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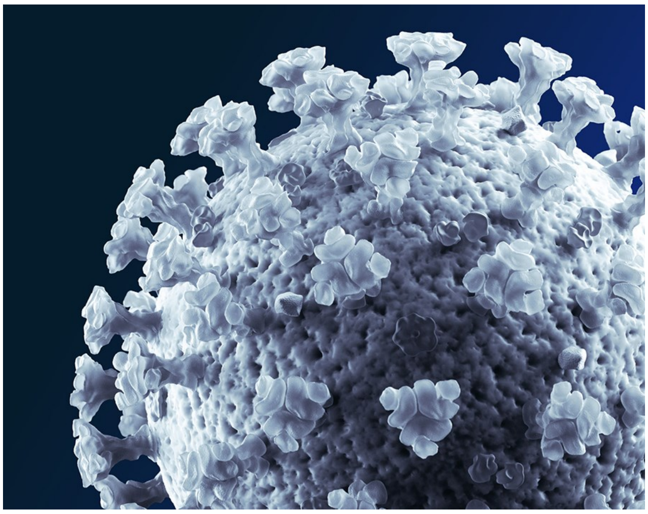
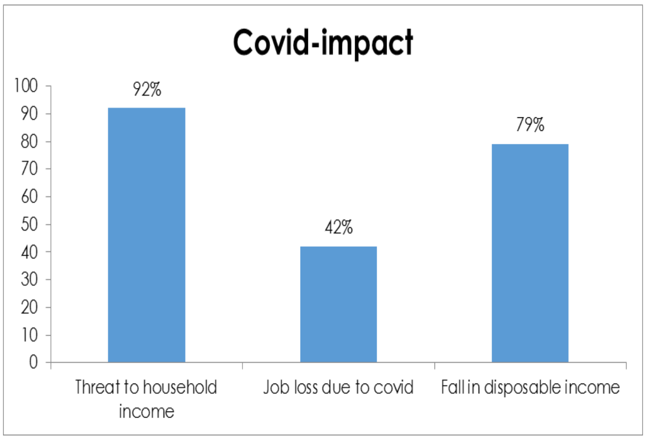
☏:01-2715414, 6320213; Email: info@fdc-ng.com; Website: www.fdcng.com

In This Issue . . .

Nigerians squeezed by Covid and lockdown



The National Bureau of Statistics (NBS) commenced its monthly Covid-19 National Longitudinal Phone Survey, aimed at monitoring the impact of the virus on the economy. The report validates the recent trends in some of the macroeconomic indicators and business proxies. The FBN PMI, which measures the health of the manufacturing sector, contracted for the 3rd consecutive month to 43.3 points in May. This points towards a bleak Q2'20 GDP growth. The economy already slowed to 1.87% in Q1'20 from 2.55% Q4'19.



[1]

The retail survey gives a granular analysis of the contraction in economic activity at the bottom of the stratification pyramid. The lockdown and movement restrictions resulted in a significant loss in jobs across all sectors especially the lockdown-sensitive sectors (such as trading, aviation and education). The data analysis showed that 42% of the respondents lost their jobs due to Covid-induced economic paralysis. More importantly is the fact that the poorest households had the largest share of job losses (45%) compared to the wealthiest households (39%). This will have a ripple effect on consumer disposable income. From the survey, 79% of the respondents already allude to the fact that their disposable income has fallen below Mid-March levels. The spike in the price of commodities such as yam, rice and beans also adversely affected consumers' purchasing power.

[1]NBS, FDC Think Tank

Concluding Thoughts

The economy is unlikely to dodge the recession bullet in Q3'20. Although, the government has extended the phased easing of the country's lockdown, but the rate of new COVID-19 infections remains high. Currently, total confirmed infections is 12,486 with 354 fatalities. If the numbers continue to increase, it could trigger a forced shutdown of business activities, which will have negative macro-economic implications on the overall economy, businesses and corporates. The good news however is that the economic recovery could be as early as Q1'2021, if the infections are well managed and policy makers demonstrate economic discipline and make tough decisions. The recent rebound in oil prices will also provide some support for the country's fiscal and external buffers.

