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FDC MONTHLY ECONOMIC UPDATE

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In This Issue . . .

Oil Discovered in North Eastern Nigeria

The Minister of State for Petroleum has disclosed the discovery of one billion barrels of oil reserves in North Eastern Nigeria. This will bring the country's total oil reserves to approximately 38 billion barrels. It is noteworthy that Chad and Cameroon, the countries that are in the same basin have combined oil reserves of approximately 1.7 billion barrels. This discovery could mean that the area may be classified as a potentially prolific oil producing region in West Africa.

Meanwhile, the discovery is coming at a time when investment in the oil sector is plummeting due to the uncertainties in the fiscal environment, especially the delay in the passage of the petroleum industry bill (PIB). Nigeria's oil reserves grew by 68.18% to 37 billion barrels in 2007 from 22 billion barrels in 2002. However, since then, it has only increased by a meagre 1.35% to 37.5 billion barrels in recent time. This is because investment into the sector has slowed significantly. International investors in Nigeria's oil sector are unclear as to what fiscal terms the PIB will throw up and this has discouraged investment in the sector.

Impact

The discovery will add to Nigeria's oil reserves but is unlikely to have an impact on output in the short term unless it adds to Nigeria's current production of oil condensates. In the medium term, with the Dangote refinery coming on stream in 2020, an extra 650,000bpd will be refined in the domestic economy.

CBN Restricts Forex for Import of Milk & Dairy Products

The CBN in its circular dated February 11, 2020 has limited the importation of milk and other dairy products to just six companies- FrieslandCampina Wamco, Chi Limited, Nestle Nigeria, Promasidor and two others. These companies are mostly international companies. This decision comes roughly seven months after the CBN indicated its intention to add milk and other dairy imports to its forex restriction list.

Rationale

The rationale behind this decision is to increase the domestic production of milk and other dairy products, thereby forcing manufacturing companies to look inwards and invest more in backward integration. This will reduce the demand pressure on Nigeria's foreign exchange earnings. Nigeria is said to spend approximately $1.2bn- $1.5bn annually on milk and dairy importation, 3.21%- 4.01% of the current external reserves level of $37.37bn. According to the CBN, this figure is too high especially as the country can make domestic milk production a viable economic proposition. Increased focus on domestic production will also generate more jobs

What exactly is the problem?

The restriction to only 6 companies – the "select few"- is a symptom of a problem more fundamental. This is not the first time that the Nigerian government would attempt to implement import substitution measures to wean the country off its huge import dependency. Has it always worked? In some cases yes, like the rice production and other commodities under the Anchors Borrowers program. Nonetheless, there are still major challenges the economy faces.

Nigeria's external imbalances are deteriorating faster by the minute. Average oil prices so far in 2020 is $62pb, 8.77% above the budget benchmark of $57pb. However, Nigeria's oil output is 18.35% below the budget benchmark at 1.78mbpd and may even fall lower if the country's quota is adjusted downwards. These 2 variables have impacted significantly on the terms of trade, estimated to ease marginally to 30.7 pts in 2020 and the balance of trade surplus that has narrowed in the last one year. The external imbalances have been more pronounced on the external reserves level that has predominantly been on a steady descent since July 2019. While the gross external reserves are at $37.37bn, the net figure after discounting for the external debt of $26.94bn is $10.43bn; this amount is just enough for 2.60 months of import cover. The CBN as a result has had to reduce the frequency of its interventions in the forex market in a bid to shore up the reserves and still maintain a stable exchange rate.

What does this mean?

The fact that only 6 companies are allowed to raise Form "Ms" means that shipments from other companies will be cancelled. The immediate impact could be a supply shortage of milk and dairy products. The good news is that these 6 companies are the market leaders and the others are fringe players. Hence the impact on supply availability will be limited. However, the cost of products from the "select few" may increase in the short term due to an initial shortage in supply to meet the demand pressure. Nonetheless, the increased demand will impact favorably on the performance of these companies who will record growth in their sales revenue.

It also means that the CBN will be able to conserve its forex earnings, which will have a positive impact on the depleting external reserves.

Effects of maturing OMO bills

OMO activities remain the CBN's main tool in regulating system wide liquidity. In October 2019, the CBN prohibited local corporate and retail investors from purchasing Open Market Operations (OMO) bills at both the primary and secondary markets. This was aimed at curbing regulatory arbitrage as banks exploit the MPR's +200bps/-500bps asymmetric window. OMO sales fell by 41.43% to N849.31billion in November 2019 from N1.45trillion in October 2019. The immediate impact of this was a switch in investment portfolio to the capital market (equities) from the money market, leading to an increase in demand for liquid (banking) stocks and a crash in Treasury bill rates. The stock market All Share Index gained 2.45% while T/bill rates declined by an average of 157 basis points in November.

However, the CBN's unorthodox policies, especially the LDR increase, have boosted system wide liquidity in the last few months. Currency in circulation rose by 6.80% to N2.20trillion in November from N2.06trillion in October. In line with the CBN's tight monetary stance, excess liquidity was mopped up through OMO auctions. In January, OMO sales increased by 19.38% to N1.54trillion from N1.29trillion in December.

Impact of CRR debits

The MPC, at its last meeting, increased the cash reserves ratio (CRR) of banks by 500 basis points to 27.5% in a bid to curtail inflationary pressures. Headline inflation increased for four consecutive months to 11.98% in December 2019. The resulting impact of the CRR hike was a marginal increase in the Treasury bill rates to 3.5%p.a., 4.5%p.a. and 6.5%p.a. for the 91-day, 182-day and 364-day tenors respectively. The stock market All Share Index (ASI) also lost 2.65% to close at 28,843.53 on January 31st.

Outlook - What will PFAs do with their funds?

OMO bills account for approximately 23% of pension fund administrators' asset portfolio. As these OMO bills mature, most of the investors that are barred from purchasing OMO bills would seek new investment outlets including forex and equities. This could trigger currency weakness as investors shift to the forex market. However, the recent decline in the stock market performance and the marginal increase in T/bill rates due to the CRR hike could imply that investment in T/bill will increase. Meanwhile, only international investors with certificates of capital importation are allowed to purchase T/Bills. Hence, money market liquidity will most likely increase and could stoke inflationary pressures.


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OPEC+ concludes its Joint Technical Committee Meeting : Any rescue for the oil market?

At its recently concluded meeting in Vienna, the Joint Technical Committee for OPEC and its allies recommended a deeper production cut of 600,000 bpd to cushion the effect of lower demand from China in the wake of the Coronavirus. However, Russia, one of the world's largest oil producers, is requesting for more time to evaluate the impact of the deadly disease on oil demand. China is the world's largest importer of crude oil with an estimated consumption of 14mbpd. The outbreak of the coronavirus has seen China's oil demand decline by approximately 20%, thus driving down oil prices. In the last two weeks, oil prices have fallen by approximately 16.46% on worries about the potential economic fallout of the fast-spreading Coronavirus. Brent prices fell to a 13-month low of $53.96pb on February 4th before recovering slightly to $55.28pb on the following day.

What to expect at the March Meeting

The Joint Technical Committee, which comprises of members from producing countries, is not a decision making entity but rather makes recommendations to OPEC and its allies. Given the current market fundamentals, we expect Russia to give in to the deeper cuts in the near term. If this happens, it increases the chances of OPEC+ implementing the new quota cut at its March meeting. This will bring the total output cut to 2.3mbpd.

Impact on Nigeria

In the event that OPEC+ implements the new production cuts, member countries will have to reduce their oil production. This means that Nigeria's oil production could fall below 1.7mbpd, 21.66% below the budget benchmark of 2.17mbpd. Nigeria is highly susceptible to a fall in oil production and crude oil accounts for approximately 90% of Nigeria's total export. Therefore, a further decline in oil production levels would result in lower oil proceeds, wider fiscal deficit and balance of trade deficit. Also, the pace of external reserves depletion could intensify, triggering currency pressure.

The challenging task of reforming Nigeria's oil sector: A review of the PIB and its component bills

For more than a decade, successive administrations have sought to reform Nigeria's critical oil and gas industry. Yet Nigeria continues to lose out on oil-sector revenue with estimates that the government lost at least $16 billion over a ten-year period between 2008 and 2017 due to a failure to revise the 1993 production-sharing contracts with oil companies.[1] The silver bullet to these woes was supposed to be the Petroleum Industry Bill (PIB) which aimed to transform the national oil company into a competitive and profit-oriented commercial enterprise. After nearly 20 years of being stuck in the National Assembly, the complex piece of legislation was broken into four separate bills to ease its passage. The first of

these bills, the Petroleum Industry Governance Bill (PIGB), was passed in January 2018.[2] Although it deals with less controversial aspects of the PIB, it appeared to be a milestone in the huge task of overhauling the oil sector. However, even the progress of the PIGB eventually stalled. President Muhammadu Buhari, refused to sign the bill into law, possibly in part because it would reduce the power of the oil minister to award and revoke oil licenses and contracts.

[1]Nigeria Extractive Industries Transparency Initiative. 2019. "NEITI: Nigeria Lost at Least $16bn to Non-Review of 1993 PSCs". https://neiti.gov.ng/index.php/media-center/news/458-neiti-nigeria-lost-at-least-16bn-to-non-review-of-1993-pscs

[2]https://www.energymixreport.com/nigeria-petroleum-industry-reforms-understanding-the-elements-of-the-petroleum-industry-governance-bill-pigb/

Passing the three other petroleum bills will be even more challenging

The more contentious Petroleum Industry Administration Bill, another segment of the PIB, outlines the responsibilities of a proposed petroleum regulatory commission, which includes the power to grant, amend and revoke oil licenses.[3] The bill also calls for a transition towards a full market pricing of petroleum products within one year of its enactment. Although price deregulation is vital for the growth of Nigeria's under-performing downstream oil sector, the legislation for this is controversial in a country where people are accustomed to buying subsidized petrol and powerful trade unions fight to retain these subsidies. It would take a huge effort to bring about this level of liberalization, and the current administration has shown no inclination to drive it forward.

