FDC Bi-Monthly Update

Volume 10, Issue 2

January 28, 2020

A Financial Derivatives Company Publication

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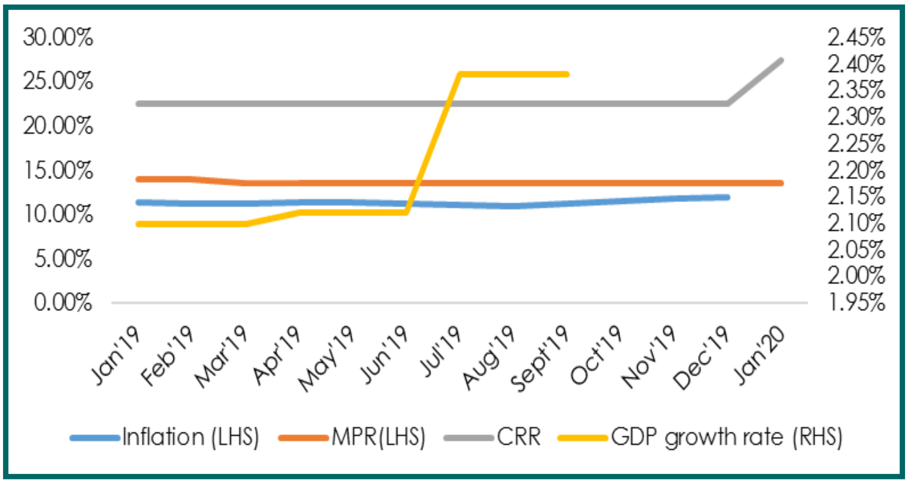
In This Issue . . .

MPC resumes tightening by raising CRR by 5%

The monetary policy committee (MPC) surprisingly increased the CRR by 500bps to 27.5% after 46 months of maintaining it at 22.5%, while holding Monetary Policy Rate (MPR) and all other parameters constant. The committee, which consists of 11 members, voted 9:2 in favor of an increase in CRR. The committee explained that this move was made to curtail inflationary pressures in the economy and increase the general level of interest rates.



NBS, CBN

The major considerations are:

- Persistent increase in inflation rate
- Improvement in financial soundness indicators of the banking system
- Rising burden of debt service
- Anticipated medium term liquidity surfeit from maturing OMO bills

The monetary policy committee was faced with a three-pronged policy dilemma. Tighten to tame the rising trend in inflation, loosen to sustain stability in the foreign exchange market or maintain rates to ensure the efficient impact of the heterodox monetary and fiscal policy measures deployed by the bank.

Implications

The hike in the CRR could mean an additional N1.4trillion of banking sector debits. The real impact is not only the liquidity reduction but the fact that it is sterilized at 0% return. This amount, which is approx. 5.17% of money supply will hopefully help in curbing price inflation, which is now becoming a policymaker's nightmare.

The effect of this on the money market was an immediate hike in interbank interest rates by over 400bps. However, the maturing OMO bills held by PFAs in January/February is in excess of N10trn, while the increased CRR is approx. N2trn. Thus, there will still be excess naira in the markets.

Lending to the private sector by banks grew from N15.5trn in May 2019 to N17.5trn by December 2019, showing sustainable support to growth. Hence, maintaining the MPR in the face of the minimum LDR requirement is sustainable to support economic growth and job creation in the private sector.

Nigeria's rising debt burden and how to boost revenue

With the approval of N10.59 trillion budget for the 2020 fiscal year, the increasing level of Nigeria's budget deficit raises concerns about the source of its financing and the impact of increased government spending. Nine weeks after the presentation of the appropriation bill to the Joint Session of the National Assembly, the President submitted a request to the National Assembly for $22.72 billion from the 2016 – 2018 Medium Term External Borrowing Plan.[1] This is the balance of the $29.9 billion first requested in 2016. At that time, it was only partially approved due to the absence of a borrowing plan mapping out how the debt would be channeled, and also to reduce the possibility of a debt crisis. With the new submission, the President reawakened concerns about Nigeria's rising debt profile. Over the past six years, the country's debt has grown by 214.90%, from N8.32 trillion in June 2013 to N26.2 trillion as of September 2019.[2]

Nigeria is a developing nation with a fast-rising population of about 200 million and it is in dire need of infrastructure development to boost the economy. From this angle, the high debt level seems justified. However, a litany of constraints has prevented Nigeria from achieving the necessary level of investment, despite its significant borrowing. Examples of these constraints include: excessive government spending, mismanaged funds and unproductive borrowing, exchange rate volatility,

[1]Debt Management Office. 2019. "Stimulating economic growth, diversification and investing in human capital through the 2016-2018 medium term external borrowing plan". Federal Government of Nigeria. https://www.dmo.gov.ng/news-and-events/dmo-in-the-news/press-release-on-medium-term-external-borrowing-plan
[2]Debt Management Office. 2020. "Total Public Debts". Federal Government of Nigeria. https://www.dmo.gov.ng/debt-profile/total-public-debt

low interest rate movements, inefficient loan utilization, and poor debt management practices to name a few. As a result, the ever-increasing government spending is yet to yield any notable results; poverty is on the rise and health and educational facilities remain inadequate amid the fast-growing population.

Debt service has become a significant portion of the expected revenue in 2020. It accounted for over 60% of the government's independent revenue in 2019.[3] The total debt has been increasing ($85.39bn)[4] but total factor productivity growth has been declining (-0.4%)[5]. This implies that FG borrowings is hardly used for productive purposes. The debt service, after a while becomes a burden on the government and its fiscal balance.

The government's efforts to improve productivity in the economy has yielded little in terms of revenue and employment. In light of these, it is pertinent that FG borrowings should be project specific, which will have a significant impact on productivity.

Steps to manage debt

To manage Nigeria's existing debt profile, the Debt Management Office adopted a debt strategy from 2016 to 2019 focusing on increasing external financing and lengthening the maturity profile of the domestic debt portfolio. The focus on external financing aims to rebalance the public debt portfolio in favor of long-term external financing. This would allow Nigeria to reduce its debt servicing costs and lengthen its maturity profile. On the domestic front, it also lengthened its maturity profile by reducing the issuance of new short-dated debt instruments and refinancing maturing Nigerian treasury bills (NTBs) with external financing.[6]

The introduction of the 30-year bond, for instance, was aimed at achieving this. The issuance has contributed to reducing the refinancing risks of the public debt stock. Also, the CBN's directive on OMO restrictions, which is targeted at increasing foreign inflows and reducing domestic debt, is one such measure. However, to achieve the desired objective, efforts should be intensified on implementing these strategies.

[3]https://www.imf.org/en/News/Articles/2019/04/03/pr1999-nigeria-imf-executive-board-concludes-2019-article-iv-consultation-with-nigeria
[4]Debt Management Office. 2016. "Nigeria's debt management strategy, 2016-2019". Federal Government of Nigeria. https://www.dmo.gov.ng/1288-nigeria-s-debt-management-strategy-2016-2019/file
[5]EIU. Country Forecast—Nigeria. January 2020
[6]Debt Management Office. 2016. "Nigeria's debt management strategy, 2016-2019". Federal Government of Nigeria. https://www.dmo.gov.ng/1288-nigeria-s-debt-management-strategy-2016-2019/file

Preventing a debt crisis

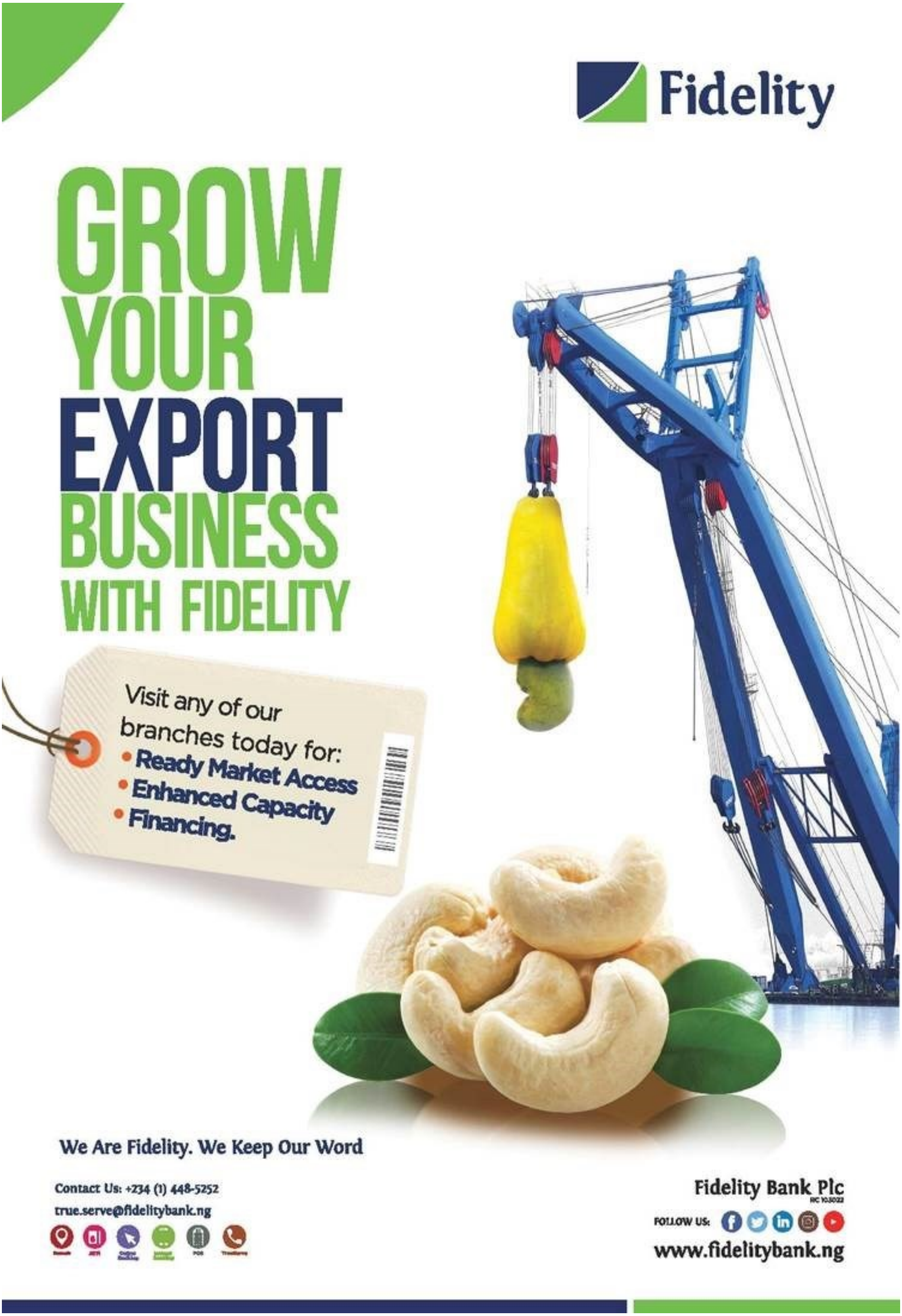
To tackle the issue of rising debt, Nigeria can leverage on its capability to generate revenue internally through its abundant natural and human resources. Focusing on sectors like agriculture and tourism, as well as empowering its large youth population, Nigeria can diversify its revenue base, rely less on foreign inflows and loans, reduce the debt balance and boost domestic economic activities.

