gas price was up 15.35% to $2.63/mmbtu on October 31st from $2.28/mmbtu at the beginning of the month. The cold weather in the US led to a bullish demand for natural gas.



[23]

[22] OPEC, FDC Think Tank
[23] Bloomberg, FDC Think Tank

Outlook

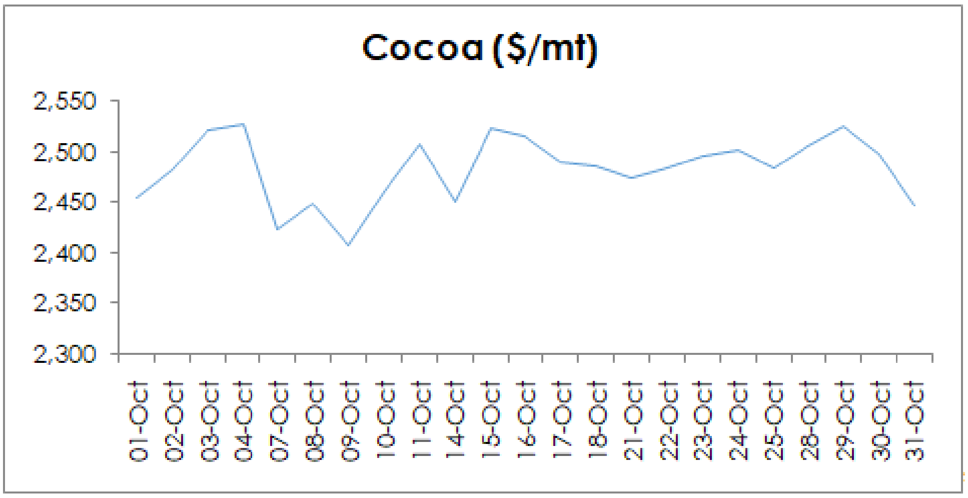
As we approach the winter season, we expect a pick-up in demand for natural gas in the coming weeks. This is likely to push up prices further.

Impact

Liquefied natural gas is Nigeria's second main export; higher prices will have a positive impact on the country's export earnings.

Cocoa

The average price of cocoa increased by 4.51% to $2,482/mt in October from $2,375/mt in September. Cocoa prices declined to $2,446/mt on October 31st from $2,453/mt at the beginning of the month, despite concerns over drought-like conditions in Ivory Coast.



[24]

Outlook

We expect cocoa prices to pickup due to expectations of lower output in Ivory Coast in the coming weeks.

Impact

Cocoa is the 2nd largest export commodity in Nigeria, accounting for approximately 90% of total exports. A rise in the price of cocoa will increase Nigeria's export revenue.

[24]Bloomberg, FDC Think Tank

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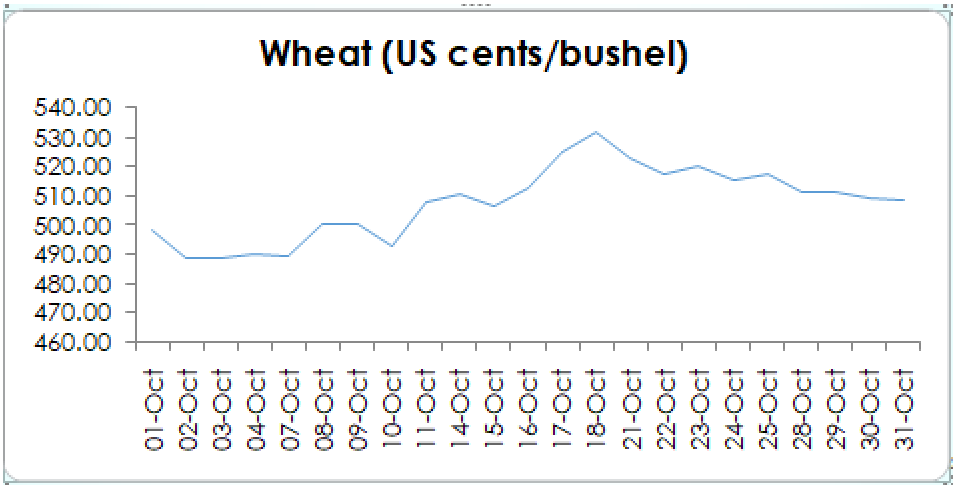
COMMODITIES MARKET - IMPORTS