A conclusion to the legislative process is years away, but private oil companies operating in Nigeria have been bracing themselves for the prospect that, when it happens, sectoral reform could trim their return on equity. The Petroleum Industry Fiscal Bill (PIFB), which deals with taxes, royalties and allowances in relation to oil and gas production, seeks to increase the tax take from hydrocarbon earnings. The proposal introduces a combination of price-based and production-based royalties with rates that scale according to daily production. The bill requires all petroleum and gas production to be subject to royalty payments. Under the current regime, upstream companies operating in deep waters pay no royalties when operating in depths in excess of 1,000 meters.[4] The PIFB also includes a provision for a marginal petroleum income tax of 0.5% for every $1 increase in the price of crude above a threshold price of $60 a barrel. Since the government indicated a desire for a bigger share of oil profits over a decade ago, multinational oil companies have argued that big tax hikes risk deterring much-needed investment in exploration. However, such warnings have a limited impact on nationalist politicians and activists. They contend that the recent low levels of private investment in Nigeria's oil sector has been caused by the uncertainty of the PIB delays, rather than opposition to its proposed new fiscal terms.

[3]http://www.petroleumindustrybill.com/tag/piab/

[4]Offshore Technology. 2018. "Nigeria's oil nostrum: what is the petroleum reform hoping to achieve?". https://www.offshore-technology.com/features/nigerias-oil-nostrum-petroleum-reform-hoping-achieve/

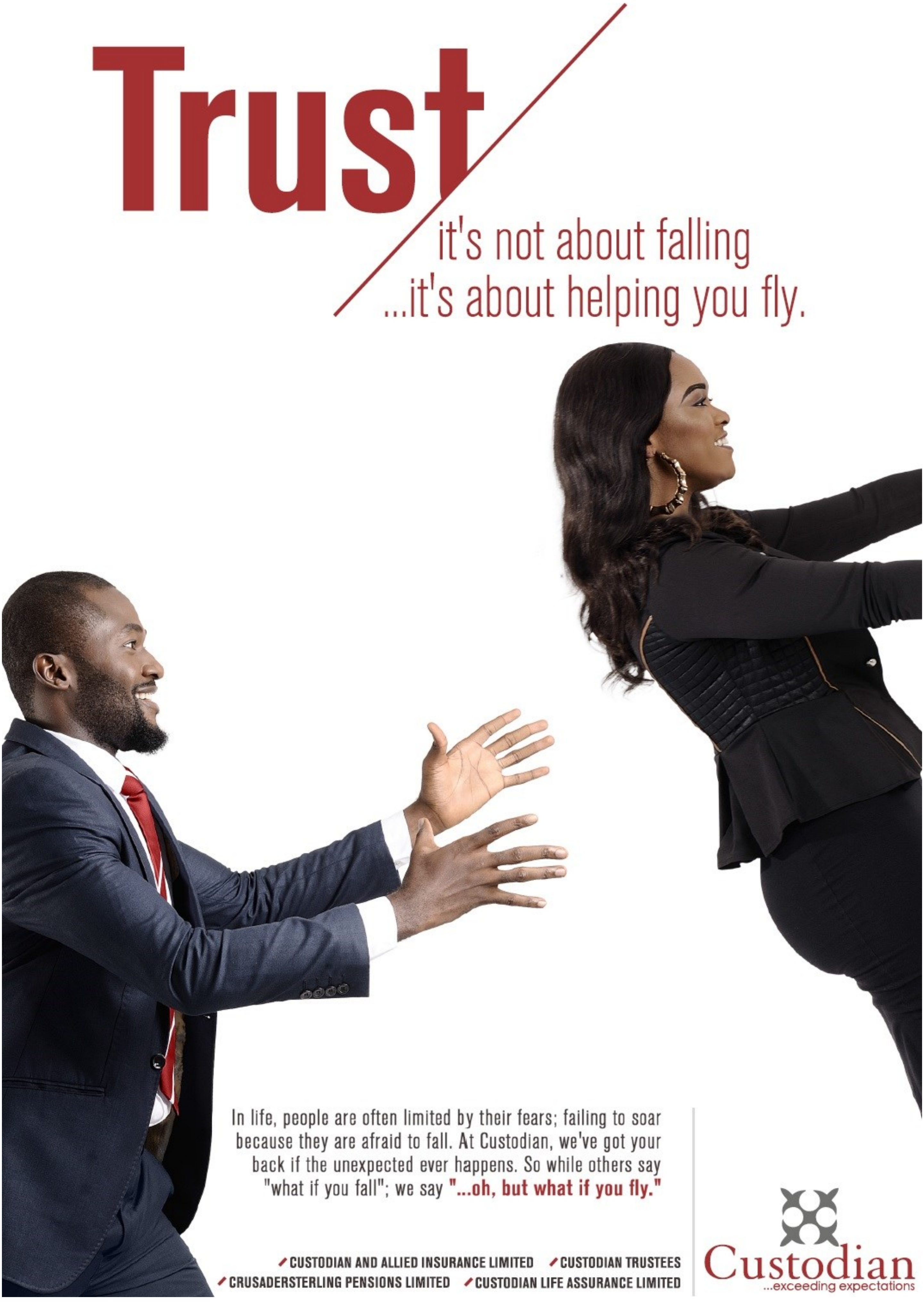
Fourth bill is an attempt to appease disgruntled communities

The fourth bill from the PIB is the Petroleum Host and Impacted Communities Development Bill (PHICDB). The bill provides for the establishment of a Petroleum Host and Impacted Communities Development Trust, which would be ring-fenced for development initiatives in Nigeria's oil-producing regions. Under the PHICDB, oil companies would have to contribute 2.5% of their license or lease annual operating expenditure to the fund. The money will be for development projects in areas such as infrastructure, economic empowerment, education and healthcare as well as local initiatives to protect the environment and enhance security. This bill is an attempt to appease disgruntled communities in the Niger Delta that, for decades, have complained about neglect and the devastating environmental impact of oil production.

The federal government also hopes the bill will help to reduce the activity of militants who disrupt oil production in a campaign for local control of mineral resources. However, oil firms may not welcome being lumbered with the full financial burden of developing the areas in which they operate. The envisaged host community trust would also result in less oil revenue flowing to Nigeria's non-oil states, many of which are poor and oppose an increase in the share of petroleum revenue going to oil-producing areas, which already benefit from a 13% oil derivation payment. This is another source of contention that has left the PIB bogged down in the National Assembly, with House reps representing different regions at odds over the issue. It is widely believed that President Buhari's northern voter base would be especially riled by any attempt to divert fiscal resources from that region, where poverty is among the most pervasive in Nigeria.

Prevailing uncertainty would continue to result in lost investment

Meanwhile, the inability of the Federal Government to agree on oil reform is costing the nation lost or deferred investment in crucial oil projects as investors await clarity, especially with respect to future fiscal terms. The prevailing uncertainty also affects the value of the state's oil assets and what prices the government can command when it embarks on its recently announced plan to reduce its equity in existing joint-venture oil companies to 40% from the current average of 57.5%. It is clear that the finalization of the PIB legislative process is something that all stakeholders would like to see, but as President Buhari's rejection of the PIGB bill demonstrated, a resolution is not going to be straightforward.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Coronavirus Forces World's Largest Work-From-Home Experiment

* Co-working is out, video chat apps are in as offices close

* Startups that rely on Chinese manufacturing have no 'Plan B'

Thanks to the coronavirus outbreak, working from home is no longer a privilege, it's a necessity.

While factories, shops, hotels and restaurants are warning about plunging foot traffic that is transforming city centers into ghost towns, behind the closed doors of apartments and suburban homes, thousands of businesses are trying to figure out how to stay operational in a virtual world.

"It's a good opportunity for us to test working from home at scale," said Alvin Foo, managing director of Reprise Digital, a Shanghai ad agency with 400 people that's part of Interpublic Group. "Obviously, not easy for a creative ad agency that brainstorms a lot in person." It's going to mean a lot of video chats and phone calls, he said.

The cohorts working from home are about to grow into armies. At the moment, most people in China are still on vacation for the Lunar New Year. But as Chinese companies begin to restart operations, it's likely to usher in the world's largest work-from-home experiment.

That means a lot more people trying to organize client meetings and group discussions via videochat apps, or discussing plans on productivity software platforms like WeChat Work or Bytedance's Slack-like Lark.

The vanguards for the new model of scattered employees are the Chinese financial centers of Hong Kong and Shanghai, cities with central business districts that rely on hundreds of thousands of office workers in finance, logistics, insurance, law and other white-collar jobs.

Clearing Expenses

One Hong Kong banker said he's going to extend an overseas vacation, as he can work from anywhere with a laptop and a phone. Others say they are using the time typically spent wining and dining clients to clear their backlog of travel expenses. One said he's shifted focus to deals in Southeast Asia.

"No one is taking meetings, my schedule is pretty empty," said Jeffrey Broer, a venture adviser in Hong Kong. "One person emailed me: 'Shall we meet somewhere in February?'"

One of the most unsettling factors for employees is the fast-changing impact of the virus, which is prompting daily changes in corporate directives.

Tiko Mamuchashvili, a senior event planner at the Hyatt hotel in Beijing who was supposed to return to work on Friday, was initially told her vacation would be extended until Feb. 3. Then she received a notification to work from home for two additional days. A few days later, the directive was extended until Feb. 10. She has to notify her department each morning about her whereabouts and report whether she is running a temperature.

"Usually going back to work from holidays feels a little weird, but working from home this time with such short notice feels even more unusual," she said. With hotel event cancellations rolling in on a daily basis, "basically, all I can do is answer emails," she said.

Some managers worry the office exodus will lower productivity, but there's evidence the opposite may be true. A 2015 study from Stanford University in California found that productivity among call-center employees at Chinese travel agency Ctrip went up by 13% when they worked from home due to fewer breaks and more comfortable work environments.

Shared Spaces

While the virus may test that theory on a wider scale, it poses an existential threat to another new business model: co-working spaces, which multiplied around big Chinese cities in recent years as property rents skyrocketed and tech startups boomed.

"It will be a very tough time," said Dave Tai, deputy director of Beeplus, a Chinese co-working space and bakery with 300 employees.

The virus delayed the opening of its Beijing location and he says it's pretty much impossible for him and others in his industry to work from home. Without customers willing to work in close quarters at the physical space, the business will die.