Going Forward – What can Nigeria do?

The government's efforts to generate more revenue from alternative sources should be intensified in order to prevent an unnecessary debt burden on future generations. It is vital to employ proactive measures to reduce the current debt level. Investment in key sectors should be prioritized and incentives such as low interest capital should be provided to boost participation and productivity. Also, providing incentives to increase participation in agriculture should be followed by improvement in infrastructure such as roads and irrigation facilities.

Nigeria's total borrowing as a proportion of gross domestic product is about 21%. Compared with almost 60% for South Africa,[7] this ratio is quite low. However, acquiring more debt would weigh on this ratio especially if it does not result in a significant boost in GDP growth. Therefore, it is imperative that the government ensures effective utilization of loans in order to drive productivity and increase revenue domestically. Also, in the case that additional external debt is contracted, available concessions should be considered while realistic and favorable terms of repayment should be agreed upon. Doing this would allow the government to retain enough earnings, and to invest in the empowerment of citizens, poverty alleviation, infrastructural development and the promotion of trade to boost the nation's economy.

[7]Anthony Osae-Brown and Tope Alake. 2019. "Nigeria Fears Fiscal Crisis as Debts Take Big Slice of Revenue". Bloomberg. https://www.bloomberg.com/news/articles/2019-08-28/nigeria-fears-fiscal-crisis-as-debts-take-big-pie-of-revenues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Cybercrime in Nigeria: Causes and Effects

With about 3.9 billion users, the internet has become one of the greatest technological developments. While widely accepted for its ease and efficiency, it is also embedded with a multitude of vulnerabilities, which pose significant security threats to users and has led to the emergence of cybercrime.[8]

Cybercrime, which includes any crime committed with the aid of a computer and network (e.g. phishing, bank verification number scams, fraudulent emails, hacking, cyber harassment, spamming, ATM spoofing, social media hi-jacking etcetera), exploits vulnerabilities of both electronic devices and their users. In Nigeria, a number of key factors – such as a high rate of unemployment, the quest for wealth, a lack of strong cybercrime laws, and incompetent security on

[8]Statista. "Number of internet users worldwide from 2005 to 2019". https://www.statista.com/statistics/273018/number-of-internet-users-worldwide/

[9]Esan, Adebimpe. 2016. Cybercrimes in Nigeria: Analysis, Detection and Prevention. FUOYE Journal of Engineering and Technology. Vol. 1. 37-42
https://www.researchgate.net/publication/320411102_Cybercrimes_in_Nigeria_Analysis_Detection_and_Prevention

personal devices amongst others – have coalesced to make cybercrime a significant problem for the country.[9] The estimated annual financial loss in Nigeria due to cybercrime was ₦250 billion ($649 million) in 2017 and ₦288 billion ($800 million) in 2018.[10]

Cybercrime destroys the reputation of a country, making the business environment difficult for start-ups and small and medium-sized enterprises, while discouraging investment in the economy by foreign companies. For individuals, cybercrime results in the loss of financial resources, intellectual property or personal confidential information, and the damages can be extreme, often targeting senior citizens and people who are vulnerable. In 2018, in the US, roughly 62,000 people age 60 or older reported losses totaling over $649 million.[11] This is only based on crimes reported. McAfee estimates that 95% of cybercrimes go unreported.[12]

With Nigeria venturing into a cashless society, the threat of cybercrime becomes all the more relevant. There needs to be integrated efforts between individuals, businesses, the Nigerian government and the international community.[13] Reforms such as increasing awareness on the mode of operations of cyber criminals, improved personal security, establishment of anti-scam centers etc are vital in minimizing cybercrimes.

In an effort to combat cybercrimes in Nigeria, the Central Bank of Nigeria introduced a risk-based cyber security framework and guidelines for deposit money banks and payment service providers. This framework lays out proactive steps to secure critical information assets including customer information that is accessible via the internet.[14]

[9]Esan, Adebimpe. 2016. Cybercrimes in Nigeria: Analysis, Detection and Prevention. FUOYE Journal of Engineering and Technology. Vol. 1. 37-42
https://www.researchgate.net/publication/320411102_Cybercrimes_in_Nigeria_Analysis_Detection_and_Prevention
[10]Omobayo Azeez. 2019. “Cyber crime cost Nigeria N288bn in 2018”. business a.m. https://www.businessamlive.com/cyber-crime-cost-nigeria-n288bn-in-2018/
Aborisade, Sunday. 2019. “Cybercrime: Nigeria lost $649m in 2017, says Senate”. Punch Newspapers.
https://punchng.com/cybercrime-nigeria-lost-649m-in-2017-says-senate/
[11]Crane, Casey. 2019. “33 Alarming Cybercrime Statistics You Should Know in 2019”. The SSL Store.
https://www.thesslstore.com/blog/33-alarming-cybercrime-statistics-you-should-know/
[12]Ashford, Warwick. 2018. “Economic impact of cybercrime is significant and rising”. ComputerWeekly.com.
https://www.computerweekly.com/news/252435439/Economic-impact-of-cyber-crime-is-significant-and-rising
[13]Hassan, A.B., Lass, F.D., & Makinde, J. 2012. Cybercrime in Nigeria: Causes, Effects and the Way Out.
https://www.semanticscholar.org/paper/Cybercrime-in-Nigeria%3A-Causes%2C-Effects-and-the-Way-Hassan-Lass/dd8727c11220b20eac696f8dc76aa9a80c06f1c0
[14]Phillips, Olayanju. 2019. “An Overview of the Regulatory Framework of FinTech in Nigeria”. Mondaq.
http://www.mondaq.com/Nigeria/x/829922/fin+tech/An+Overview+of+the+Regulatory+Framework+of+FinTech+in+Nigeria[15]

There are many initiatives employed by different countries to combat cybercrimes, which Nigeria can emulate. One example is the Anti-Scam Centre in Singapore. Set up by the police in collaboration with the three major banks, the Anti-Scam Centre disrupts the operations of scammers by impeding fund transfers. In two months, the Anti-Scam Centre received 1,047 cases in which victims had lost a total of $2.4 million ($1.8 million). The centre managed to freeze 815 bank accounts and recovered 35% of the amount lost, or about S$840,000 ($623,000) - which is significantly higher than the average recovery rates for these types of scams.[15]

Similarly, Canada has an Anti-Fraud Centre which is the central agency in Canada that collects information and criminal intelligence on cybercrimes. In 2018, the Canadian Anti-Fraud Centre received 59,009 fraud reports from victims and businesses, with losses reported totaling $97,654,160.35. However, the centre estimates that less than 5% of fraud victims file a report, which poses a challenge in its ability to provide current information on ways to prevent similar attacks.[16]

The Dubai Financial Services Authority initiated a cyber threat intelligence platform in partnership with the Dubai Electronic Security Centre, the National Computer Emergency Response Team and the Computer Incident Response Centre (based in Luxembourg). The platform is scheduled to go live in January 2020. The platform will harbor an ecosystem that encourages information exchange and offers enhanced cyber threat intelligence solutions. Thus, all participants across industries must partake in an open dialogue about cyber security. This is in a bid to reduce the information asymmetry in the economy.

[15]Kwang, Kevin. 2019. "Singapore police's new anti-scam centre wants to hit scammers where it hurts". Channel News Asia. https://www.channelnewsasia.com/news/singapore/singapore-police-s-new-anti-scam-centre-wants-to-hit-scammers-11854278
[16]Barbara-Ann MacEachern. 2019. "Peterborough victims scammed out of almost half a million dollars so far this year". MyKawartha. https://www.mykawartha.com/news-story/9544390-peterborough-victims-scammed-out-of-almost-half-a-million-dollars-so-far-this-year/

For individuals, simple security tips such as having an updated and recognized anti-virus software, avoiding pop-ups requiring personal information, using strong passwords, and ignoring emails or calls requiring financial details to help unblock cards or accounts etc, will go a long way in preventing security breaches.[17]

Nigeria is experiencing a surge in cybercrimes supported by the prevailing economic conditions. The high rate of unemployment and the quest for quick wealth are the two major factors which drive individuals towards cybercrime. This threat poses a great risk, which can only be eliminated through the strict enforcement of cybercrime laws, provision of lucrative opportunities in the economy, information sharing etc. However, in the medium to long term, increasing awareness could help mitigate the cyber threats, if action is taken.

[17]Esan, Adebimpe. 2016. Cybercrimes in Nigeria: Analysis, Detection and Prevention. FUOYE Journal of Engineering and Technology. Vol. 1. 37-42
https://www.researchgate.net/publication/320411102_Cybercrimes_in_Nigeria_Analysis_Detection_and_Prevention

African governments are trying to collect more tax

What is it like being a taxman in Africa? "A lot of sleepless nights," says Yankuba Darboe, the Gambia's top revenue official, describing the pressure to meet targets. Politicians across Africa are asking ever more of their tax collectors, with good reason. The biggest hole in public coffers is not money squandered or stolen, but that which is never collected in the first place.

They can no longer rely on aid or natural resources

Government revenues average about 17% of GDP in sub-Saharan Africa, according to the IMF. Nigeria has more than 300 times as many people as Luxembourg, but collects less tax. If Ethiopia shared out its tax revenues equally, each citizen would get around $80 a year. The government of the Democratic Republic of Congo is so penurious that its annual health spending per person cannot buy a copy of this newspaper.