Wheat

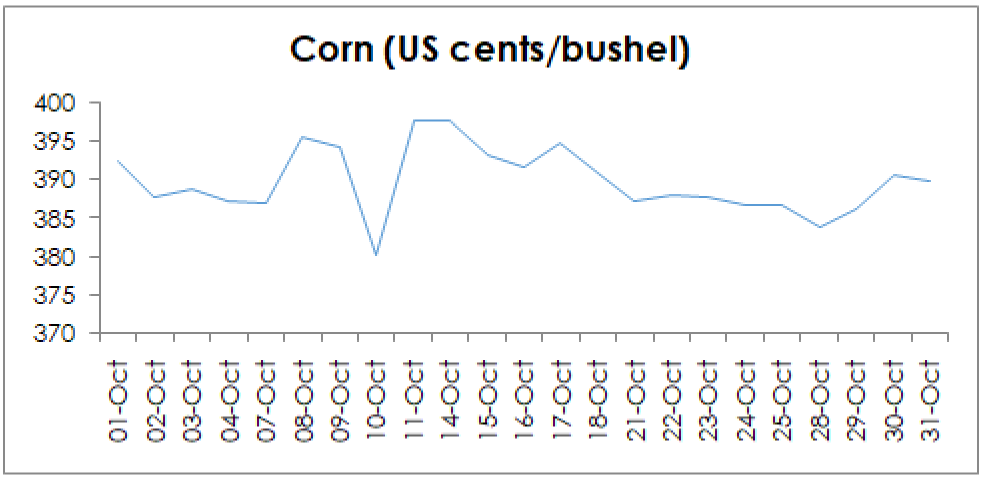
The price of wheat averaged $507.99/bushel in October, up from $479.6/bushel in the preceding month. Wheat prices increased to $508.75/bushel on October 31st from $498.75/bushel on October 2nd. This was driven by adverse weather conditions in Australia and Argentina.



[25]

Corn

The average price of corn rose by 5.99% to $389.88/bushel in October from $367.83/bushel in September. Corn prices decreased by 0.64% to close the month at $390.00/bushel from $392.50/bushel at the beginning of the month. This was partly due to slower than expected harvest in the U.S.



[26]

[25] Bloomberg, FDC Think Tank
[26] Bloomberg, FDC Think Tank

Outlook - Grains

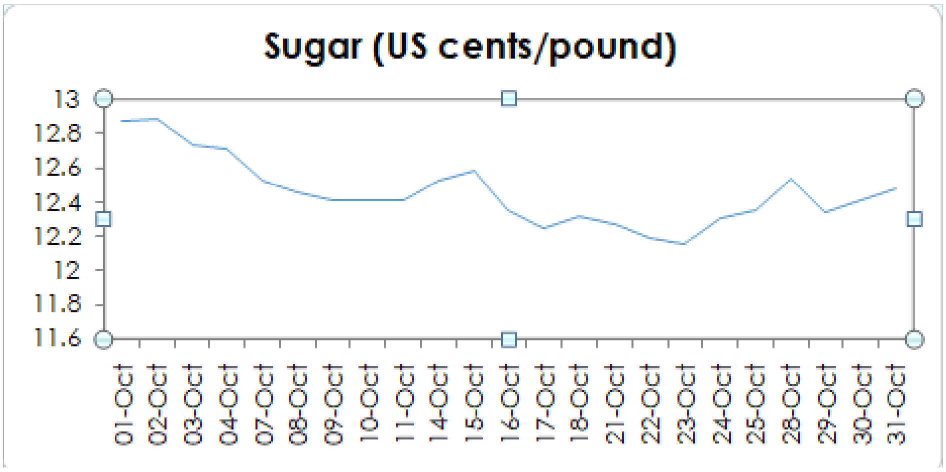
We expect an increase in grain prices in the near term. Corn prices are expected to rise due to poor harvests in Argentina and Australia and wheat prices are likely to increase due to lower wheat output in Australia and Argentina.