"The core of work space is community, people coming together. It's difficult to replace that interaction and connection online," he said.

For many companies, instructing office workers to stay home only solves part of the problem. Many rely on factories, logistics companies and retail outlets that face their own disruptions.

For phone-case maker Casetify, 2020 was supposed to be the best year yet. Headcount at the Hong Kong-based company had surpassed 150 by the end of December, and it was aiming to double sales this year.

But the spread of the virus from the city of Wuhan caused the factories in China that make its products to stay shut and prompted Casetify to ask most employees to work from home. A new outlet in Hong Kong's airport lay empty. Sales in the city tanked.

"The show must go on, somehow," said Casetify Chief Executive Officer Wes Ng, who has been logging onto a laptop in an apartment he shares with his wife and 9-month-old son.

No Plan B

Casetify has 30 days of extra stock, but Ng says there's no plan B if the factories don't reopen soon, a plight shared by thousands of other businesses in China and around the world.

Even for those who can do business by internet and phone, the virus means there may not be much business to do.

Bankers say IPOs and deals are on hold. Transaction value in the first 30 days of 2020 was half what it was the year before, according to data compiled by Bloomberg.

"The worst is yet to come," said Nomura analyst Ting Lu in a research note. "We reckon the coronavirus could deal a more severe blow to China's economy in the near term, relative to SARS in 2003."

While statistics suggest the new coronavirus isn't as lethal as SARS, it has already infected more people, and the speed at which the disease has spread is fueling fear. A big part of the expected blow to the economy during the current outbreak is likely to come from changes in "human psychology," according to Warwick McKibbon, professor of economics at the Australian National University in Canberra.

He said SARS cost the global economy $40 billion and predicts the hit from coronavirus will reach three or four times that amount. "Panic is what seems to be the biggest drain on the economy, rather than deaths," he said.

With factories shuttered and office workers staying home, many in China's services industry face a difficult time. The sector is much bigger than it was during the SARS outbreak, accounting for 53% of the economy, up from 41% in 2002. But without customers, many businesses are in limbo.

Blockbuster movie premieres, most of which were slated for the new year holiday, have been postponed, Nomura said.

Some businesses have turned to the internet to help keep customers loyal, hoping to weather the epidemic.

Not Working Out

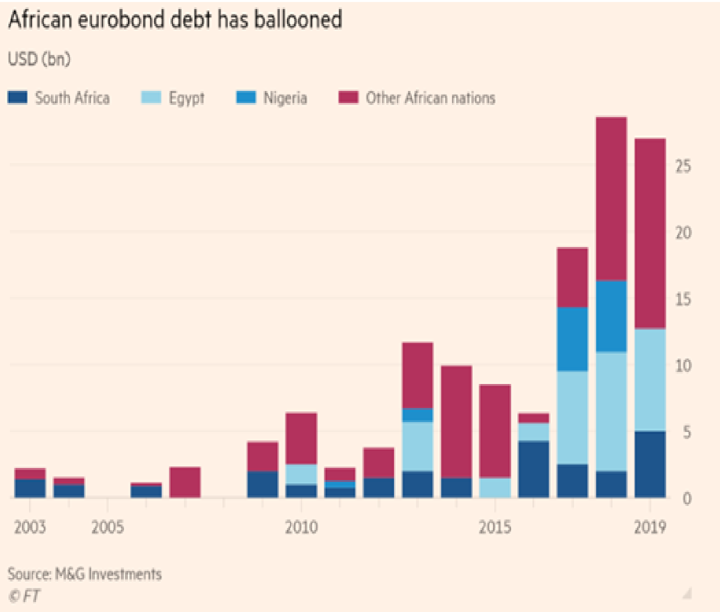
Shanghai gym owner Fenix Chen had intended to close his gym Hi Funny for three days for the Spring festival. He delayed reopening until Feb. 10, in line with the city's recommendation.

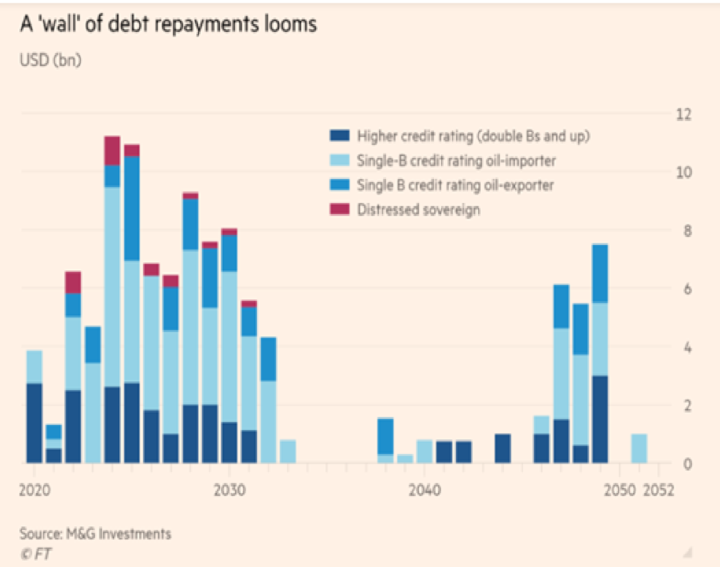
"Most people in Shanghai are basically staying at home, avoiding public places," he said. "The fear from the virus outbreak will have a lasting impact on our business."

So Chen is encouraging clients to exercise at home and posting instructional videos online. "If they do continue this habit, that's also important for our business after the virus blows over," he said.

African countries face 'wall' of sovereign debt repayments

Bond issuance has surged in recent years, creating unease





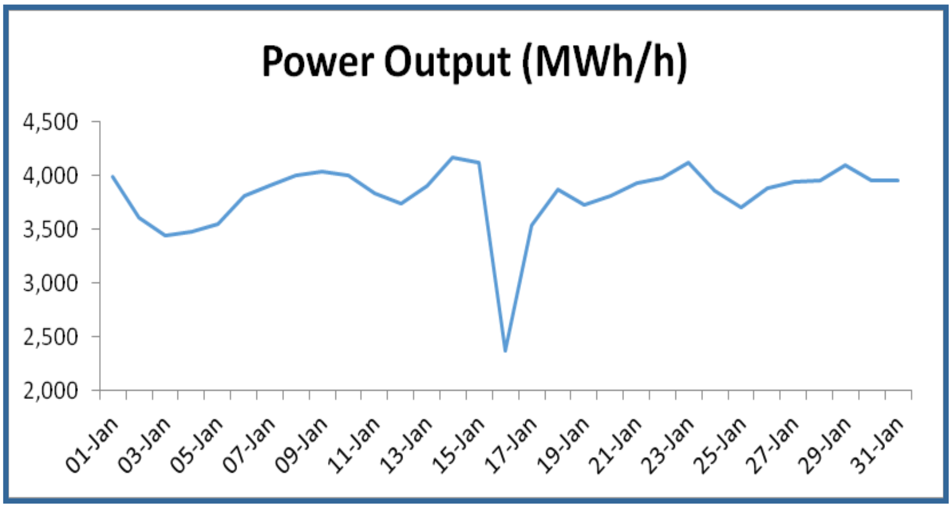
African governments have borrowed foreign currency debt at a record rate in the past few years, as investors flock to nations such as Egypt, Nigeria and South Africa in search of higher yields. Much of this debt falls due over the next decade, creating a "wall" of sovereign debt repayments, in the words of Gregory Smith, emerging markets strategist at M&G Investments. Some economists and strategists, including Mr Smith, think the scale of the repayment could prove overwhelming. "For Zambia or Gabon, making a $1bn payment is a pretty big deal," said John Ashbourne, senior emerging markets economist at Capital Economics. "If the repayment date comes up when a currency is doing badly or there's risk-off sentiment, they're pretty exposed." Still, there are reasons to remain confident that these countries will meet their obligations. There is a growing number that have repaid their foreign bonds, M&G highlights, including South Africa, Morocco, Tunisia, Egypt, Gabon, Ghana, Kenya and Nigeria.

South Africa led the way for such borrowing in 1995, but since the global financial crisis in 2008, issuance has surged from neighbouring nations. Twenty-one African countries now have outstanding sovereign eurobonds — foreign currency-denominated sovereign debt — totalling $115bn, according to M&G Investments, and this trend has accelerated since 2017.The oil-rich west African nation of Gabon recently attracted institutional investors to a fourth international debt increase, priced at a yield of more than 6 per cent and maturing in 2031. The country has drafted an investment plan to diversify away from oil, hence the need for a capital injection. Mr Ashbourne said countries had enjoyed good timing by issuing at a time of very low yields, but added there is “no telling” where rates will be when they come to refinance.

Macroeconomic Indicators - January

Power Sector

The average power output from the national grid for the month of January was 3,816MWh/h, 1.41% higher than the average of 3,763MWh/h in December 2019. During the month, power output was volatile, peaking at 4,120Wh/h on the January 15th and nose diving to 2,373Wh/h on the January 16th. This can be partly attributed to the resurgence of water constraints due to the dry weather. Gas remains the dominant constraint to power generation primarily in Ihovbor NIPP and Sapele NIPP plants. Total constraint was 117,112MWh/h, resulting in revenue loss of N56.21billion (N674.52billion annualized).