Governments once turned to aid and natural resources to stay afloat. Historically "we relied on oil," says Babatunde Fowler, until last month the head of Nigeria's Federal Inland Revenue Service. "Nobody took taxation seriously." Lower oil prices are now forcing a rethink, he explains. So too are shifts in foreign aid. As a proportion of Africa's income, aid flows have halved since the 1990s. Measured as dollars per person, they peaked in 2011 and then fell. Public debt has risen sharply.

Since the 1980s, governments have followed an IMF-inspired recipe: slashing trade taxes, reducing top rates on personal and corporate income, and embracing value-added tax. Data from the OECD for 26 African countries show that over half of their tax revenues come from taxes on goods and services. Only a quarter comes from personal income tax and social-security contributions (about the same as in Latin America, but much less than in the rich world). From 2008 to 2017 the ratio of tax receipts to GDP rose by 1.5 percentage points, but in many countries this was offset by falls in non-tax revenues, such as fines, rents and royalties from resource extraction.

Large firms grumble that they are footing the bill. Just 6% of tax-paying firms generate 78% of receipts, according to the African Tax Administration Forum (ATAF), a club of taxmen. But that statistics gives only a partial picture. Analysis of corporate tax returns in Ethiopia by Giulia Mascagni of the International Centre for Tax and Development and Andualem Mengistu of the Ethiopian Development Research Institute reveals that small firms pay the highest effective rate, perhaps because they lack accountants to find gaps in the tax code. In many countries firms which are considered "informal"—because they are not registered, or do not pay income tax—still cough up for license fees and market dues.

Ordinary Africans complain the system is rigged. Some 56% of those surveyed by Afrobarometer, a pollster, considered it "very likely" that a rich person could pay a bribe or use personal connections to dodge taxes. They are probably right. When Ugandan tax collectors examined records for 71 government officials in 2013/14, they found that just one had paid any personal income tax. Only 5% of directors at leading companies were paying income tax themselves.

Authorities try to manage such tax-dodging through dedicated units that focus on, say, wealthy individuals or large corporations. In Uganda, officials built on their earlier research by drawing up a list of 117 rich folk, then meeting them personally. At the time only 13% were filing tax returns; a year later 78% were. One pastor on the list even started preaching about paying taxes. The taxmen also chased government agencies. "It's a tax morale issue if you ask people to pay their tax and then the government is not paying its taxes," says Doris Akol, the country's top revenue official.

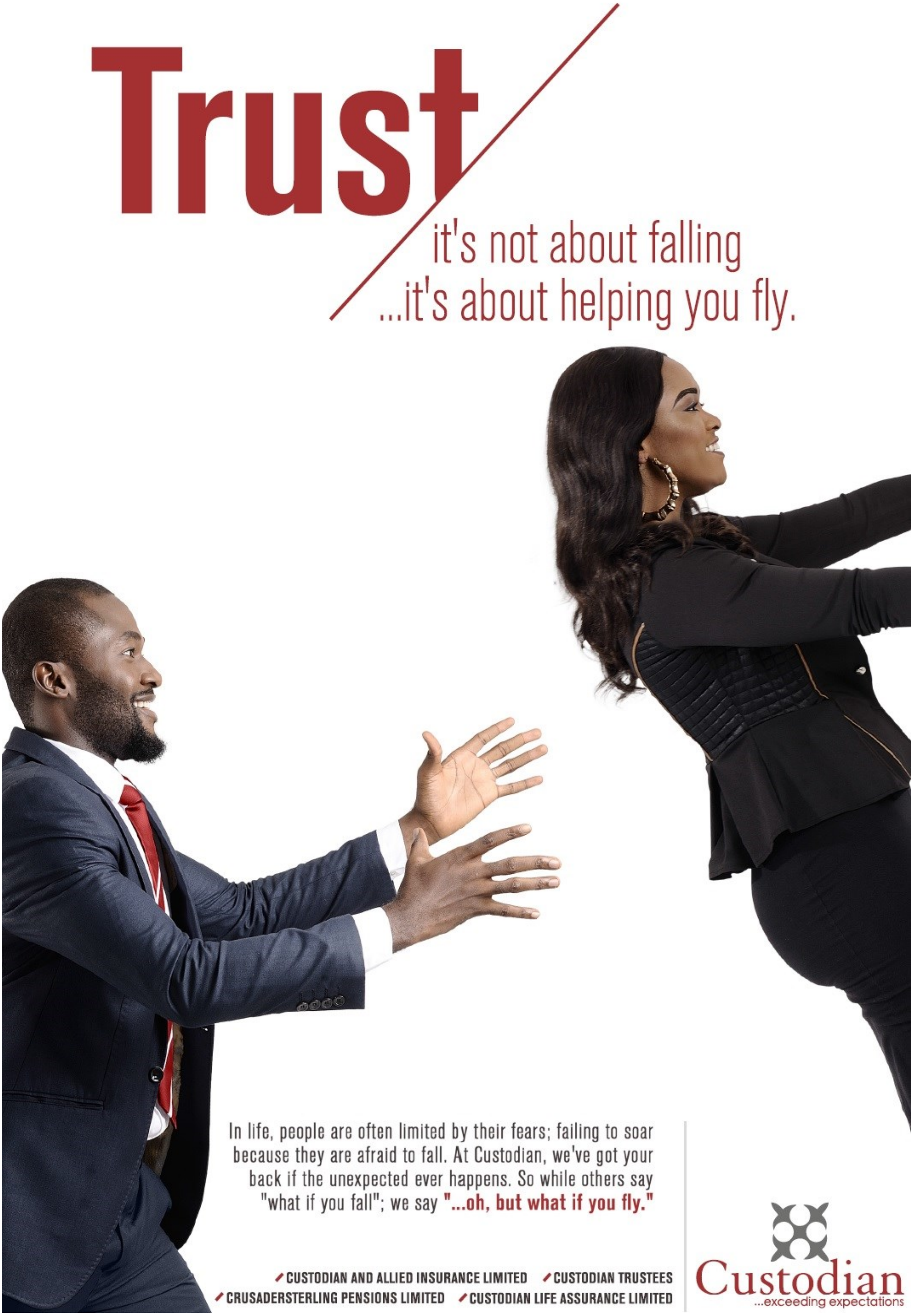
Technocratic tax talk often centres on such administrative reforms, which also include things like strengthening it systems or adopting taxpayer identification numbers. Yet this package only goes so far. "It says build a good tax register, go to electronic filing, and so on," says Logan Wort, the executive secretary of Ataf. "Those are all right. But you know what the problem in Africa is? It has signed away its tax base."

One example is bilateral tax treaties. Originally intended to eliminate double taxation, and later to attract investment, their practical effect is to limit taxation of cross-border income, such as royalties or service fees. The IMF estimates that signing treaties with so-called "investment hubs", like Mauritius, costs African countries an average of 15% of their corporate tax revenue without increasing investment. Some governments, such as Rwanda's, have wisely renegotiated terms.

Governments also erode the tax base by dishing out generous exemptions. Estimates of "tax expenditures", or deviations from usual tax rates, put the cost at up to 40% of revenues that African governments collect. Those figures include some sensible allowances, like tax relief on medicines, as well as questionable ones, such as tax holidays for investors. Most businesses say that tax breaks do not affect their decision to invest; in surveys, they tend to put greater weight on things like stability and roads, which a little extra tax might fund.

How much more could African governments collect? The best estimates are that they lose revenues worth 2% of GDP through corporate-tax avoidance, of all kinds, and perhaps another 1-2% through individual wealth stashed offshore. The revenue forgone through tax expenditures is roughly 5% of GDP. It is neither feasible nor desirable to close all those gaps, so the realistic gains are smaller. Other measures, such as increasing compliance or expanding property taxes, could also add a few percentage points.

The IMF models the "tax capacity" of a country using variables such as average income, trade openness, and governance. On that basis it thinks that African governments could increase their revenues by 3-5% of GDP, which is more than they receive in aid. But in the past few years "there has been little progress," says Papa N'Diaye of the IMF. The challenge is not starting tax reform, he adds, but sustaining it. Africa's taxmen are in for a few more sleepless nights.



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Births in China fall to lowest level in nearly six decades

Continuing decline has big implications for economy and labor pool

The number of babies born in China last year fell to a nearly six-decade low, exacerbating a looming demographic crisis that is set to reshape the world's most populous nation and threaten its economic vitality.

About 14.6 million babies were born in China in 2019, according to the National Bureau of Statistics. That was a nearly 4% fall from the previous year, and the lowest official number of births in China since 1961, the last year of a widespread famine in which millions of people starved to death. That year, only 11.8 million babies were born.

Births in China have now fallen for three years in a row. They had risen slightly in 2016, a year after the government ended its one-child policy and allowed couples to have two children, a shift that officials hoped would drive a sustained increase in the number of newborns. But that has not materialized.

Experts say the slowdown is rooted in several trends, including the rise of women in the workforce who are educated and don't see marriage as necessary to achieving financial security, at least for themselves. For Chinese couples, many cannot afford to have children as living costs increase and their jobs demand more time and energy. And attitudes have shifted.

"It's a society where nobody wants to get married and people can't afford to have children," said Wang Feng, a professor of sociology at the University of California, Irvine. "On a deeper level, you would have to think about what kind of society China will become, not just demographically, but socially."

Eno Zhang, a 37-year-old engineer in a tech company in Beijing, said he had argued with his parents for 10 years about his decision not to have children. They have since given up, he said.

"I value my spiritual life and hobbies," Zhang said. "Children will consume too much of my energy. This is something I cannot accept."

The birthrate in China fell to 10.48 per thousand last year, the lowest since the founding of the People's Republic in 1949, a decline that has important implications for the country's economy and labor pool. If birthrates continue to fall while life expectancy increases, there will not be enough young people to support the economy and the elderly, the fastest-growing segment of the population.

That will put pressure on the country's underfunded pension systems, its overcrowded hospitals, and companies.

While many countries are struggling with low fertility rates and aging populations, these issues are even more pressing in China, because the country's underdeveloped social safety net means that older adults rely heavily on their families to pay for health care, retirement and other expenses. Many young married couples are expected to shoulder the burden of taking care of their parents, in-laws and grandparents, without the support of siblings.

Making matters worse, the slowing birthrate has meant that China's main state pension fund, which relies on tax revenues from its workforce, risks running out of money by 2035 because of a decline in the number of workers, according to research commissioned by the government-backed Chinese Academy of Social Sciences.

Despite the looming demographic crisis, the government has continued to restrict the number of children couples may have. For nearly three decades, the ruling Communist Party sought to slow population growth by limiting most couples to one child and forcing many women to undergo abortions and sterilizations.