Fall in Diaspora Remittances, Nigeria's Achilles Heel

When a virus spreads, so does the hardship. This is the case with many Nigerians during this pandemic. It is made worse because of the massive drop in remittance inflow as many migrants have lost their jobs due to the global economic shutdown.

According to the World Bank, global remittances are expected to fall steeply, by about 20% in 2020, due to the economic crisis induced by the COVID-19 pandemic and shutdown.[2] Remittances to Sub-Saharan Africa are projected to plummet by 23.1% to $37bn in 2020 from $48bn in 2019. The expected decline, which would be the sharpest in recent history, is largely due to rising unemployment and salary cuts of migrant workers.

Why it matters

Remittances are a vital source of income for developing countries. They are a major source of forex supply for the government and disposable income for consumers. The most important destinations where Nigerian migrants work include the EU region, the United States, the Middle East, and China. In 2019, Nigeria officially recorded about $25bn in remittances, which is higher than foreign direct and portfolio investments, which were around $934.34 mn and $16.37bn, respectively.[3] They also account for about 6% of GDP.

[2]Press Release, April 22, 2020. "World Bank Predicts Sharpest Decline of Remittances in Recent History", The World Bank. https://www.worldbank.org/en/news/press-release/2020/04/22/world-bank-predicts-sharpest-decline-of-remittances-in-recent-history
[3]Daily Briefing, April 27, 2020. "World Bank projects a 20% decline in remittances". StearsBusiness https://www.stearsng.com/article/db-firs-demands-taxes-declining-diaspora-remittances-banks-at-risk

It is well-known that diaspora remittances alleviate poverty in lower- and middle-income countries. They help poorer recipients meet basic needs, finance education, foster new businesses and essentially, drive economic growth.

Who will fill the gap?

According to research, 70% of remittances are used for consumption purposes, while 30% are invested for future use.[4] The current economic conditions are creating a large gap in families' incomes.

To reduce unemployment and poverty, which are inevitably linked to this pandemic, it is imperative that policymakers bridge the gap by providing solutions tailored particularly to Nigeria's most vulnerable citizens.

For instance, in the US, the president approved a COVID-19 relief bill of $2 trillion, which included provisions to send one-off payments, of up to $1,200, to every American with an annual income of $75,000 or less. This had a direct impact on each citizen including low-income earners and casual workers.

In other countries such as China, the government directed salary payments to workers who are unable to work due to quarantine or illness, while in the UK, there was a three-month payment holiday for anyone struggling with mortgages or rent.

Relief packages in advanced countries are tailored to have an immediate and positive impact on the standard of living of their citizenry and will reduce the negative effect on incomes.

The FGN needs to do better to bridge the remittance gap

An estimated 100 million Nigerians live on less than $1.90/day. Meanwhile the federal government is providing a conditional cash transfer (CCT) palliative of N5,000 (less than 50 cents/day) every month for four months to the poor and most vulnerable. The CCT, which is only available to 3.6 million households,[5] will barely scratch the surface and will be insignificant to bridge the remittance gap especially for families that are solely dependent on it.

Thus, it is critical that Nigeria develops an effective plan to support families that rely on remittance payment for their daily needs. One way to do that is to increase the number of households that will benefit from the CCT palliative. The plan needs to be put in place quickly and efficiently to reach the most vulnerable.