[5]

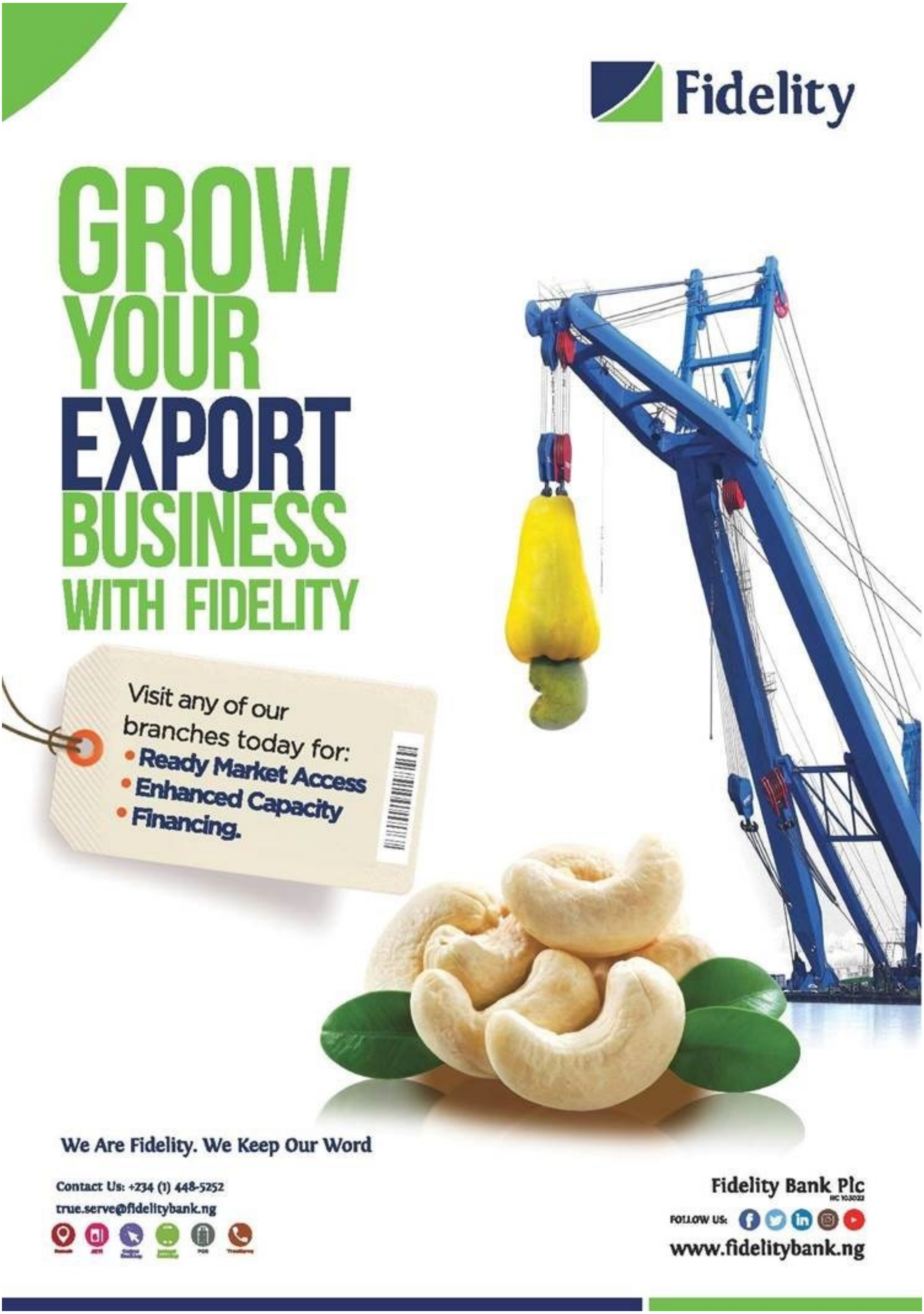
Outlook

Average power output is expected to decline in the coming weeks due to the persistence of water constraints emanating from the dry weather and zero rainfall. This will be compounded by rising gas constraints.

Impact

The presence of water constraint limits hydropower generation in the country. A decline in power supply would result in an increase in demand for alternative power sources. This would increase the operating expenses of firms and households. Meanwhile, the implementation of the cost reflective tariff in April is expected to increase investments in the power value chain and improve power supply in the medium to long term.

[5] FG, FDC Think Tank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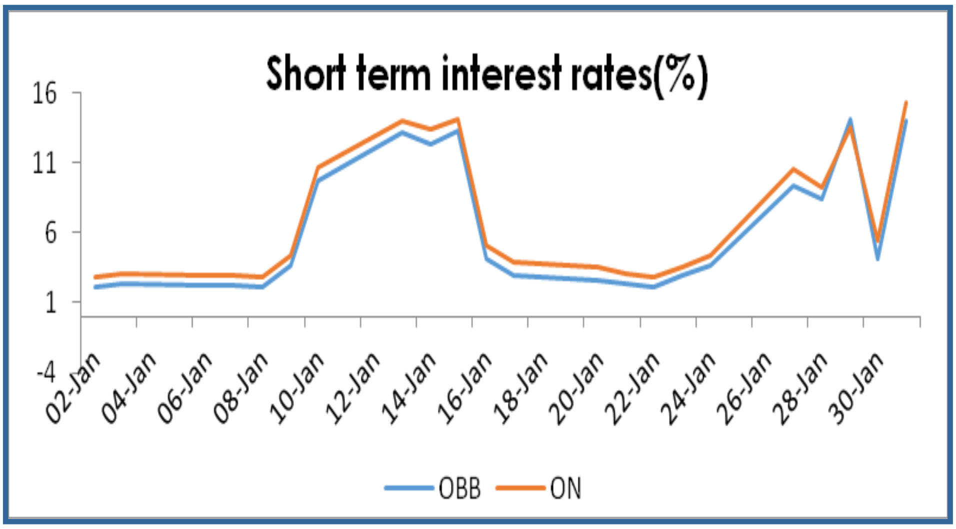
Money Market

The average opening position of banks fell by 13.10% to N445.01 billion in January from N512.10 billion in December. This market illiquidity filtered through to a spike in the short-term interbank rates. Average NIBOR (OBB/ON) rose by 306bps to 6.50% in January from 3.44% in the previous month. OBB and ON rates spiked to a 2-month high of 14.17% and 13.50% respectively on January 29th, partly due to the CRR hike, before declining sharply the following day to 4.17% and 5.50% as a result of OMO repayment of N514.05billion

During the month, more OMO bills were issued compared to repayments. Total OMO sales stood at N1.54trillion while OMO repayment amounted to N960.85billion, resulting in a net outflow of N579.15billion, up from N130billion in the previous month.

T/bills yields are gradually increasing due to the 500bps increase in the CRR. At the primary market, there was a Treasury Bills auction of N229.64 billion on January 29, with yields rising across the three tenors by an average of 84bps from the auction carried out on January 15th. In the secondary market and Nigerian interbank treasury true yields (NITTY), the yields declined across all tenors by an average of 133bps and 35bps respectively.



[6]

[6]CBN

T/bills Tenor	Secondary market rates as at Jan 2nd(%pa)	Secondary market rates as at Jan 31st (%pa)	Direction	Primary market rates as at Jan 2nd (%)	Primary market rates as at Jan. 29th (%)	Direction
91	4.03	3.35	↓	3.50	3.5	↔
182	5.10	3.67	↓	4.90	4.5	↓
364	5.88	4.00	↓	5.20	6.5	↑

NITTY Tenor	Rates on Jan 2nd(%pa)	Rate on Jan 22nd (%pa)	Direction
30	3.06	2.83	↓
90	3.05	2.79	↓
180	3.78	3.22	↓

[7]

Outlook

The 5% hike in CRR will reduce market liquidity, leaving banks to scuffle for funds. Hence, interest rates are likely to rise further in the near term.

Impact

Higher interest rates could put banks earnings under pressure.

Forex Market

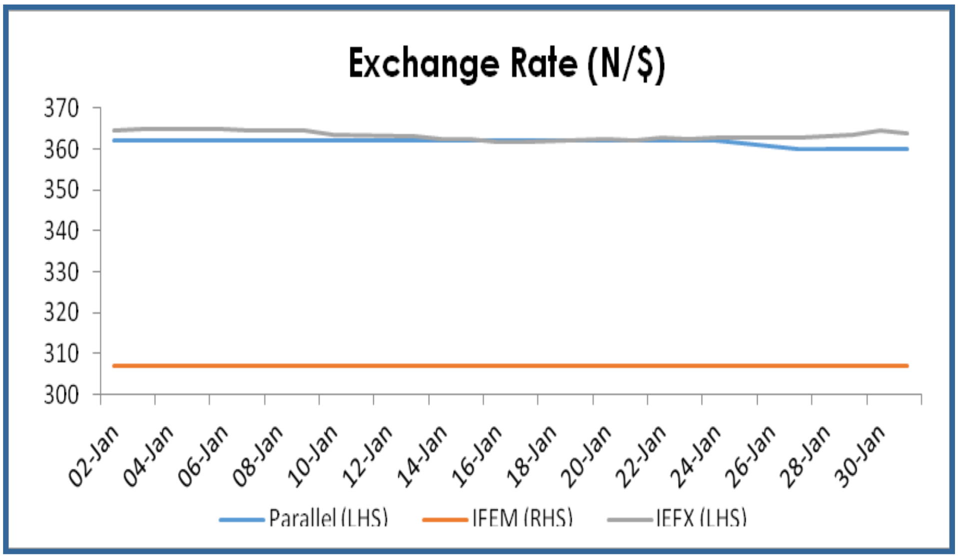
The Nigerian forex market is segmented with multiple exchange rates. The most important rate being the Investors and Exporters window (IEFX). No less than 55%-60% of Nigerian forex transactions are traded at this window. The CBN and most exporters and investors use this window. It serves not only as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

[7]FDC Think Tank

Exchange Rate

At the parallel market, the naira traded at N362/$ before appreciating to close the month at N360/$. This was partly due to the CBN's forex intervention of $253.38million from no intervention in the previous month, which helped to reduce demand pressures arising from lower interest rates. The low interest rate environment prompted investors to seek new investment outlets including forex.

At the interbank foreign exchange market, the currency appreciated to N306.9/$ on January 14th from N307/$ on January 2nd, before retreating to close the month at N307/$. Meanwhile, at the IEFX window, the naira appreciated by 0.22% to close at N363.97/$ on January 31 from N364.79/$ at the beginning of the month. During the review period, total forex traded at the window increased by 7.21%to $6.54billion from $6.10billion in December.



[8]

Outlook

The increase in the cash reserve ratio to 27.5% by the Monetary Policy Committee is expected to reduce money in circulation. This will most likely lead to a reduction in the demand for forex. Thus, the naira is expected to remain stable within a band of N360/$ - N362/$ in the coming month.