In 2015, alarmed by the slump in births, it increased that limit to two children, but it still punishes couples who exceed the restrictions. The authorities also fine single women who bear children, and bar them from using reproductive technologies like freezing their eggs.

The government is now trying to encourage people to have babies, but it is a hard sell.

The rising costs of education, housing and medical care are an obstacle. More women are getting university degrees and are reluctant to interrupt their careers. Some among the current generation of women of childbearing age, themselves the product of the "one child" policy, don't see what the fuss about offspring is all about.

Dong Chang, a 28-year-old administrative employee at a dentist's clinic in Beijing, said millennials like her enjoyed spending on themselves without batting an eyelid and would find it hard to sacrifice their wants for a child.

"We are all only children, and to be honest, a little selfish," she said. "How can I raise a child when I'm still a child myself? And take care of him and feed him at midnight?"

Dong said that she was living with her boyfriend but that they had decided to not get married for the time being because they didn't want their parents to hound them about having children.

Melody Lin, a 26-year-old worker at a nonprofit, said she couldn't think of a reason to have a child. She said she had thought about conforming to societal norms and starting a family but decided against it after reading arguments that not all women need to have children.

"My parents think that I'm still young and will change my mind when I get older, but I think it's unlikely," she said.

China's total fertility rate — an estimate of the number of babies a woman would have over her lifetime — has fallen to 1.6 children per woman, and for years has generally remained below the "replacement" level of 2.1. That means China could soon see a shrinking population and a workforce too small to support its pensioners.

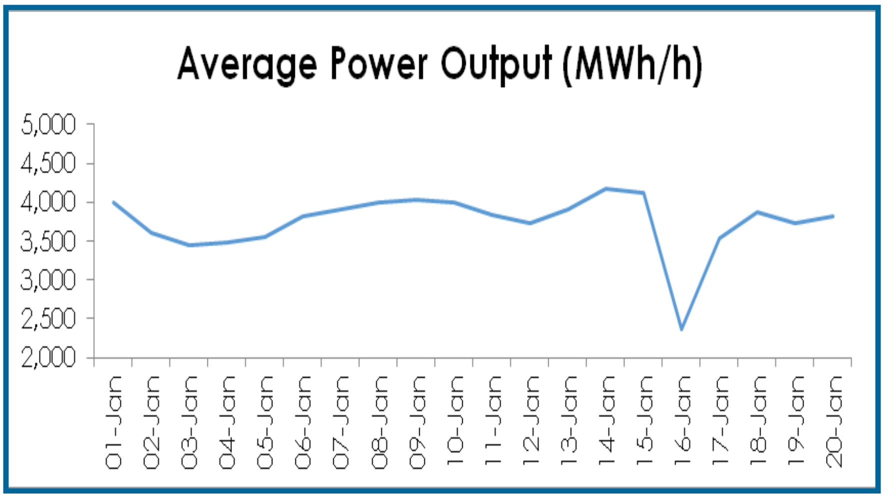
The Chinese Academy of Social Sciences said last year that China's population contraction would begin in 2027. Others believe it will come sooner or has already begun. The accuracy and completeness of China's population figures, like other sensitive statistics, have been questioned for years, making exact projections and comparisons difficult.

Macroeconomic Indicators

January 1st – 20th

Power Sector

The average power output sent out from the national grid within the review period was 3, 746MWh/h, 3.05% higher than the average of 3,635MWh/h recorded in the first half of December. The major constraint experienced during the review period was the gas constraint, primarily in Ihovbor NIPP and Sapele NIPP plants. Total constraints averaged 3,851MWh/h, resulting in a total revenue loss of N36.97billion (annualized at N13.49 trillion).



[18]

Outlook

We expect average power output to decline in coming weeks as there has been current persistence of water constraints. This is the harmattan season and is characterized by low to zero rainfall. Also, the increase in gas constraints despite reducing grid constraints, would contribute to the fall in average power supply.

Impact

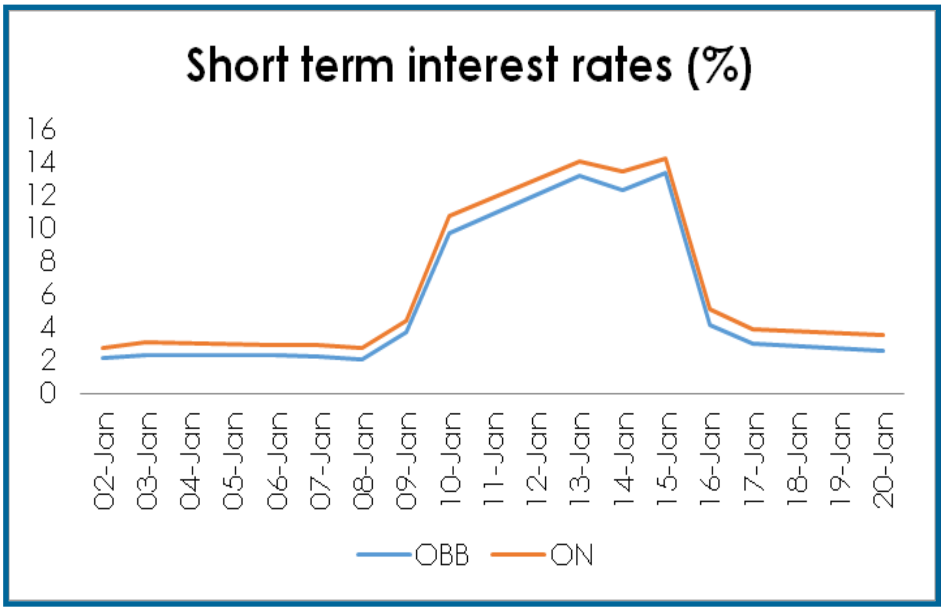
The presence of water constraint limits hydropower generation and in turn increases spending on alternate power supply sources by businesses and households. This increases the cost of production, living and ultimately cripples productivity.

[18] FGN, FDC Think Tank

Money Market

The average opening position of banks dipped by 2.49% to N452.59billion between January 1 and January 20 from N501.38billion in the corresponding period last month. Average short term rates, NIBOR (OBB, O/N) rose by 309bps to 6.03% p.a. from an average of 2.94% p.a. within the period covered. On the average, OBB and O/N during the review period stood at 5.62% and 6.44% respectively.

Total OMO sale for the review period amounted to N1.09trillion, which was slightly higher than N1.04trillion recorded in the first half December. On the other hand, OMO repayments declined sharply to N446.8billion from N1.16trillion recorded from December 2 to 20.



[19]

In the primary market, T/ bill yields across all tenors declined during the period from 3.50%, 4.90% and 5.20% on January 2 to 2.95%, 3.95% and 5.09% on January 15 for the 91-day, 182-day and 364-day bills respectively. In the same vein, yields on all tenors declined in the secondary market. The rates fell from 4.03%, 5.10% and 5.88% on January 2 to 2.18%, 3.37% and 4.32% for the 91-day, 182-day and 364 day treasury bills respectively.

[19]CBN

Primary Market

T/bills Tenor	Rate on Jan 2nd (% pa)	Rate on Jan 15th (% pa)	Direction
91	3.50	2.95	↓
182	4.90	3.95	↓
364	5.20	5.09	↓

Secondary Market

T/bills Tenor	Rate on Jan 2nd (% pa)	Rate on Jan 20th (%)pa	Direction
91	4.03	2.18	↓
182	5.10	3.37	↓
364	5.88	4.32	↓

Outlook

The use of unorthodox monetary policy guidelines by the CBN will continue to drive interest rates sharply lower and create a surge in system-wide liquidity.

Impact

The decline in short term interest rates translate to a reduction in borrowing cost in the money market.

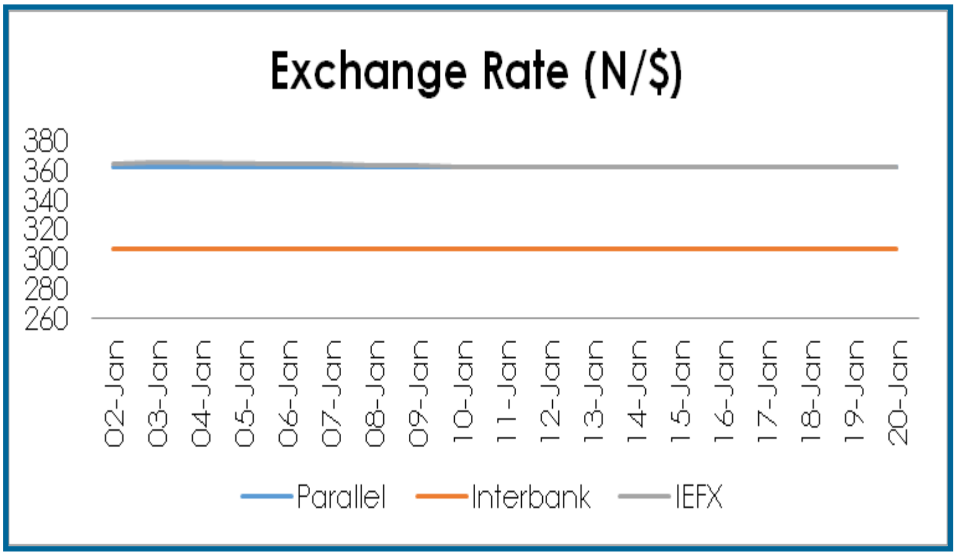
Forex Market

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

In the parallel market, the naira traded flat at N362/$ from January 2 to January 20. At the interbank foreign exchange market, the currency gained 0.02% to close at N306.95/$ on January 20 from N307/$ at the beginning of the month.

The currency also appreciated by 0.66% at the Investors & Exporters foreign exchange window to close at N362.38/$ on January 20 from N364.79/$ on January 2. During the review period, the naira rose to a three-month high of N361.84/$ on January 17. The total forex turnover recorded in the investors and exporters window increased by 4.61% to $4.31billion compared to $4.12billion in the corresponding period of December 2019. The currency appreciation can be partly attributed to the resumption of the CBN's forex interventions.



[20]

Outlook

As the CBN resumes its intervention activities in the foreign exchange market, we expect the naira to remain stable in the near term. However, this would be at the expense of the depleting external reserves.