Impact

An increase in the price of wheat will push up the cost of production for wheat dependent firms.

Sugar

The average price of sugar increased by 4.53% to $12.46/pound in October from $11.92/pound in September. Sugar prices fell by 3.11% to close the month at $12.48/pound from $12.88/pound on October 2nd. This can be attributed to lower demand and ample supply.



[27]

Outlook

We expect sugar prices to rise owing to growing global demand and decline in India's supply.

Impact

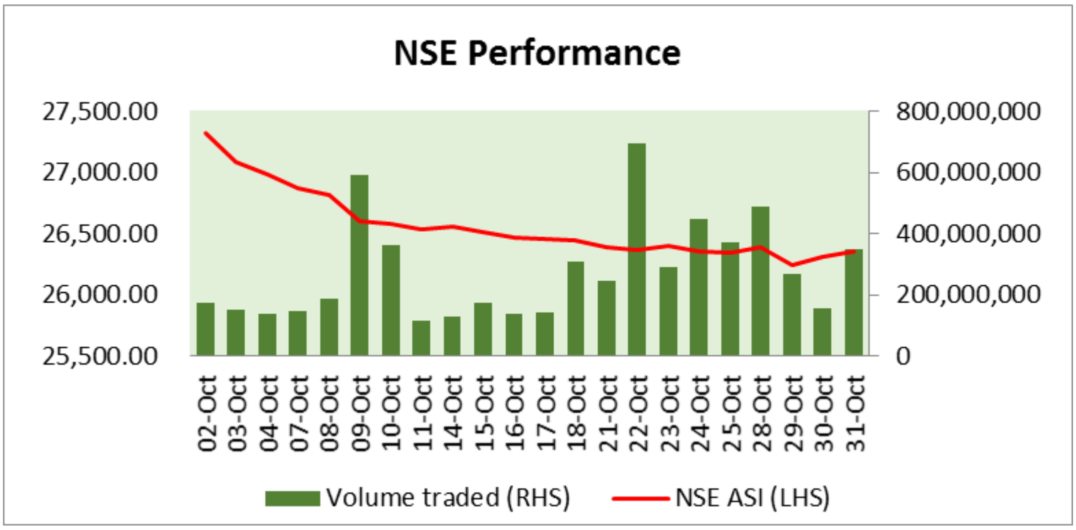
Increasing sugar prices is expected to have a negative impact on Nigeria's trade balance, as Nigeria is a main importer of the commodity (10th largest importer globally). This negative shift in the trade balance would result in the reduction of government revenue and external reserves.