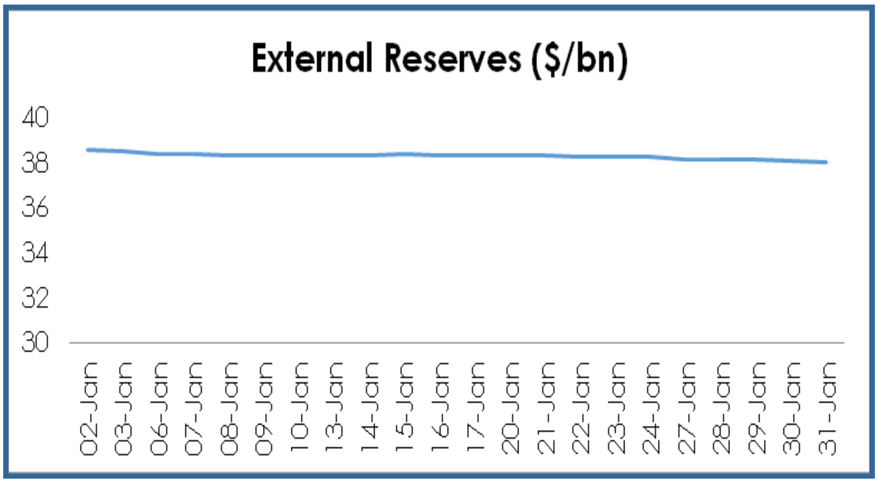
[8]FMDQ, CBN, FDC Think Tank

Impact

Currency stability will positively impact on sectors such as manufacturing that are highly dependent on imported inputs.

External Reserves

The gross external reserves declined steadily by 1.53% to close the month at $38.01billion from $38.60billion at the end of December. Meanwhile, there was a temporary accretion for two days; the reserves level rose slightly to $38.34billion on January 15 from $38.31billion on January 13 before falling further. The continuous depletion of the reserves level was partly due to lower oil prices and dwindling portfolio investments. The country's import cover fell further to 9.46 months from 9.61 months in December.



[9]

Outlook

External reserves are likely to fall below the $38billion threshold in the coming month as oil proceeds decline.

Impact

The CBN's ability to intervene in the forex market depends on the magnitude of its reserves. Therefore, a fall in reserves could affect the stability of the exchange rate.

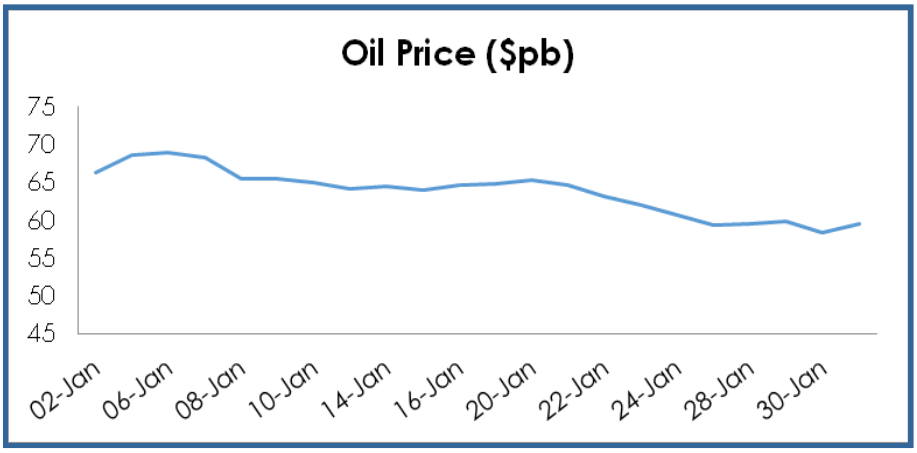
[9] CBN

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

In January, the average price of Brent fell by 2.18% from December's average of $65.15pb to $63.73pb. Oil prices touched a peak of $68.91pb due to the US-Iran tensions, US-China trade deal agreement and shutdown of two Libyan oil fields, before falling sharply to $59.45pb following the outbreak of the coronavirus, which is impacting oil demand from China.



[10]

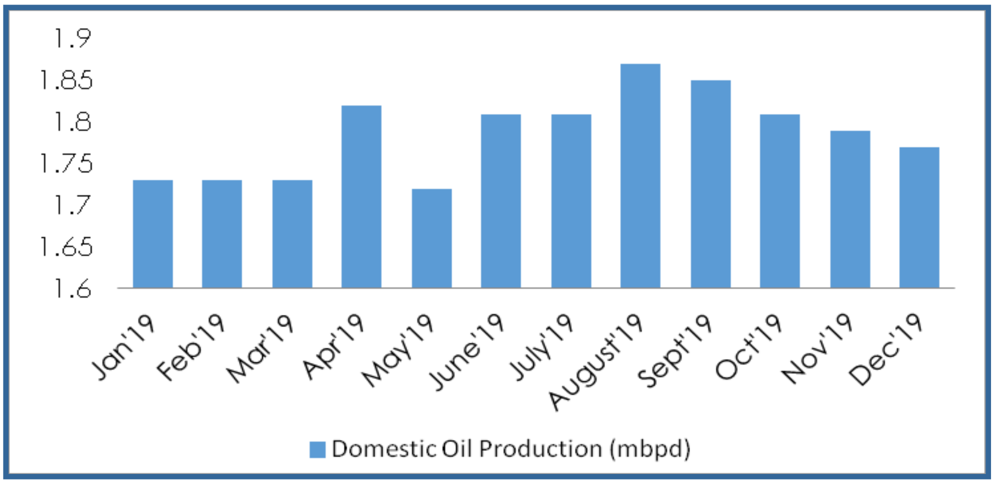
Outlook

We expect the bearish trend in prices to be sustained in the near term due to low demand from China as a result of the Coronavirus.

Oil Production

Nigeria's oil production declined by 1.12% to 1.77mbpd in December from 1.79mbpd in November 2019. OPEC's total crude oil production averaged 29.44mb/d in December, which was 161tb/d lower than the previous month. Crude oil output increased mainly in Angola but decreased in Saudi Arabia, Iraq and the UAE. In the same vein, Nigeria's oil rig count reduced from 20 to 17 in December.

[10]Bloomberg



[11]

Outlook

At the December meeting, OPEC and its allies agreed to cut oil out by an additional 500,000 barrels per day but are yet to determine output cut among member countries. With the recent decline in oil prices, the cartel will have to speed up its allocation process and could even resort to a deeper cut. If this happens, Nigeria may have to further reduce its oil production.

Impact

Nigeria is highly susceptible to a fall in oil production and crude oil accounts for approximately 90% of Nigeria's total export. Therefore, a further decline in oil production levels coupled with lower oil prices would result in depleting oil proceeds, fiscal revenue and balance of trade. This means that the pace of depletion of the reserves level could intensify, triggering a currency pressure.

Natural Gas

Natural gas prices averaged $2.03/mmbtu in the review period, 11.35% lower than the average of $2.29/mmbtu in December. Prices increased to $2.19/mmbtu on January 14th before nose diving to close the period at $1.84/mmbtu. The bearish price trend was primarily influenced by the coronavirus outbreak, surge in Qatar's LNG production and lower demand in the United States.

[11]OPEC and Baker Hughes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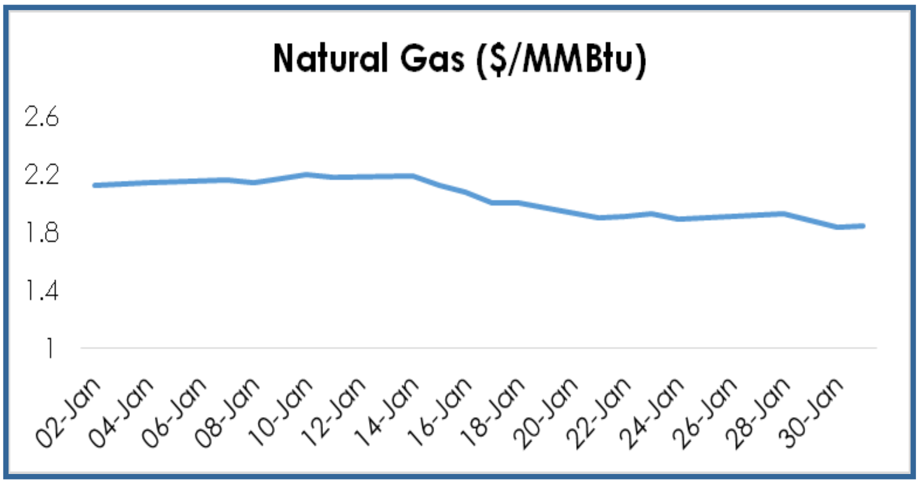


[12]

Outlook

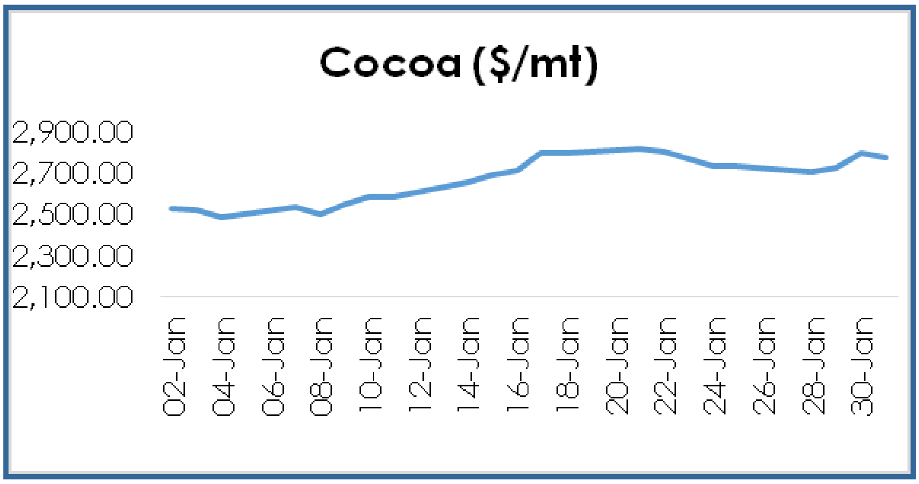
As we approach the peak of the winter season, demand for LNG is expected to rise. However, with the coronavirus outbreak, demand from China, one of the world's largest consumers is likely to decline. Hence, LNG prices are likely to be tapered in the near term.