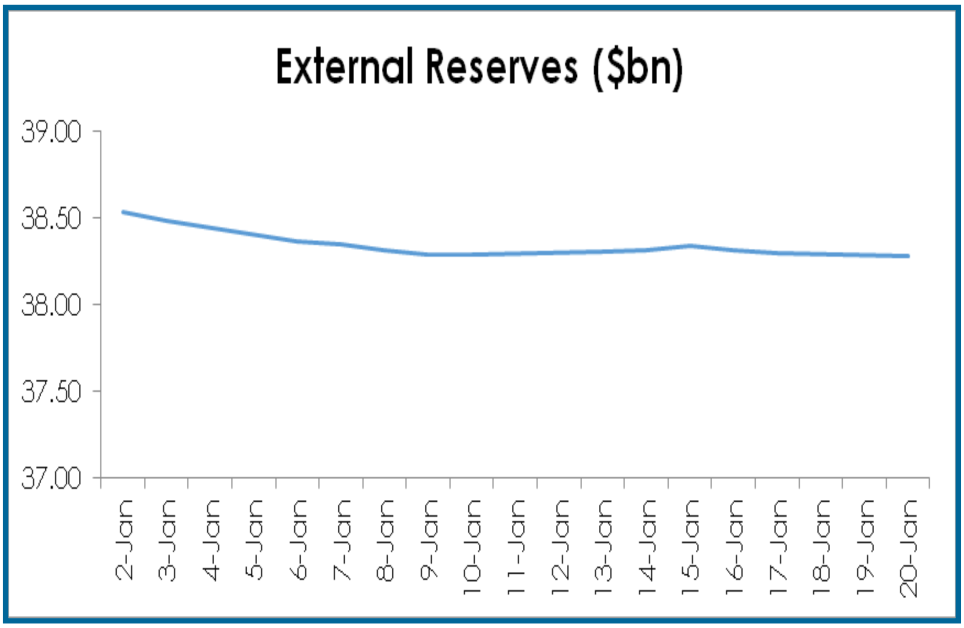
Impact

Nigeria is an import-dependent nation, thus a stable exchange rate would foster economic activities. This would also encourage foreign trade and import of goods with little or no local substitutes.

External Reserves

The external reserves balance depleted by 0.67% ($24 million) from $38.54bn at the beginning of the month to $38.28bn on January 20. During the period, there was a temporary accretion for 2 days, the reserves level rose slightly to $38.34bn from $38.31bn. The country's import cover has declined to 9.53 months from 9.60 months On January 1.

[20]FDC Think Tank



[21]

Outlook

The depletion in the external reserves is expected to continue, due to the full resumption of business activities and the CBN's interventions in the foreign exchange market.

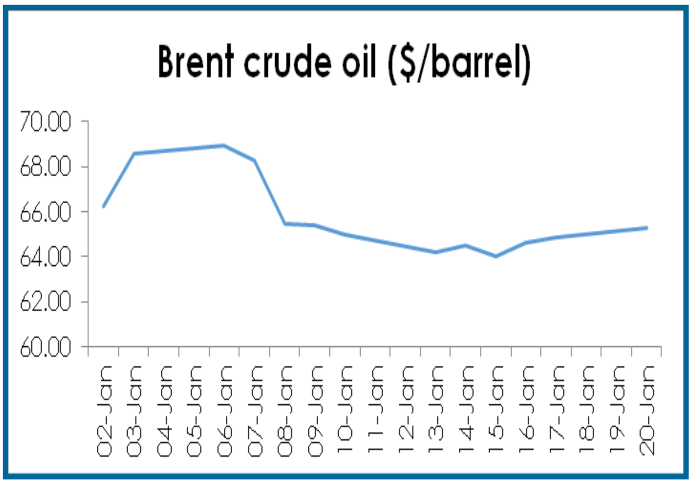
[21]CBN

Commodities Market - Exports

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

Oil Prices

Oil prices decreased by 1.48% to $65.27pb from $66.25pb on January 2. However, on the average, oil prices increased by 2.32% to $65.79pb, from the average of $64.30pb in the corresponding period in December. The increase in prices was partly due to the US-Iran tensions and the sign-off of the phase one deal between US-China, the 2 largest economies globally.



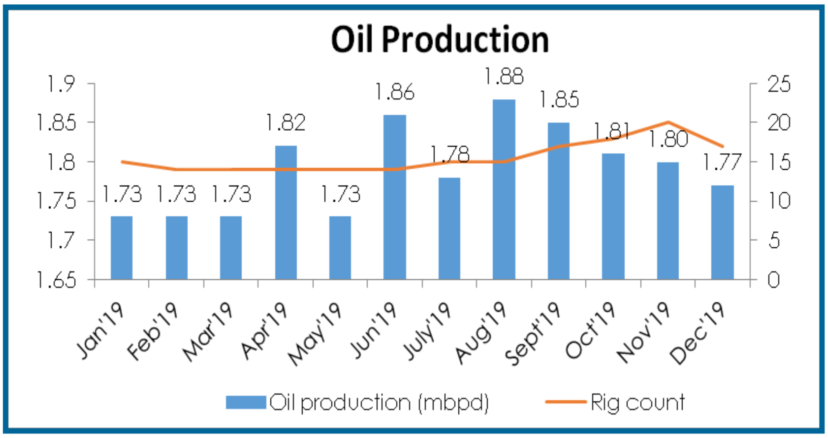
[22]

Outlook

The shutdown of two Libyan oil fields and OPEC's decision to reduce its production quota by an additional 500,000bpd is expected to provide some support for prices. Hence, we expect prices to remain above $65pb in the near term.

Oil production

Nigeria's oil production declined by 1.12% to 1.77mbpd in December from 1.79mbpd in November 2019. This is the first time it would be in line with the country's OPEC quota of 1.77mbpd. In 2019, Nigeria's average crude oil production was 1.79mbpd, 4.07% higher than 2018's average of 1.72mbpd. Nigeria's rig count reduced from 20 to 17 in December.



[23]

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

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Outlook

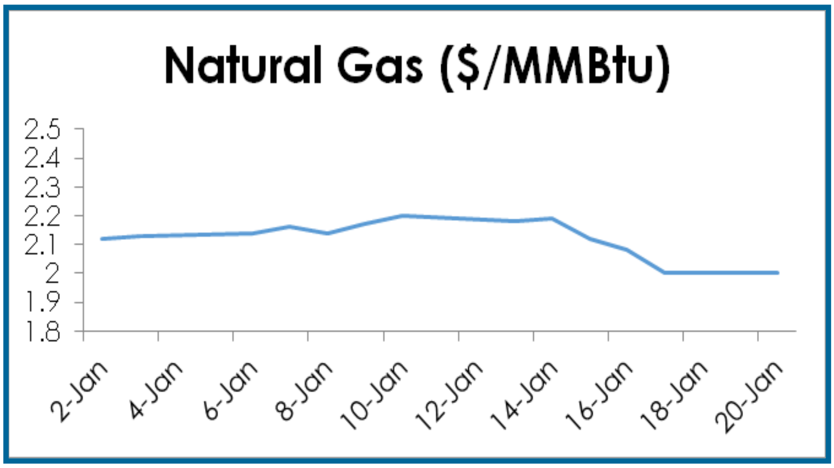
Nigeria's OPEC quota is 1.77mbpd. Therefore, we expect oil production to remain around current levels in the near term as Nigeria commits to adhering to its quota.

Impact

Nigeria is more affected by reduced oil production. The country's current production level is 18.81% lower than its 2020 oil production benchmark of 2.18mbpd. Also, lower output would erase the gains made from high oil prices. Thus, lower oil production would adversely affect the country's fiscal and external position.

Natural Gas

The average price of natural gas for the review period was $2.14/mmbtu which is 7.76% lower than the average price of $2.32/mmbtu in the corresponding period in December. Natural gas prices dwindled by 5.67% to close the review period at $2.00/mmbtu from $2.12/mmbtu on January 2nd. The decline was partly due to the surge in Qatar's LNG production and lower demand in the United States.



[24]

Outlook

Natural gas prices are expected to rise in the coming period as we approach the peak of the winter season in the US.

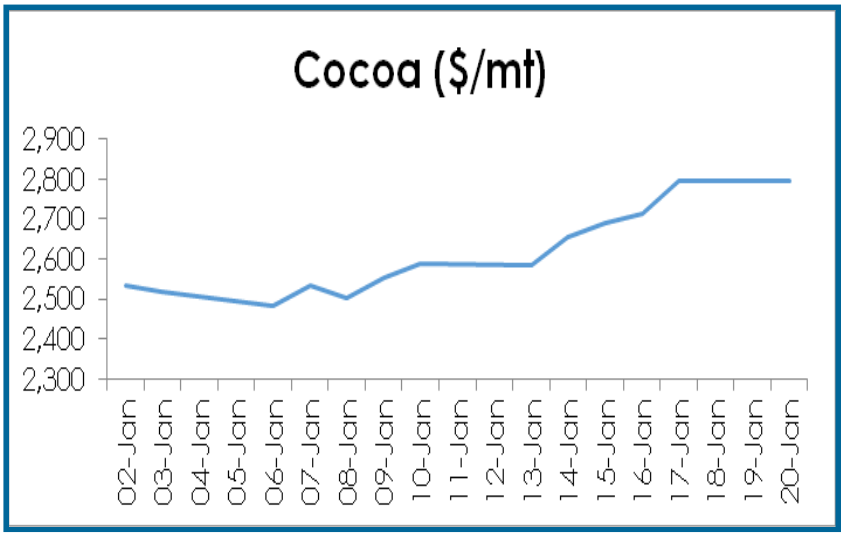
Impact

Despite the expected price increase, Nigeria is expected to cut its supply to some African countries (Togo, Benin and Ghana) due to proposed offshore activities by West African gas pipeline (WAGP) in the first quarter of 2020. This will negatively affect Nigeria's LNG export earnings.

[24]Bloomberg, FDC think Tank

Cocoa

Average cocoa price increased by 2.71% to close the review period at $2,611/mt from $2,542/mt in the corresponding period in December. Prices rose to $2,797/mt on January 20, representing a decline of 10.47% from $2,532/mt at the beginning of the period. The increase in price was supported by expectations of higher global demand as well as reports on reduced supply from Ivory Coast.



[25]

Outlook

We expect prices to increase in coming days driven by strong global demand for cocoa and reduced supply from Ivory Coast, the largest supplier of cocoa globally.