[27]Bloomberg, FDC Think Tank

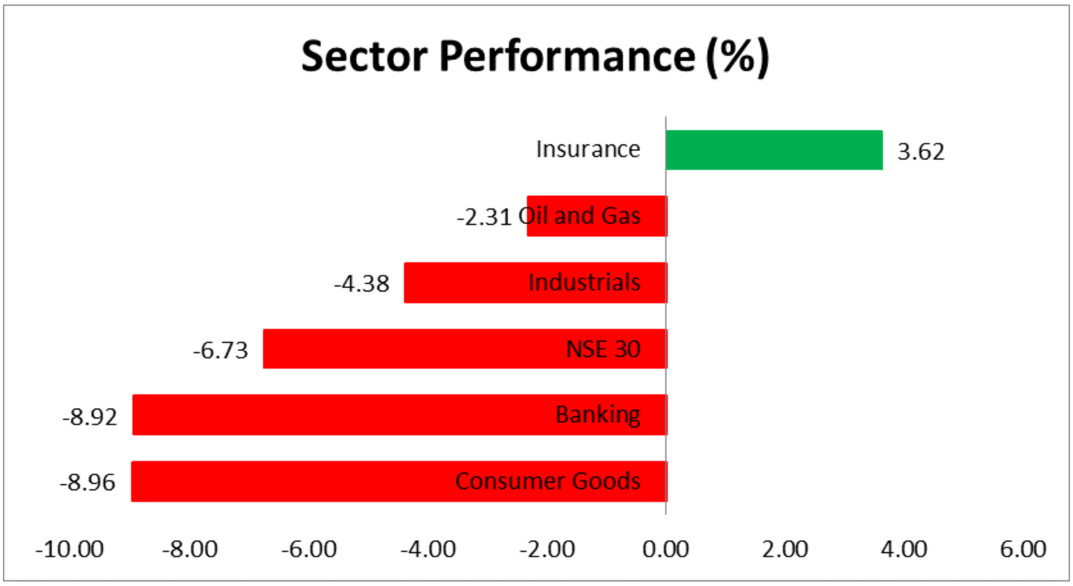
Stock Market Review

The NSE ASI lost 4.62% to close at 26,355.35 points on October 31st relative to its close of 27,630.56 points on September 30th. This was despite the release of Q3'19 earnings result. In the same vein, market capitalization fell by 4.54% (N610bn) to N12.84trn. In the 23-trading day period, the market gained in 5 days and lost in 17.

The NSE traded at a price to earnings (P/E) ratio of 7.16x as of October 31st, 1.42% higher than the close of September 30th (7.06x). The market breadth was negative at 0.47x as 26 stocks gained, 55 lost while 85 stocks remained unchanged.



On the other hand, the market saw an increase in activity level. The average volume traded rose by 20.55% to 276.24mn units compared to the corresponding period in September, while the average value of trades increased by 13.86% to N3.78bn.



All sector indices recorded a decline during the review period except the insurance sector index(3.62%). Consumer goods sector lost the most with 8.96%, followed by the banking sector (8.92%) and oil & gas sector (2.31%).

Consolidated Hallmark Insurance Plc topped the gainers' list with a 42.86% increase in its share price. This was followed by Associated Bus Company Plc (29.41%), Continental Reinsurance Plc (15.94%), Law Union & Rock Insurance Plc (15.38%) and University Press Plc (13.04%).

TOP 5 GAINERS (N)				
Company	**Sept 30'19**	**Oct 31'19**	**Absolute Change**	**% Change**
Consolidated Hallmark Insurance PLC	0.28	0.4	0.12	42.86
Associated Bus Company PLC	0.34	0.44	0.1	29.41
Continental Reinsurance PLC	2.07	2.4	0.33	15.94
Law Union & Rock Insurance PLC	0.39	0.45	0.06	15.38
University Press PLC	1.15	1.3	0.15	13.04

The laggards were led by Guinness Nigeria Plc (-29.85%), PZ Cussons Plc (-21.43%), Oando Plc (-17.29%), Lafarge Africa Plc (-16.35%) and Guaranty Trust Bank Plc (-14.73%).

TOP 5 LOSERS (N)				
Company	**Sept 30'19**	**Oct31'19**	**Absolute Change**	**% Change**
Guinness Nigeria PLC	34	23.85	-10.15	-29.85
PZ Cussons PLC	7	5.5	-1.5	-21.43
Oando PLC	3.76	3.11	-0.65	-17.29
Lafarge Africa PLC	15.9	13.3	-2.6	-16.35
Guaranty Trust Bank PLC	29.2	24.9	-4.3	-14.73

Outlook

We expect the market to remain volatile in the near term due to low investors' confidence. However, bargain hunting on low-priced stocks could support gains in the near term.

Equity Report: Presco Plc

Analyst Recommendation: *HOLD*	***Market Capitalization:*** *N34.60 billion*
Recommendation Period: *365 days*	***Current Price:*** *N38.4*
Industry: *Agriculture*	***Target Price:*** *N44.37*

Analyst's note

Weak pricing weighs on revenue

Presco Plc recorded a marginal decline in its turnover in the first nine months of 2019 (9M'19). The drop of 5.17% to N15.40 billion in the company's revenue could be partly attributed to the decline of 1.94% to $506/tonne from $516/tonne in global palm oil prices.[1] This decline in prices was due to higher global supply of crude palm oil (CPO).

Higher operating expenses weigh on earnings

Despite a decline in global price of CPO, the company recorded an increase of 9.29% in its cost of sales and this dampened gross profit. The company's gross profit declined by 8.94% to N11.72 billion from N12.87 billion in the corresponding period in 2018.

Operating expenses moved in the same direction during the period. Selling, general and administrative expenses, which account for 94.97% of Presco's operating expenses, increased by 11.68% to N5.45 billion in 9M'19. Likewise, distribution expenses also rose by 3.08% to N288.41 million.