Impact

LNG accounts for 12.6% of Nigeria's export revenue. Higher LNG prices are positive for the country's export revenue.

Cocoa

The average price of cocoa increased by 5.9% to $2,667.38/mt in January, from $2,519/mt in December. Similarly, cocoa prices rose by 9.68% to close the month at $2,777/mt from $2,532/mt at the beginning of the month.



[13]

[12]Bloomberg
[13]Bloomberg

Outlook

We expect cocoa prices to rise next month due to the deal between cocoa stakeholders and farmers to pay living income differential to farmers (LID). This will be compounded by rising tensions from upcoming elections in Ivory Coast and Ghana scheduled for October and November 2020 respectively.

Impact

Nigeria is the 4th largest producer of cocoa in SSA. The bullish price trend would have a positive impact on the country's export revenue and could make up for the loss in oil receipts.

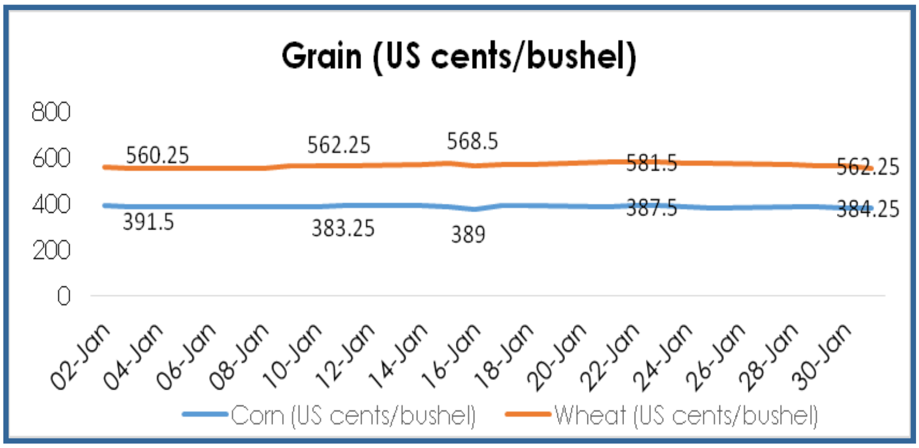
Imports

Wheat

The average price of wheat was up 4.94% to $565.05/bushel in January from the average of $538.43/bushel in December. During the month, wheat prices touched a 17-month high of $581.50/bushel on January 21. This bullish trend was supported by lower production from the US, Australia, Russia and the former Soviet Union countries due to weather concerns.

Corn

On the average, the price of corn increased by 0.65% to $385.74/bushel from $383.24/bushel in December. This was due to tight supplies of corn from South America amid increased demand.



[14]

[14]Bloomberg

Grains- Outlook

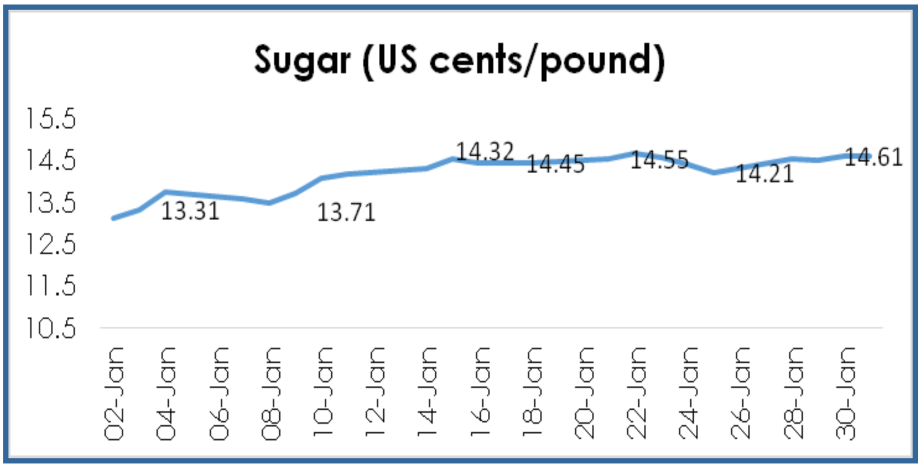
We anticipate an increase in the prices of grains in the coming weeks due to parched weather conditions that will adversely affect output levels in top producing countries. However, reduced demand from China due to the Coronavirus outbreak could offset the impact of the supply shortage on prices.

Impact

Nigeria is one of the world's largest grain importers. Hence, an increase in grain prices would increase the country's import bill and push up prices of finished goods made from grain such as cereals and flour.

Sugar

Sugar prices averaged $14.17/pound in January, 6.22% higher than the average of $13.34/pound in December. In the same vein, prices rose by 9.77% to $14.61/pound on January 31st from $13.31/pound on January 2nd. This can be largely attributed to reduced sugar production in India.



[15]

Outlook

A lower sugar supply from India, which is a major producer of the commodity is expected to boost sugar prices in the near term.

Impact

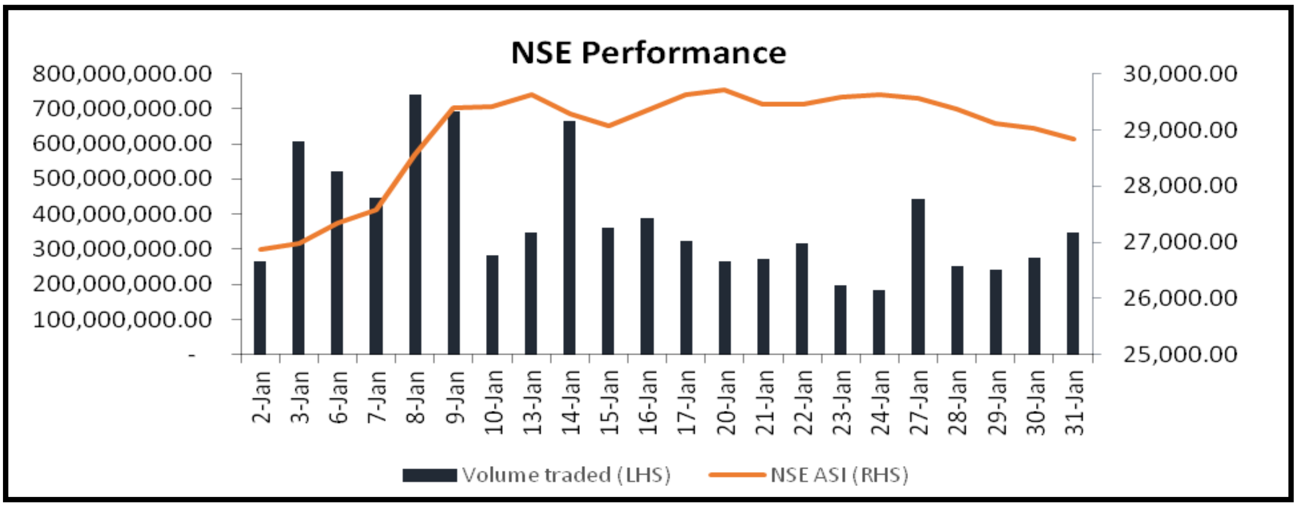
Nigeria is the largest importer of sugar in Sub-Saharan Africa and the 10th largest globally. Thus, an increase in the global price of sugar implies a possible hike in the country's import bill as spending would increase to meet the high demand for sugar.

[15]Bloomberg

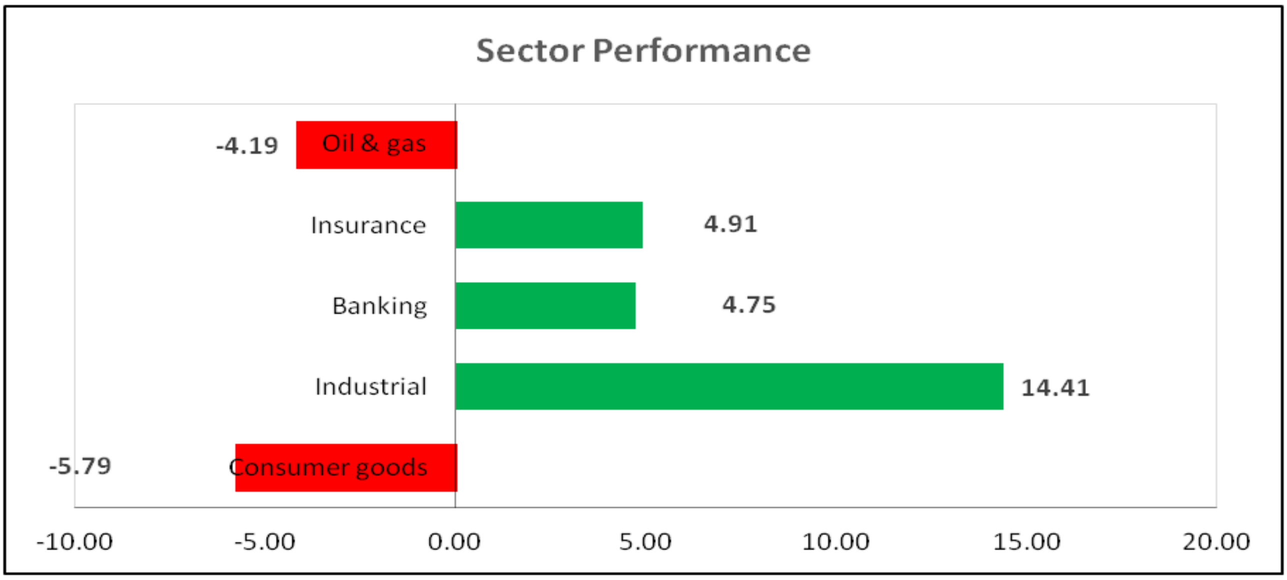
Stock market Update

The NSE ASI gained 7.46% to close at 28,843.53 points on January 31st, 2020 relative to its close of 26,842.07 points on December 31st, 2019. In the same vein, market capitalization roseby 14.57% (N1.89trn) to N14.86trn. In the 22-trading day period, the market gained in 9 days and lost in 13 days. The market gained 7.46% YTD.