Impact

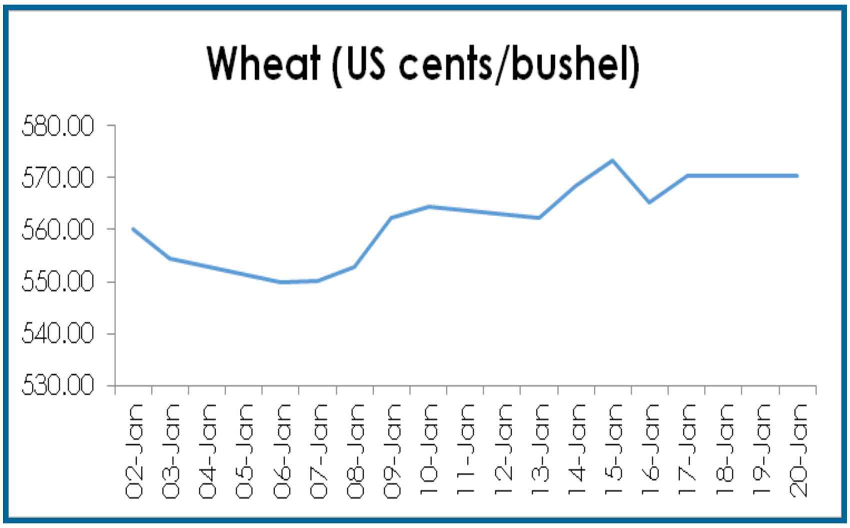
An increase in cocoa prices would result in higher export earnings and government revenue. Cocoa is Nigeria's second main non-oil export commodity. Therefore, higher prices would support the country's trade balance.

[25]Bloomberg, FDC Think Tank

Imports

Wheat

On the average, the price of wheat rose to $561.9/bushel during the review period, an increase of 5.27% from $533.77/bushel in the corresponding period last month. Wheat prices began the period trading at $560.25/bushel on January 2. On January 15, prices rose to $573.25/bushel, the highest price since August 2018, before falling marginally to close at $570.50/bushel on January 20. Expectations of increased wheat demand as the US and China signed a phase-one trade deal on January 15 pushed up prices during the period. Also, tightening supplies as US wheat output declined also supported prices.

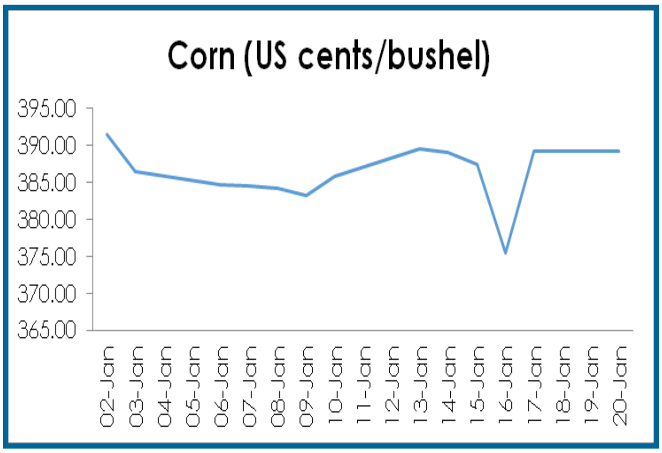


[26]

Corn

The price of corn averaged $386.19/bushel from January 2 to January 20, up 1.32% from $381.15/bushel in the first half of December. Corn prices fell by 0.57% to close the review period at $389.25/bushel on January 20 from $391.50/bushel on January 2. This was despite the optimism of increased demand for US corn produce as US and China signed an interim trade deal on January 15.

[26]Bloomberg, FDC Think Tank



[27]

Outlook - Grains

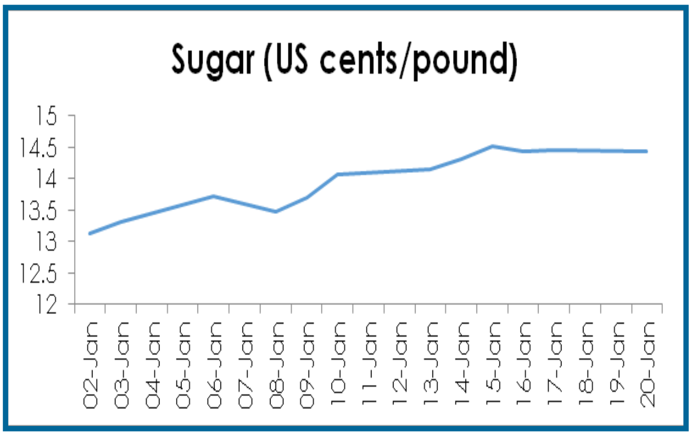
The terms of the phase-one trade deal between US and China provide increased prospects for demand of US corn produce. This, combined with the forecast of reduced US grain planting by the US Department of Agriculture is expected to drive prices in the near term.

Impact

Higher grain prices will increase spending for wheat and corn dependent firms and push up production cost incurred on grain based goods.

Sugar

During the review period, the average price of sugar increased by 4.97% to $13.95/pound from $13.29/pound in the relative period in December. Sugar prices also rose by 9.90% to close the period at $14.43pound from $13.13/pound on January 2. This was largely driven by reduced sugar cane production in India, the second largest producer of sugar, which resulted in tightened global supply of the commodity.



[28]

Outlook

The reduction in supply from one of the major producers of sugar would weigh on global supply levels. This is expected to boost sugar prices in the near term.

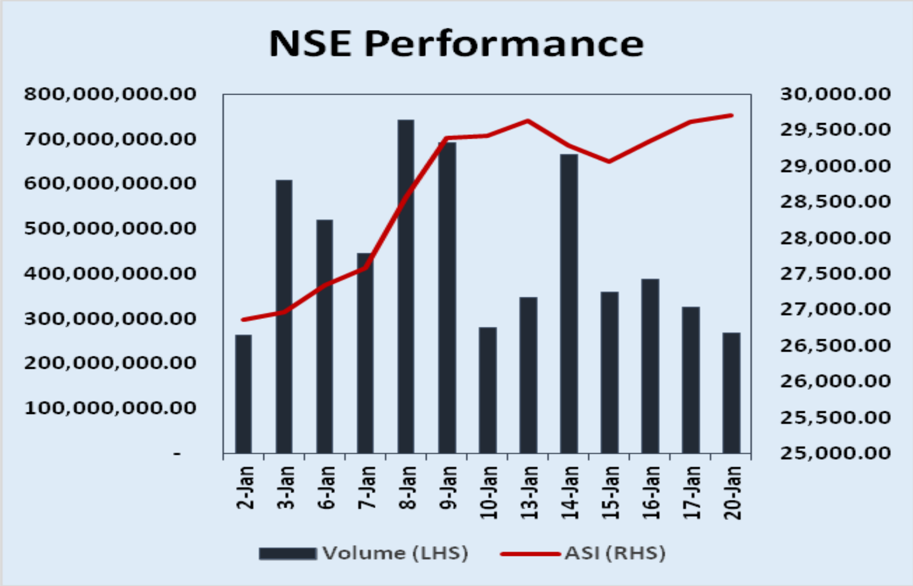
Impact

Higher sugar prices translate to increased import spending for Nigeria as the country is the largest importer of sugar in Sub-Saharan Africa. Rising sugar prices will increase the country's import bill as spending would increase to meet the high demand for sugar.

[27]FDC Think Tank
[28]FDC Think Tank

Stock market Update

The NSE ASI gained 10.69% between January 2nd and January 20th, 2020 to close at 29,710.56 points. In the same vein, market capitalization rose by 18.06% (N2.34trn) to N15.30trn. In the 13-trading day period, the market gained in 11 days and lost in 2 days.



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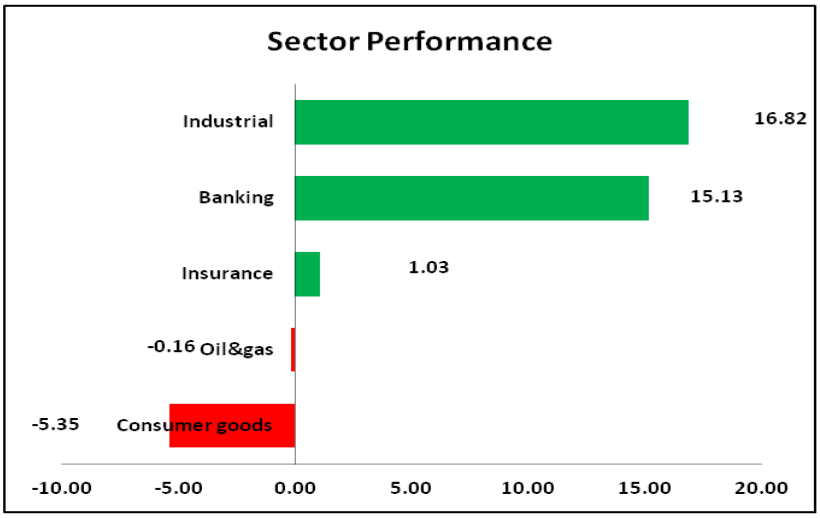
Excess money market liquidity contributed to the market's positive performance as it helped increase demand for equities.

The NSE traded at a price to earnings (P/E) ratio of 7.83x as at January 20th, 10.95% higher than 7.07x at the beginning of the year (January 2nd). The market breadth was positive at 1.50x as 51 stocks gained, 34 lost while 78 stocks remained unchanged.



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In the same vein, the market saw an increase in activity level. The average volume traded rose by 101.87% to 454.60mn units, while the average value of trades rose by 94.41% to N5.56bn.

The performance of the sector indices was mixed during the review period. The industrial sector gained the most with 16.82%, followed by the banking sector (15.13%) and the insurance sector (1.03%). The consumer goods and oil & gas sectors lost 5.35% and 0.16% respectively.

[29] NBS, FDC Think Tank
[30] NBS, FDC Think Tank

Dangote Cement Plc topped the gainers' list with a 23.24% increase in its share price. This was followed by United Bank for Africa Plc (22.92%), Ekocorp Plc (22.35%), Zenith Bank Plc (21.66%) and NASCON Allied Industries Plc (21.24%).