[4]Andrew S. Nevin, and Omomia Omosomi, 2019. "Strength from abroad: The economic power of Nigeria's diaspora", Price Waterhouse Coopers Ltd. https://www.pwc.com/ng/en/pdf/the-economic-power-of-nigerias-diaspora.pdf
[5]April 23, 2020. Nairametrics. President Muhammadu Buhari's full speech on extended Covid-19 lockdown. https://nairametrics.com/2020/04/13/president-muhammadu-buharis-full-speech-on-extended-covid-19-lockdown/

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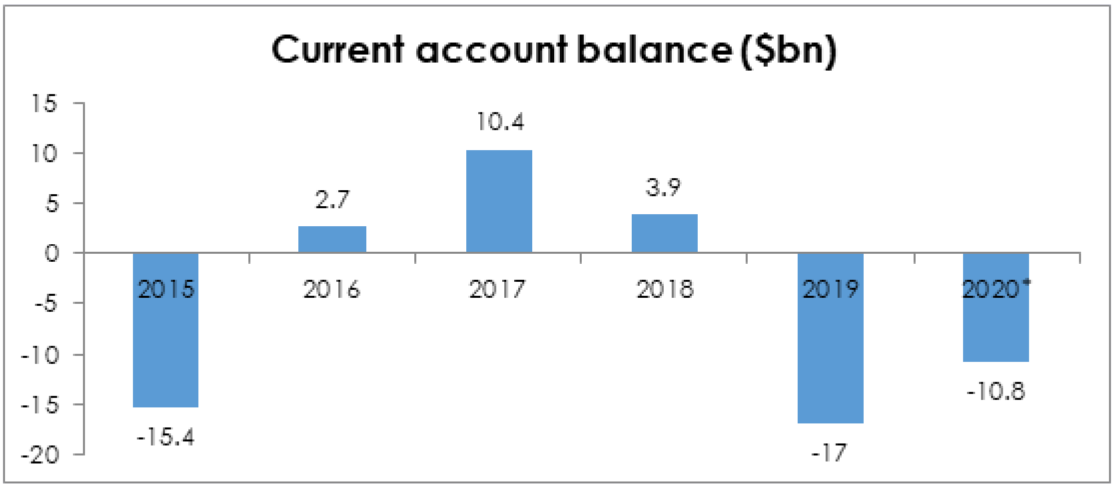
Capital importation up 53.97% in Q1'20

The capital importation report is very important to an import dependent economy that is facing balance of payment challenges. Nigeria's current account balance is in deficit (-$17bn) for the first time in three years.



[6]

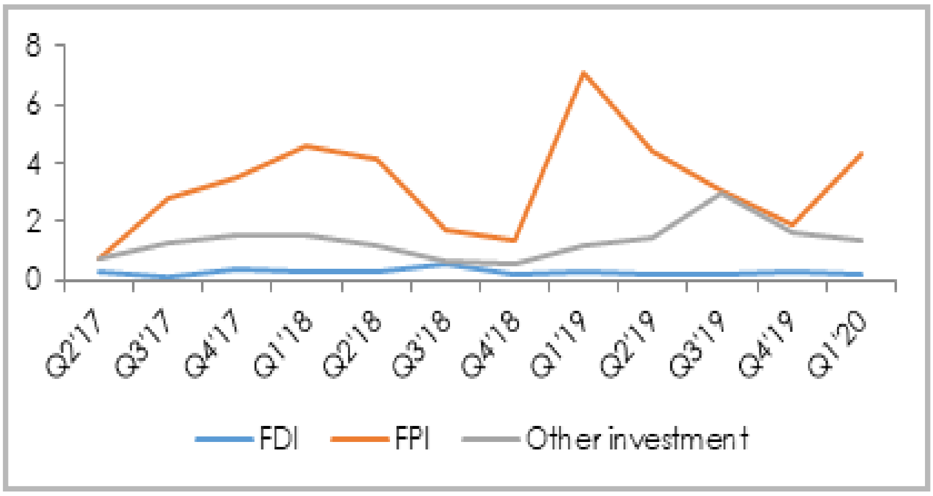
Its balance of trade, which is the difference between its exports and imports, has been falling ever since its oil revenues have been declining. Therefore, it is in this context that we have to understand the importance and relevance of FPIs and FDIs to Nigeria. Nigeria's share of global FDI is a mere 0.23%. At its peak, Nigeria received $4.45bn in 2016 (0.17% of world investment flows).[7] The currency was stable, external reserves were high and external debt to GDP was 7.7%. Thus, the news that capital importation into Nigeria has jumped 53.97% to $5.85bn in Q1'20 was greeted with excitement.