The NSE traded at a price to earnings (P/E) ratio of 7.94x as at January 31st, 12.31% higher than the close of January 2nd (7.07x). The market breadth was negative at 0.94x as 45 stocks gained, 48 lost while 70 stocks remained unchanged.



On the other hand, the market saw an increase in activity level. The average volume traded rose by 38.25% to 383.66million units, while the average value of trades spiked by 69.43% to N5.32billion.



The sector indices were mixed during the review period. The industrial sector (14.41%) gained the most, followed by insurance (4.91%) and banking sector (4.75%)respectively while the consumer goods lost 5.79% and the oil &gas sector lost 4.19%.

Law Union & Rock Insurance Plc topped the gainers' list with a 40.00% increase in its share price. This was followed by Beta Glass Plc (30.11%), Dangote Cement Plc (26.69%),Eko Corporation Plc(22.35%) and Okomu Oil Palm Plc (22.30%).

TOP 5 GAINERS (N)				
Company	Jan. 02'20	Jan. 31'20	Absolute Change	% Change
Law Union & Rock Insurance Plc	0.50	0.70	0.20	40.00
Beta GlassPlc	53.80	70.00	16.20	30.11
Dangote Cement Plc	142.00	179.90	37.90	26.69
Eko Corporation Plc	4.25	5.20	0.95	22.35
Okomu Oil Palm Plc	55.60	68.00	12.40	22.30

The laggards were led by Eterna Plc (-33.33%),UPDC Real Estate Investment Trust Plc (-27.91%), Unilever Nigeria Plc (-27.54%),NCR Nigeria Plc (-26.44%)and ABC Transport Plc (-24.44%)

TOP 5 LOSERS (N)				
Company	Jan. 02'20	Jan. 31'20	Absolute Change	% Change
Eterna Plc	3.60	2.40	-1.20	-33.33
UPDC Real Estate Investment Trust Plc	4.30	3.10	-1.20	-27.91
Unilever Nigeria Plc	20.70	15.00	-5.70	-27.54
NCR Nigeria Plc	4.50	3.31	-1.19	-26.44
ABC Transport Plc	0.45	0.34	-0.11	-24.44

Corporate Disclosures

FBN Holdings Plc

FBN Holdings Plc's topline rose by 1.43% to N440.62 billion in the year ending December 31, 2019 from N434.41 billion in the corresponding period in 2018. Profit before tax spiked by 12.74% to N73.61 billion from N65.29 billion in 2018. The profit after tax increased by 3.93% to N62.09 billion compared to N59.74 billion in the previous year. The company's EPS was flat at N1.65.

Stanbic IBTC Plc

Stanbic IBTC Plc's topline rose by 5.15% to N233.81 billion as at December 31, 2019 from N222.36 billion in the corresponding period in 2018. Profit before tax increased by 3.15% to N90.93 billion from N88.15 billion while the profit after tax is up 0.80% to N75.04 billion compared to the N74.44 billion last year. The EPS however fell by 1.7% to N692 from N704 in 2018.

Guinness Nigeria Plc

Guinness Nigeria Plc's topline rose by 0.78% to N68.33 billion as at December 2019 from N67.80 billion. Profit before tax declined by 49.08% to N1.93 billion from N3.79 billion in 2018. The profit after tax fell by 48.84% to N1.32 billion from N2.58 billion in 2018. The EPS fell by 49.15% to N60 from N118.

Cadbury Nigeria Plc

Cadbury Nigeria Plc's topline increased by 9.34% to N39.33 billion in 2019 from N35.97 billion in 2018. Profit before tax rose by 26.22% to N1.54 billion in FY'19 from N1.22 billion in the corresponding period in 2018. The profit after tax spiked 54.88% to N1.27 billion compared to N823.08 million in FY'18. The company's EPS also increased by 53.95% to N67.46 in 2019 from N43.82 in 2018.

Outlook

We expect the stock market's performance to be negative in the near term as interest rates continue to rise, given the recent 500bps hike in the CRR to 27.5%. The impending MTN and Interswitch IPOs are also likely to have an adverse impact on the NSE ASI, as investors expect the excess supply of stocks to depress prices in the coming month.

Corporate Focus: International Breweries Plc

Analyst Note

International Breweries (IB) is currently the second largest brewing company in Nigeria's beer industry, due to its huge investment in marketing promotions. It did not follow other market players who increased unit prices amidst higher cost-inflation and excise duties during the period. The company is a subsidiary of AB InBev, the world's largest brewer. It is strategically positioned for success in the future, all things being equal. Brewing, packaging and marketing of flavored alcoholic and non-alcoholic beverages are the company's core activities. Necessary investments were made after the merger with Intafact Beverages Limited and Pabod Breweries, which helped the company attain its current market position as the second largest brewery. The company seized the opportunity after increasing its capacity over the years, with strong backing from its parent company and leveraging on its brand equity, IB quickly flooded the market with cheap beers such as Hero, Trophy, Castle, Eagle Stout and more recently, Budweiser.

Analyst Recommendation: Sell

Current Price: N8.50

Market Capitalization: N77.4bn

Target Price: N6.80

Recommendation Period: 365 day

Industry: Consumer Goods

Profit Decline

Despite an approximate 10% revenue growth in the 2019 financial year, International Breweries' operating profit declined by 291% to a loss of N15.07 billion. This dramatic decline is attributable to a rise in the cost of major raw materials, an increased investment in marketing promotions and more financing costs.

The gross margin of International Breweries declined by 9% in 2019, because of costly raw materials. The rising cost of barley, a major production input, increased the cost of sales by 22% from N73.3 billion, faster than revenue growth. Consequently, the amount available for marketing, administrative and other sundry expenses shrunk to approximately N43 billion.

As revenue growth did not match cost of sales growth, the operating margin was negatively impacted. Huge investment in marketing, advertizing and promotional expenses led to the significant increase in operating expenses by more than 50%. The investment in promotions did, however, help the company and may have contributed to it becoming the second largest brewing company in Nigeria, increasing its gross revenue over the previous year.

Debt Profile Surge

Amidst a declining interest rate environment, more debt was taken on by the company to take advantage of the low interest rates. We assume this additional debt was channeled into the acquisition of a new plant and machinery in Sagamu to expand capacity this year; the commissioning of the new facility is also expected to happen this year. Both finance costs and depreciation expenses continue to put pressure on the company's earnings. Finance costs surged by 39.6%, higher than finance income, which decreased by 97.9%; both increased net finance costs by 40.3% to N22.4 billion in 2019.

Leadership Change

Growth in mature businesses is rare. A business grows and attains maturity at a certain time in its life cycle, which is usually followed by diminishing growth (revenue grows slower, managers aim for reduced costs). Any further growth is reliant on innovation or mergers and acquisitions. Since the merger and acquisition made by the company in 2017, a series of changes have occurred in the company's leadership. Immediately after the merger, a new chairman and management team was formed to successfully guide the first phase of the change process. The new team successfully restructured the business and transitioned it into the second largest in the industry. A recent change in leadership saw the appointment of Hugo D. Rocha as the new managing director and Bruno S. Arana as the new finance director effective January 1, 2020. Management's goal is to turn the loss-making company into a profit-making company while maintaining its market leadership position.

Based on International Breweries' uneven performance, a SELL rating is recommended over the short term, as it will take a while to turnaround the loss producing business and attain desirable positive earnings.

The Nigerian Brewery Industry

Just like most alcohol drinking countries around the world, Nigeria is also experiencing a brutal beer war, where competitors suffer a declining bottom-line in order to secure more market share. Currently, three major brewers (Nigeria Breweries, Guinness Nigeria, and International Breweries) are in the heat of this battle. This industry is currently at maturity. It dates back over six decades and remains one of the thriving industries in the Nigerian manufacturing sector. Nigeria Breweries (partly owned by Heineken) is the dominant player with approximately 65% market share. Guinness Nigeria (owned by Diageo) has 25% of market share. Comparative financial data of the three major brewers, highlights Guinness Nigeria to have lost its place as the second largest brewery (measured by revenue) to International Breweries. This is a significant shift in the Nigerian beer market that was dominated by NB and Guinness for decades, amidst other players like Golden Guinea Breweries Plc and others.

The major products in this industry are beer, stout and non-alcoholic drinks. Economies of scale and good return on investment are attributes associated with major players in this industry.

Even though the global sector witnessed a slight economic slowdown in 2017/18, the international beer market, nevertheless continued to perform well. Developing markets were the major contributors to this performance. Global consumption of beer grew reasonably to approximately 175 billion liters by early 2018. This industry grew because people's lifestyles changed, disposable income increased, urbanization grew rapidly, and consumption patterns increased as beer became popular among the youths. Sub-Saharan Africa's estimated growth rate was 5% between 2015 and 2020. After South Africa, Nigeria is the second largest producer of beer in Africa. Nigeria's per capita beer consumption in 2016 was 11 liters, slightly higher than an average of nine liters in Africa.

Looking at these numbers, Nigeria seems like a natural place for brewers. Unlike other countries, Nigeria does not have strict policies and regulations in place addressing production, marketing, and consumption of alcohol. However, every industry is affected by both controllable and uncontrollable factors, such as inadequate infrastructure and epileptic power supply, in its operating environment, which may have positive or negative impacts.

In recent times, there has been a consumer shift to cheaper and more affordable brands, also known as value brands. This is a consequence of Nigeria's weak macroeconomic environment, which has negatively impacted the purchasing power of consumers. Despite this shift, the premium beers (Heineken Lager, Guinness Stout, and Budweiser) are still being consumed.

The beer war is not yet over; companies are likely to explore available options so they can recoup lost market share. This is particularly obvious with AB InBev products, as some of its beer brands in the Nigerian market are about 40% cheaper than those of its rivals.

A cursory look at FY2018 annual reports shows that major players within the industry suffered contrasting fortunes with regards to their top and bottom lines. Market leader – Nigerian Breweries – experienced a 4.26% reduction in revenue (from N365.8 billion in 2017 to N350.23 billion in 2018) and 41.18% contraction in profit after tax (from N33.05 billion in 2017 to N19.48 billion in 2018), while Guinness Nigeria realized a 13.55% increase in revenue (from N125.92 billion in 2017 to N142.98 billion in 2018) and a whopping 249.2% increment in profit after tax (from N1.92 billion in 2017 to N6.72 billion in 2018).