TOP 5 GAINERS (N)				
Company	**Jan. 02'20**	**Jan. 20'20**	**Absolute Change**	**% Change**
Dangote Cement PLC	142.00	175.00	33.00	23.24
United Bank for Africa PLC	7.20	8.85	1.65	22.92
Ekocorp PLC	4.25	5.20	0.95	22.35
Zenith Bank PLC	18.70	22.75	4.05	21.66
NASCON Allied Industries PLC	12.95	15.70	2.75	21.24

The laggards were led by UPDC Real Estate Investment Trust Plc (-19.77%), NCR Nigeria Plc (-18.89%), Omatek Ventures Plc (-18.00%), Neimeth International Pharmaceuticals Plc (-17.74%) and NEM Insurance Plc (-17.36%).

TOP 5 LOSERS (N)				
Company	**Jan. 02'20**	**Jan. 20'20**	**Absolute Change**	**% Change**
UPDC Real Estate Investment Trust PLC	4.30	3.45	-0.85	-19.77
NCR Nigeria PLC	4.50	3.65	-0.85	-18.89
Omatek Ventures PLC	0.50	0.41	-0.09	-18.00
Neimeth International Pharmaceuticals PLC	0.62	0.51	-0.11	-17.74
NEM Insurance PLC	2.42	2.00	-0.42	-17.36

Outlook

The CBN's move to hike the CRR by 500bps to 27.5% was aimed at mopping up the excess liquidity in the system. It also marks a shift in the interest rate environment. Interest rates are expected to rise continually in the near term, thus reducing demand for equities. This will moderate stock prices but will not be enough to halt the rally. The correction will also suppress bank earnings and banking stock prices in the short run.

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Equity Report: Unilever

Analyst's note

Underwhelming performance dragged by weak consumer spending

Unilever Nigeria recorded one of the worst performances in 9M'19 in the consumer goods sector and in the history of the company's performance. It recorded a 28.6% decline in revenue to N51.63bn from N72.3bn due to decline in sales and inability to increase price. Management stated that the company had to tighten credit terms to key distributors to minimize non-performing receivables, which had been building up. Consequently, the food & home and personal care businesses lost sizeable market share, and were down -56% y/y and -70% y/y respectively. The loss in market share can be attributed to the inability of the company's brands to compete as price points have shifted downwards. Its bottom line (PAT) declined by 94% to N540.7mn from N9.56bn due to a 61% increase in finance cost to N442.7mn from N274.1mn.

Analyst Recommendation: HOLD
Market Capitalization: N103.4 billion
Recommendation Period: 365 days
Current Price: N18
Industry: Consumer Goods
Target Price: N17.02

Compared to our target price of N17.02, which was based on intrinsic valuation, the share price is currently overvalued. Accordingly, we recommend a **HOLD** rating on Unilever Nigeria. Based on the current price of N18.00, our target price implies a 4% downside potential for the stock.

Cost containment continues to be a constraint

Unilever Nigeria has found the issue of production and finance cost control to be a herculean task. Although a horizontal analysis of line items showed production cost declined by 15% according to its 9M 2019 result, the vertical analysis showed otherwise as production cost as a percentage of revenue increased to 81% in 2019 relative to 68% in the same period in 2018. This was partly due to the increase in the cost of raw materials, which was exacerbated by the growing import ban list. Increasing cost remains a major concern as the quarterly review of its s2019 result has shown a struggle to increase top line.

Although the rights issue completed in the second half of 2017 helped reduce finance cost as it was used to offset some of its foreign currency liabilities and meet working capital requirement, recent results showed a 61% increase in finance cost y-o-y but an 86.2% decline from the figure recorded prior to the rights issue.

Its parent company recently revealed plans to make significant investment in R&D partly based on the need to reduce the use of plastics. Although Unilever Nigeria is likely to benefit from the decision, this usually takes time to materialize and the significance of the impact is not certain.

The growing Nigerian population and the quasi-necessity nature of its product present a good opportunity for the company to grow its revenue. Recent research has shown that pricing is a key factor to success, as smaller brands have been able to increase their market share due to their lower prices. Unilever is unlikely to reduce the prices of its products, as this will likely imply selling below its cost of production.

Based on the mixed signals in its performance, we recommend a **HOLD** on Unilever Nigeria's stock.

Industry & company overview

Unilever Nigeria is one of the longest serving fast moving consumer goods (FMCGs) companies in Nigeria, with over 12 household brands. It started operations as Lever Brothers Nigeria (West Africa Soap Company) Limited in April 1923, promoting community welfare and delivering superior service. Globally more than 6 in every 10 households make use of at least one Unilever product, with a range of over 400 brands.

Unilever Nigeria's products can be broadly categorized into three business segments: food products including tea and savoury; personal care products, including skin care and oral care products; and, home care products, including fabric care, household cleaning and water purification products.

Food Products	Personal Care Products	Home Care Products
• Knorr	• Close Up	• Omo
• Lipton	• Pepsodent	• Sunlight
• Royco	• Lifebuoy	
	• Lux	
	• Pears	
	• Vaseline	
	• Rexona	

In its bid to reduce production cost, Unilever Nigeria collaborated with sister companies in Ghana and Côte d'Ivoire to take advantage of large-scale economies. This arrangement contributed about 2% to company revenue, increasing Unilever's FX earnings and access to cheaper raw materials.

Fast moving consumer goods companies move with the time

Weak consumer spending has adversely affected the industry. The Nigerian consumer market is yet to recover from enormous adjustments in spending pattern. The economy is largely skewed towards household consumption with food accounting for approximately 60% of consumer expenditure, thus remaining a strong fundamental attraction. Given that the industry depends on agriculture commodities (cocoa, wheat, sugar, palm oil, etc) sourced in the international market or locally but priced in USD, Nigeria's forex challenges elevated the vulnerabilities of the sector, which climaxed with the ban of 41 items in 2015. More items have been included to the list.

The currency depreciation effect triggered higher cost of production, which is now reflected in prices that have been largely passed to final consumers despite stiff competition. Weak income levels have necessitated painful adjustments that resulted in negative consequences on aggregate volume. Nature of goods, product innovation and branding has been the basis of competition amongst players. High operation cost has created a drag on the industry's performance.

Excitingly, Nigeria's compelling demographic configuration places her as the largest consumer market in Sub-Saharan Africa. This supports the need to increase investment as shown by the decline in free cash flow due to an increase in capital investment. However, there is a cloud of concern as the defense strategy of the big brands whose profitability have been encroached, due to declining market share to smaller brands, is unclear.

Misalignment between parent and Unilever Nigeria strategies

Unilever Nigeria's parent company, Unilever UK, has been known to pursue shareholders' returns by focusing on new products and emerging markets. This is because most of the parent company's products are at the maturity stage, experiencing lackluster growth. They have been known to push growth by investing and controlling medium size companies, aggressively cutting cost and improving efficiency of these acquisitions.

Outside the Nigerian market, Unilever has moved to gradually divest from its food brands, while focusing on its personal care and home care business segments.

Unilever Nigeria, on the other hand, has focused on short-term growth with emphasis on operational intensity and cost efficiency to grow market share and reinvest in its iconic brands. This has been quite different from the parent's strategy. The move to divest its spread business has shown a negative impact as revenue from the goods segment has significantly declined. In addition, Unilever Nigeria has not embarked on an expansion through acquisition of medium sized brands, as excess capacity exists to grow organically.

This misalignment might imply that Unilever UK's objective is to grow Unilever Nigeria organically, until the market reaches saturation. Once saturation is realized, the parent company would assess the option of repositioning. The rate of innovation and the intensity of competition in the Nigerian market points to the need to reposition Unilever Nigeria if it is to maintain its long-term relevance in Nigeria.

Income statement									
N'000	2015	2016	restated '17	2018	9M'2019	2019E	2020E	2021E	2022E
Revenue	59,221,748	69,777,061	85,193,369	92,899,969	51,627,783	82,912,348	91,203,583	100,141,534	100,141,534
Cost of sales	(38,174,248)	(49,481,020)	(57,679,133)	(64,674,847)	(41,993,385)	(55,802,874)	(62,438,512)	(67,978,099)	(68,267,792)
Gross Profit	**21,047,500**	**20,296,041**	**27,514,236**	**28,225,122**	**9,634,398**	**27,109,473**	**28,765,071**	**32,163,435**	**31,873,742**
Selling and distribution expenses	(2,844,098)	(3,151,087)	(3,790,502)	(4,239,077)	(2,552,466)	(5,640,741)	(6,091,351)	(6,750,595)	(6,719,450)
Marketing and administrative expense	(13,641,218)	(11,464,146)	(11,476,201)	(14,712,986)	(7,566,927)	(15,283,889)	(15,628,300)	(17,809,877)	(17,484,875)
Impairmet (loss)/ write back on trade	-	-	813	(311,443)	(316,808)	(55,434)	(183,367)	(134,145)	(167,741)
Operating Profit	**4,562,184**	**5,680,808**	**12,248,346**	**8,961,616**	**(484,995)**	**6,184,844**	**7,045,420**	**7,602,963**	**7,669,417**
Finance income	301,889	1,027,622	1,565,263	4,026,932	1,847,892	1,906,364	1,728,367	1,901,203	1,728,367
Other income	-	124,237	(16,918)	236,160	43,818	68,386	153,536	125,590	147,086
Finance cost	(3,170,516)	(2,726,245)	(3,200,696)	(602,800)	(442,726)	(585,051)	(3,251,221)	(3,927,724)	-
Profit on disposal of property, plant ar	77,506	-	-	-	-	-	-	-	-
Profit Before Tax	**1,771,063**	**4,106,422**	**10,595,995**	**12,621,908**	**963,989**	**7,574,543**	**5,676,102**	**5,702,031**	**9,544,869**
Taxation	(578,697)	(1,034,537)	(3,526,251)	(3,489,756)	(106,491)	(2,042,652)	(1,550,022)	(1,547,394)	(2,598,374)
Profit After Tax	**1,192,366**	**3,071,885**	**7,069,744**	**9,132,152**	**857,498**	**5,531,891**	**4,126,080**	**4,154,637**	**6,946,495**