Finance costs also increased, rising 52.69% to N1.42 billion. The unimpressive performance of the Nigerian Stock Exchange (NSE) made debt capital the preferred funding option in the capital market. Although, there is an improvement in the interest rate environment, however, more companies have embraced alternative funding arrangements such as commercial paper. Due to the high operating costs and finance costs, the company's PBT and PAT declined by 35.88% and 30.87% to N4.79 billion and N3.65 billion respectively.

[28]EIU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Company to continue to benefit from governments policies

The Nigerian government in its effort to diversify the revenue base of the country has adopted a protectionist strategy. The most recent being the closure of the land borders. This protectionist stance is primarily targeted towards the agricultural sector. Therefore, Presco is well positioned to benefit from these various government policies geared towards improving non-oil revenue. In addition to this, the country's palm oil production is 1.02million metric tons, which is 31% lower than the consumption of 1.34 million metric tons. The demand gap of 320,000 metric tons creates room for expansion.

In determining Presco's intrinsic valuation, we considered current financial performance, growth prospects, expansion plans, competitive positioning and macroeconomic fundamentals. Accordingly, we place a HOLD rating on the company's stock.

Industry and company overview

The Nigerian palm oil industry has been a major beneficiary of government's protectionist policy, particularly as it is featured among the list of items banned from accessing foreign exchange. This is consistent with the declaration of the government to discourage the importation of products that can be produced locally.

Despite these developments, Nigeria still depends on imports. Nigeria's demand is roughly 1.34 million metric tons. Only one million of that is met through domestic supply, meaning 340,000 metric tons are imported. This demand for imports paired with a supply glut in the international market and the crash in prices have promoted smuggling activities. This somewhat limited the gains of key players in the palm oil industry. In addition, the long gestation period has limited investment flows into the sector. The major players in the industry include Presco, Okomu, PZ Wilmar and Olam.

Presco began in 1991 as Presco Industrial Limited. The company listed on the NSE in 2002, expanding its reach. The company currently engages in the cultivation and processing of oil palm and palm kernel, through four major oil palm plantations – Obaretin, Sakponba and Ologbo (in Edo State), while the fourth, Cowan, is in Delta State.

Siat SA, the parent company, controls 60% of the company. Siat SA is a Belgian agro-industrial group with core competences in the setup and operation of oil palm and rubber plantations and processing. Some of its major customers include Nestle Nigeria, Wamco Nigeria, PZ Wilmar, and Promasidor among other household consumer goods brands.

Income Statement for Presco Plc (FY Dec 2018)				
N'000	**2015**	**2016**	**2017**	**2018**
Revenue	10,448,353	15,716,198	22,365,372	21,648,457
Cost of Sales	(3,813,137)	(4,404,785)	(5,941,308)	(5,258,975)
Gross Profit	6,635,216	11,311,413	16,424,064	16,389,483
Gain/(loss) on biological assets revaluation	1,062,230	24,879,287	2,789,304	493,064
Distribution expenses	(198,608)	(223,945)	(317,248)	(373,068)
Selling, General & Administrative expenses	(2,940,936)	(4,378,794)	(7,184,418)	(5,735,065)
Other operating income	364,639	323,146	213,358	426,175
Operating profit	4,922,541	31,911,107	11,925,060	11,200,588
Net finance cost	(707,800)	(684,655)	(973,479)	(1,238,048)
Exchange gains/(losses)				
Profit Before Tax	4,214,741	31,226,452	10,951,581	9,962,540
Income tax expense	(1,721,146)	(9,490,987)	14,452,033	(2,922,063)
Profit for the year	**2,493,595**	**21,735,465**	**25,403,614**	**7,040,477**