Income Statement for International Breweries Plc							
N'000	**Mar-14**	**Mar-15**	**Mar-16**	**Mar-17**	**Dec-17**	**Dec-18**	**Dec-19**
Revenue	18,493,907.00	20,649,295	23,269,364	32,711,218	36,527,807	120,610,825	132,351,500
Cost of Sales	(9,591,273.00)	(11,587,817)	(12,560,429)	(17,546,759)	(22,819,921)	(73,270,580)	(89,353,997)
Gross Profit	**8,902,634**	**9,061,478**	**10,708,935**	**15,164,459**	**13,707,886**	**47,340,245**	**42,997,502**
Other Income	13,966.00	191,192	44,772	102,403	123,387	807,494	50,222
Marketing / Adminand other expenses	(3,905,378.00)	(2,859,260)	(3,596,407)	(5,089,755)	(6,086,719)	(20,966,060)	(28,829,031)
Administration Expenses	-	(1,758,149)	(2,016,188)	(2,092,682)	(3,446,657)	(15,883,120)	(27,756,256)
Net Impairment charge on financial assets			-	-	(1,130,244)	(236,392)	(1,234,967)
Other Losses-net			-	(6,927,374)	(2,451,305.00)	(3,166,112)	(292,809)
Operating Profit	**5,011,222**	**4,635,261**	**5,141,112**	**1,157,051**	**716,348**	**7,896,055**	**(15,065,339)**
Finance Income	41,620.00	1,327	225,101	2,983	532,971	84,265	1,776
Finance Costs	(1,127,342.00)	(1,821,034)	(1,709,387)	(5,195,659)	(4,483,029)	(16,029,632)	(22,375,801)
Profit Before Tax	**3,925,500**	**2,815,554**	**3,656,826**	**(4,035,625)**	**(3,233,710)**	**(8,049,312)**	**(37,439,364)**
Income Tax Credit/(Expense)	(451,307.00)	(420,376)	(676,952)	(1,693,181)	(129,884)	(161,963)	**(1,377,832)**
Deferred Tax	(1,368,692.00)	(448,688)	(327,126)	(164,211)	4,758,820	4,344,977	5,602,643
Profit After Tax	**2,105,501**	**1,946,490**	**2,652,748**	**(5,893,017)**	**1,395,226**	**(3,866,298)**	**(33,214,553)**
Basic Earnings/ share kobo	64	59	81	31	16	45	(106)

Balance Sheet for International Breweries Plc							
N'000	**Mar-14**	**Mar-15**	**Mar-16**	**Mar-17**	**Dec-17**	**Dec-18**	**Dec-19**
PPE	18,677,771.00	22,679,843	25,216,244	31,748,068	191,554,980	243,373,657	273,843,992
Intangible Assets	22,444.00	54,383	54,923	45,738	432,592	467,506	364,352
Other receivables		-	-	-	1,481,590	45,684	1,641,968
Derivative financial instrument				-	-	656,500	1,482,841
Available for sale investment	1,000.00	1,000.00	-	-	-	-	-
Deferred Tax Assets	94,254.00	106,699.00	127,458	1,229,680	20,298,380	189,618	13,423,437
Non-current assets	**18,795,469**	**22,841,925**	**25,398,625**	**33,023,486**	**213,767,542**	**244,732,965**	**290,756,590**
Inventories	2,236,649.00	2,800,392.00	2,909,333	3,835,324	16,204,786	19,857,541	22,214,665
Debtors and other receivables	2,945,043.00	3,675,605.00	4,072,090	**6,938,722**	**15,750,189**	**28,330,564**	26,858,335
Cash and equivalents	393,379.00	853,668.00	1,102,058	1,165,203	8,098,186	17,357,850	33,540,065
Current assets	**5,575,071**	**7,329,665**	**8,083,481**	**11,939,249**	**40,053,161**	**65,545,955**	**82,613,065**
Total Assets	**24,370,540**	**30,171,590**	**33,482,106**	**44,962,735**	**253,820,704**	**310,278,920**	**373,369,655**
Non-Current Liabilities							
Other Payables			93,848	136,522	147,489.00	-	-
Borrowings	3,854,913	4,901,221	-		18,170,989	153,738,160	155,237,430
Deferred Tax Liabilities	2,322,550	2,771,238	3,119,122.00	4,385,556	24,453,739.00		-
Employees Benefits	318,707	355,664	424,859.00	509,803	793,826	2,500,402	2,955,544
Total Non-current Liabilities	**6,496,170**	**8,028,123**	**3,637,829**	**5,031,881**	**43,566,043**	**156,238,562**	**158,192,974**
Trade and Other payables	5,297,015	4,671,165	6,479,361	12,476,472	**94,828,183**	53,994,967	86,031,127
Employee Benefits	79,335	59,054	138,153	165,438	544,620	-	116,769,239
Borrowings	771,856	4,844,127	8,552,420	11,987,582	69,871,674	63,438,877	-
Current Tax Liabilities	456,241	400,862	676,952	**1,422,602**	**2,634,192**	1,445,591	**2,798,788**
Current liabilites	**6,604,447**	**9,975,208**	**15,846,886**	**26,052,094**	**167,878,669**	**118,879,435**	**205,599,154**
Total liabilites	**13,100,617**	**18,003,331**	**19,484,715**	**31,083,975**	**211,444,712**	**275,117,997**	**363,792,128**
Share capital	1,647,125	1,647,125	1,647,125	1,647,125	4,297,931	4,297,931	4,297,931
Share Premium	6,154,725	6,160,731	6,160,731	6,160,731	6,160,731	6,160,731	6,160,731
Employee benefit reserves						(1,555,357)	(1,555,357)
Retained earnings	2,107,317	2,999,647	4,828,779	4,710,148	30,556,574	24,896,862	(686,535)
Total shaerholders' equity	9,909,167	10,807,503	12,636,635	12,518,004	41,015,236	33,800,167	8,216,770
Other Reserves	1,360,756	1,360,756	1,360,756	1,360,756	1,360,756	1,360,756	1,360,756
Total Equity	**11,269,923**	**12,168,259**	**13,997,391**	**13,878,760**	**42,375,992**	**35,160,923**	**9,577,526**
Total equity and liabilites	**24,370,540**	**30,171,590**	**33,482,106**	**44,962,735**	**253,820,704**	**310,278,920**	**373,369,655**

Management and Governance Overview

International Breweries can recover from its current loss making business with the view of a more practical approach to corporate governance together with the right strategy and appropriate management style.

The Board of directors consist of 14 members, currently chaired by His Majesty Nnaemeka Alfred Achebe.

A series of changes in directors and management could have threatened the performance of the company, post-merger with Intafact Beverages Limited and Pabod Breweries. The newly appointed management team and directors are entrusted with executing the second phase of the post-merger strategy and are seen as capable to implement overall strategy of increasing profit for all stakeholders.

Mr Hugo D. Rocha is the newly appointed managing director with experience in different leadership roles in various countries including South Africa. Mr. Bruno S. Arana is the finance director, with significant experience in various Ab InBev's businesses. Tolulope Adedeji, the new marketing director, is known for many successful brands built from scratch, which are still market leaders. Along with the existing board members, this team seems prepared to manage the much awaited turnaround because of their vast experiences and qualifications in the consumer goods/beer industry.

Chairman

His Majesty Nnaemeka Alfred Achebe

Bulls and Bears say

Bulls say:

* Optimism for a market rebound by mid-year
* Second Largest market share in Nigeria
* Increase in capacity to reduce unit cost
* Experienced and talented management team
* Leverage on international brand equity of parent company
* Shift in market preference to low-priced products

Bears say:

* Weak consumer spending and decreasing disposable income
* Unfavorable market environment affects earnings
* Intensified competition among market leaders
* Rising operating cost as VAT increases to 7.5%

Risk and Outlook

The key risks that could affect International Breweries' financial performance in the future include market risk (both foreign exchange and interest rate risk), credit risk and liquidity risk.

Despite the severity of the risks facing International Breweries, there is still room for improvement with the right strategy (dynamic enough to accommodate uncontrollable business environments) and the appropriate management style to execute the strategy.

Valuation Summary

International Breweries valuation was derived from using Discounted Cash Flow (DCF) methodology. We estimated a stock price of N 6.80, which is a 20% decline on the current price of stock of N8.50 as at February 10, 2020. With a discount rate (Weighted Average Cost of Capital [WACC] of 11.5% derived using an 11.13% risk free rate (FGN 10-year bond as at January 2020), a beta of 1.1, after-tax cost of debt of 10.5%, and a market risk premium of 6.4%. The long-term cash flow growth rate to perpetuity (5%) was derived by multiplying the negative return on equity of 0.06 by the retention rate of 100%.

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

Economic outlook for the next month

PMI readings to improve, inflationary pressures likely to taper

We expect business activities to kick-off fully next month. We also anticipate a build-up in inventory levels as manufacturers begin to stockup ahead of Easter sales. Hence, output indicators such as the PMI readings will most likely expand at a faster pace. Inflationary pressures are also expected to wane due to the hike in CRR. Notwithstanding, there are other inflation stoking factors which include: supply bottlenecks (border closure, forex restrictions), higher logistics and distribution costs and the VAT increase to 7.5% from 5.0%.

Border re-opening: Scenario analysis

ECOWAS has set-up a committee to review the closure of Nigeria's land borders.

Scenario A: Border re-opened before Easter

Probability: 40%

Impact:

- Sharp decline in commodity prices
    * Inflation likely to reduce
- Increased competition
    * Local farmers and manufacturers will have to compete with their foreign counterparts

Scenario B: Border re-opened after Easter

Probability: 60%

Impact:

- Inflationary pressures would remain elevated as imported commodity prices stay stubbornly high
- Higher commodity prices will continue to induce local farmers to increase production

Nigeria's fiscal position likely to be threatened

The outbreak of the Coronavirus in China will continue to pose a huge threat to oil prices. This occurring at a time when Nigeria's oil production is declining means that government revenue would come under pressure. Gross external reserves will also continue to decline.