Balance sheet for Unilever Plc								
N'000	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019E**
Property, plant and equipment	19,265,833	23,224,938	24,830,779	27,368,919	29,272,186	29,880,704	29,677,539	33,554,749
Intangible assets	1,962,124	1,627,836	1,398,037	1,168,581	940,124	705,890	448,488	312,077
Other non-current assests	259,986	222,070	398,220	208,809	140,160	79,486	48,353	-
Employee loan receivable	87,807	122,301	128,348	127,979	111,671	130,310	65,531	65,531
Retirement benefit surplus	143,600	155,642	409,712	290,382	484,621	329,235	293,219	293,219
Non-Current Assets	**21,719,351**	**25,352,787**	**27,165,096**	**29,164,670**	**30,948,762**	**31,125,625**	**30,533,130**	**34,225,576**
Inventories	7,230,127	6,988,379	8,614,597	6,173,113	9,878,499	11,478,532	13,928,867	11,359,423
Trade and other receivables	5,637,668	8,143,362	8,544,431	10,142,845	18,945,578	27,621,489	30,188,189	20,648,582
Employee loan receivable	52,785	85,628	77,215	85,201	72,918	79,384	49,005	49,005
Cash and bank balances	1,857,693	3,183,958	1,334,916	4,435,244	12,474,141	50,493,595	57,144,182	-
Assets held for sale	-	-	-	171,411	171,411	-	-	-
Derivative assets			-	-	-	285,740	-	
Current Assets	**14,778,273**	**18,401,327**	**18,571,159**	**21,007,814**	**41,542,547**	**89,958,740**	**101,310,243**	**51,167,404**
Total Assets	**36,497,623**	**43,754,114**	**45,736,255**	**50,172,484**	**72,491,309**	**121,084,365**	**131,843,373**	**85,392,980**
Ordinary share capital	1,891,649	1,891,649	1,891,649	1,891,649	1,891,649	2,872,503	2,872,503	2,872,503
Share premium	45,717	45,717	45,717	45,717	45,717	56,812,810	56,812,810	
Retained earnings	7,896,863	7,410,556	5,541,442	6,065,887	9,752,577	16,223,062	23,104,230	
Equity Attributable to Owners of the	**9,834,229**	**9,347,922**	**7,478,808**	**8,003,253**	**11,689,943**	**75,908,375**	**82,789,543**	
Non-Controlling Interest			-	-	-	-	-	
Total Equity	**9,834,229**	**9,347,922**	**7,478,808**	**8,003,253**	**11,689,943**	**75,908,375**	**82,789,543**	**87,116,042**
Deferred tax liabilities	1,233,244	2,340,980	2,853,240	3,060,591	3,942,337	4,484,871	3,652,125	3,652,125
Retirement benefit obligations	2,595,222	2,707,428	2,756,505	3,369,353	2,613,268	3,454,370	2,021,360	2,021,360
Long service award obligations	-	355,974	341,871	266,548	181,166	205,745	209,510	209,510
Other employee benefits	-	60,846	44,104	88,494	74,150	85,902	-	
Deferred income	-	86,250	128,292	95,537	62,781	30,025	-	-
Loans and borrowings	145,183	782,074	762,602	591,055	414,275	219,770	3,782	5,003,782
Non-Current Liabilites	**4,182,944**	**6,333,552**	**6,886,614**	**7,471,578**	**7,287,977**	**8,480,683**	**5,886,777**	**10,886,777**
Trade and other payables	14,929,943	21,091,750	15,111,163	22,542,842	32,476,502	33,408,820	38,610,839	30,310,875
Income tax	2,986,689	1,360,447	212,770	159,840	502,855	2,799,203	4,555,820	2,042,652
Bank overdrafts	4,358,775	2,570,758	3,953,395	4,535,672	-	-	-	
Loans and borrowings	23,317	3,027,668	12,060,749	7,426,543	20,501,276	454,528	394	394
Restructuring provision	181,727		-	-	-	-	-	-
Deferred income		22,017	32,756	32,756	32,756	32,756	-	-
Current Liabilites	**22,480,451**	**28,072,640**	**31,370,833**	**34,697,653**	**53,513,389**	**36,695,307**	**43,167,053**	**32,353,921**
Total Liabilites	**26,663,395**	**34,406,192**	**38,257,447**	**42,169,231**	**60,801,366**	**45,175,990**	**49,053,830**	**43,240,698**
Total Equity and Liabilites	**36,497,624**	**43,754,114**	**45,736,255**	**50,172,484**	**72,491,309**	**121,084,365**	**131,843,373**	**130,356,741**

Management

Unilever Nigeria's Board is led by His Majesty Nnaemeka A. Achebe CFR, MNI, Obi of Onitsha. He is a well-travelled monarch, with extensive leadership experience having served as director on numerous company boards.

The board recently appointed Mr. Carl Raymond R. Cruz, a Filipino as the new managing director. He will be replacing Mr Yaw Nsarkoh, a Ghanaian who has been in the company since 1994. Mr. Cruz holds a Bachelor of Science degree in Marketing from De La Salle University, Philippines. He comes with extensive career in Unilever D & E Markets in Asia (Philippines, Thailand, India and Sri Lanka). Since joining Unilever in 1992, Carl has gained over 26 years experience working in Customer Development and in marketing roles across Home Care, Beauty & Personal Care and Foods. Most recently, as Chairman of Unilever Sri Lanka, Carl has successfully steered the business to a sustainable and competitive growth trajectory.

The Board of Unilever Nigeria consists of other seasoned professionals with good knowledge and technical skills in the consumer goods space. The management of Unilever Nigeria has reiterated its commitment to improve shareholders' value and the company's environmental footprint. But, little has been achieved in the area of cost control, which has contributed to the poor performance. This affirms the need for management to review some of its cost control policies. The management needs to intensify its adoption of local content and establish long contracts that reduce the unit cost of acquiring raw materials.

More than 70% of Unilever Nigeria's ownership is strategically owned, as it is predominantly owned by a small group of companies: Unilever Oversees Holdings BV Holland and Unilever Oversees Holdings BV, which control more than 67%. Stanbic Nominees Nigeria controls about 10% (directly and indirectly). The parent company retains a strong grip on the company and has stated its intention to acquire up to 75% of Unilever Nigeria as part of its long-term strategic plan. This demonstrates the commitment of the parent and the growth potential of the Nigerian market.

Chairman

His Majesty Nnaemeka A. Achebe CFR, MNI

Managing Director

Mr. Carl Raymond R. Cruz

Bulls and Bears say

Bulls Say:

- Strong brand equity
- Large footprint in Nigeria
- Strategic alliance and support from parent company provides a competitive advantage
- Potential to increase FX earnings by intensifying export drive
- Move to achieve 100% local sourcing by 2020 would reduce costs
- Growing awareness and sophistication to drive sales in personal care segment

Bears Say

- Maturing food product segment and intense competition
- Difficult operating environment
- Weak consumer spending
- Increasing competition from smaller brands
- Cost containment remains a key constraint
- Slow economic growth
- Increase in parent company control to threaten minority shareholders' interest
- High import dependence exposes Unilever Nigeria to FX volatility


UBA
United Bank for Africa
Leo
on WhatsApp
Chat on +234-903-000-2455
Check Account Balance?
Top up your airtime?
Bank Transfers?
Bills Payment?
Type a message
https://m.me/ubachatbanking
Leo@ubagroup.com
CFC (+234-1-2807400)
Africa • New York • London • Paris
Web: www.ubagroup.com
Email: cfc@ubagroup.com
Africa's global bank

Risk and Outlook

Over the years, Unilever Nigeria has consistently outperformed the economy. This is evident by revenue growth over the last six quarters, which exceeded economic growth throughout the period. The recession experienced last year created a niche market for value brands, as numerous consumers switched to low-end value brands. Most of these brands, through innovation and creativity, are using the path to recovery to further establish a firm customer base to improve their foothold in the market. They pose a real threat to Unilever Nigeria who has lagged in new product development.

Unilever Nigeria has also struggled in keeping costs low, which has encroached on its margins. Assessing the intensity of competitive rivalry in the market, cost control is a critical success factor. The limitation on cost reduction despite declining top line revenue means Unilever Nigeria is operating inefficiently.

Being a net importer, Unilever Nigeria is looking to improve its FX earnings, thereby exposing it to volatility in destination countries. Hence, the move by the management to mitigate these risks in the short term will determine the company's position in the long run. We recommend a **HOLD** pending the outcome of the management's move to deploy its balance sheet to push growth.

Our valuation of Unilever Nigeria

Using Discounted Cash flow (DCF) methodology, we estimate a stock price of N17.02, which is an 8% downside on the current price of stock of N18 as at January 21, 2020. With a discount rate (Weighted Average Cost of Capital (WACC)) of 17.4% derived using a 12.75% risk free rate (FGN 5-year Bond as at November 2019), a Beta of 1.05, after cost of debt of 14.2%, and a market risk premium of 6.4%. The long-term cash flow growth rate to perpetuity (8.1%) was derived by multiplying the return on equity of 10% by the retention rate of 81%.

DCF Valuation for Lafarge Plc					
N'000	2019E	2020E	2021E	2022E	2023E
EBIT	6,184,844	7,045,420	7,602,963	7,669,417	8,369,264
Less: Taxes	(1,667,887)	(1,899,961)	(2,050,316)	(2,068,237)	(2,256,967)
EBIAT	4,516,957	5,145,458	5,552,647	5,601,180	6,112,297
Plus: depreciation expense	2,525,626	3,653,808	4,467,741	-	-
Less: CAPEX	(6,402,836)	(7,043,120)	(7,733,345)	-	-
Less: Change in working capital	(3,809,087)	5,044,731	(2,336,307)	2,678,079	(1,083,220)
Free Cash Flow (FCF)	(3,169,340)	6,800,877	(49,265)	8,279,259	5,029,077
WACC	17.4%	17.4%	17.4%	17.4%	17.4%
Present value (PV) of FCF	(2,699,233)	4,932,963	(30,434)	4,355,893	2,253,437
Terminal value @ perpetual growth rate (2021)	2019	2020	2021	2022	2023
Terminal value as of 2023	-	-			59,656,190
Present value of terminal value	36,852,745				
2018					
DCF Calculation	**Valuation**				
PV of explicit period	8,812,627				
PV of terminal value	36,852,745				
Enterprise Value	45,665,371				
+ Cash	57,144,182				
- Borrowings	(5,004,176)				
Equity value	97,805,377				
Share Price	**17.02**				
Shares outstanding ('000)	5,745,006				

Economic outlook for the next month

In February, the market sentiment will be mixed. On one hand, consumers disposable income will improve as a result of the minimum wage increase, improved lending to the real sector and higher capex spending. However, on the other hand there is the persistent risk of lower purchasing power as the new VAT kicks off in February, heightened inflationary pressures resulting from the land border closure, 60% average increase in electricity tariffs from April 2020 and other tax hikes.

In addition, we expect external sector vulnerabilities to persist. External reserves will continue its steady decline (could fall below $38bn) and naira could come under pressure due to increased demand.