Balance Sheet for Presco Plc (FY Dec 2018)				
N'000	**2015**	**2016**	**2017**	**2018**
Intangible assets	183,581	192,566	370,234	601,892
Biological Assets	29,291,216	44,920,219	49,274,503	55,203,708
Property, Plant & Equipment	19,990,011	22,444,657	28,122,101	40,191,016
Other non current assets	110	110	-	-
Non-current assets	49,464,918	67,557,552	77,766,838	95,996,615
Inventories	1,105,632	1,420,597	4,704,706	4,778,754
Trade and other receivables	2,777,782	1,095,901	3,607,661	5,720,509
Other current assets (includes bio as	1,252,376	10,502,660	8,937,680	6,632,827
Cash and cash equivalent	877,291	2,585,128	3,307,211	6,238,482
Current assets	6,013,081	15,604,286	20,557,258	23,370,573
Total assets	**55,477,999**	**83,161,838**	**98,324,096**	**119,367,189**
Share capital	500,000	500,000	500,000	500,000
Share premium	1,173,528	1,173,528	1,173,528	1,173,528
Retained earnings	29,622,561	50,358,026	74,261,641	83,406,319
Other reserves	58,724	87,448	45,003	47,503
Equity attributable to equity holders	31,354,813	52,119,002	75,980,172	85,127,350
Non controlling interests	-	-	-	-
Total equity	31,354,813	52,119,002	75,980,172	85,127,350
Provisions	-	-	-	-
Provisions for employee benefits	271,481	313,445	409,751	497,761
Financial Liabilities	4,787,517	4,781,433	4,557,822	10,783,297
Deferred tax liabilities	12,638,125	20,340,405	4,401,851	31,075
Non-current liabilities	17,697,123	25,435,283	9,369,424	11,312,132
Financial liabilities	2,069,896	1,917,514	4,575,635	8,251,488
Trade and other payables	3,356,707	1,699,761	7,428,137	9,461,532
Current tax liabilities	905,058	1,792,041	860,163	1,208,242
Other Current liabilites	94,401	198,235	110,565	4,006,444
Current liabilities	6,426,062	5,607,551	12,974,500	22,927,706
Total liabilities	24,123,185	31,042,834	22,343,924	34,239,839
Total equity and liabilities	**55,477,998**	**83,161,836**	**98,324,096**	**119,367,189**

Management

Presco's management team is led by Felix Onwuchekwa Nwabuko, a chartered accountant with extensive cross-border experience in project management and consulting. He became the Managing Director of Presco in 2015, having also served in various leadership roles within the group. He was part of the team responsible for the successful listing on the NSE. He is accompanied by a team of versatile and experienced executives, who have built a company with strong fundamentals.

Managing Director

Felix Onwuchekwa Nwabuko

Chairman Board of Directors

Mr. Pierre Vandebeeck

Presco's board has been led by Mr. Pierre Vandebeeck since 2010. Vandebeeck has been instrumental to Presco's successes. He was the pioneer Managing Director, building the agro-processing company from infancy to date and was responsible for the setup of Presco's oil palm plantations in Nigeria. He remains an invaluable asset to the company and has proven to be the vital link between Presco and Siat SA.

Bulls and Bears say

Bulls say:

* Key player in the oil palm industry
* Alignment between Presco Plc and parent company
* Consistent clampdown on production cost over the years
* Favorable government policies
* Gradual diversification into rubber production
* Experienced and talented management

Bears say:

* Declining commodity prices
* Rising operating and finance costs
* Highly dependent on one commodity
* Highly dependent on government protection to thrive
* Competitive rivalry among the leading players

Risk and Outlook

The major risks that could dampen the attainment of Presco's key objectives and priorities include interest rate risks, regulatory policy risks, currency risks and other systemic risks.

The high-risk premium of the Nigerian economy has adversely impacted the business expansion plans and operations of companies such as Presco. Similarly, Presco's large funding needs and the susceptibility of agriculture farm-products, especially to weather, pest and storage, have weighed on the debt servicing costs. So, the management of Presco needs to evaluate the adoption of other funding options and other complex financing mechanics.

Our valuation

Using the discounted cash flow methodology, we estimated a stock price of N44.37, which is a 15.54% upside on the current price of N38.4 as of November 7, 2019. The discount rate (weighted average cost of capital) of 15.1% was derived using a 14.55% risk free rate, a beta of 0.2360, an after-tax cost of debt of 13.50%, and a market risk premium of 7.64%. The long-term cash flow growth rate to perpetuity calculated is 7.50%.

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