However, when the data is fully analyzed, you will find that most of the capital inflows are 'hot money', which is highly volatile. In the last 3 years, foreign portfolio investment accounted for the largest proportion of total capital imports, averaging $11.83bn. For Q1'20 in particular, it accounted for 73.61% ($4.31bn) while foreign direct investment and other investments accounted for 3.66% ($0.21bn) and 22.73% ($1.33bn) respectively. This shows that the bulk of the investment flows are speculative carry trade activities of hedge funds and they are a recipe for currency volatility. This is because hedge funds and private equity firms, who are the main sources of hot money, typically withdraw their funds at the slightest sign of uncertainty.

In addition, FPIs are a major source of forex supply, providing support for the country's reserves levels.

[6]EIU, FDC Think Tank
[7]EIU

Thus, a reversal of capital flows would heighten forex demand pressures and possibly weaken the currency and deplete the external reserves. The impact will be compounded by the sharp fall in Diaspora remittances as unemployment rates spike in the key origins of Diaspora remittances to Nigeria. The gross external reserves gained 9.16% to close at $36.59bn on May 29, due to the drawdown on the IMF loan of $3.4bn.



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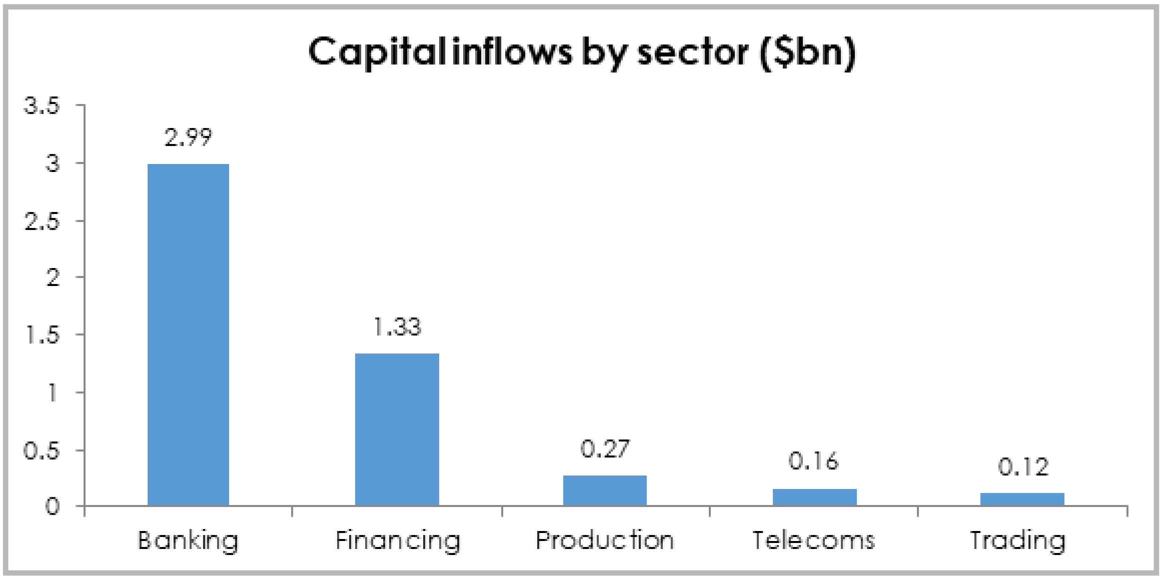
It is more disturbing that the origins of capital flows into Nigeria are all sliding into a recession.

	Amount ($bn)	2019 Growth (%)	2020 Growth projections (%)
United Kingdom	2.91	1.49	-6.5
South Africa	0.69	0.2	-5.8
United Arab Emirate	0.53	1.7	-1.1
Netherlands	0.44	1.8	-7.5
United States	0.39	2.3	-5.9[9]

The banking sector was the largest recipient of capital flows in Q1'20. It accounted for 51.8% ($2.99bn) of total capital imports, followed by financing ($1.33bn) and production ($273.97mn). The states with the largest capital imports are Lagos and Abuja, accounting for 87.72% ($5.14bn) and 12.07% ($706.81mn) respectively. This is not surprising as the headquarters of most of the multinationals are situated in both states. More so, Lagos is the commercial hub of the country while Abuja is the Federal capital.

[8]NBS, FDC Think Tank
[9]NBS, IMF, FDC Think Tank



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Implications on the economy and policy makers

While the increase in foreign capital inflows are expected to support the gross external reserves and the currency, the fact that a larger proportion is hot money poses some investment constraints. This is because hot moneys are not stable investments. In the event of capital reversals, the exchange rate will weaken as forex demand pressures increases. This could result in external reserves depletion. If this happens, the CBN may be forced to tighten its monetary policy stance. Higher interest rates could trigger a crash in asset prices.

Outlook

Capital inflows are likely to decline in Q2'20 as trade and movement restrictions impede capital flows. Also, weak global confidence due to the pandemic and market uncertainties will halt foreign investments. We also expect Diaspora remittances to fall as the global economy remains weak and job losses increase.

[10]NBS, FDC Think Tank

Surviving an economic downturn whilst international trade contracts

One of the most daunting effects of the COVID-19 lockdown is the global closure of land borders and airports. These have led to significant disruptions to international trading activities. Nigeria's share of world exports, which increased to 0.35% in 2019, is now projected to fall to 0.19% in 2020. Wholesale and retail trade accounts for approximately 15% of GDP and employs more than 25% of the labour force. The global distortions to business operations, including international trade, are expected to have a dampening effect on the global economy in 2020. The International Monetary Fund (IMF) is projecting a 3% contraction in the global economy in 2020 due to the economic impact of the COVID-19 pandemic.[11] Nigeria's economic growth is also expected to plunge to -3.4% in 2020 from 2.2% in 2019.[12] The country's GDP growth already slowed to 1.87% in Q1'20 from 2.55% in the previous quarter.[13] Nigeria's ability to survive the economic downturn and avert a looming recession will be largely dependent on the implementation of reforms to promote a relatively self-sustaining economy even after the pandemic.

[11]The International Monetary Fund (IMF), 2020. World Economic Outlook. Author. https://www.imf.org/en/Publications/WEO
[12]ibid
[13]National Bureau of Statistics (NBS), 2020. Nigerian Gross Domestic Product Report (Q1 2020). Author. https://www.nigerianstat.gov.ng/download/1100

Nigeria's international trade relations before COVID-19

S/N	Country	% of Total Imports
1	China	19.9
2	US	8.7
3	Belgium	8.3
4	India	4.2

S/N	Country	% of Total Exports
1	India	32.6
2	France	6.9
3	Indonesia	5.7
4	China	5.3[14]

Nigeria's foreign trade rose by 10.2% quarter-on-quarter to N10.12trn in Q4'19, bringing the total trade in 2019 to N36.15trn, 14.5% higher than 2018.[15] Nigeria remains an import dependent economy with imports accounting for 52.87% of total trade in Q4'19. Manufactured goods constituted 73.13% of all imports, and India, China and the United States supplied more than 50% of the total imports to Nigeria.[16]

In terms of exports, oil remains the primary source of fiscal revenue and foreign exchange earnings, accounting for 87.29% of total exports in Q4'19. Crude oil exports accounted for 76.08%, and other petroleum oil products were 11.21%.[17]

Implications of the COVID-19 outbreak on Nigeria's international trade relations

Oil dependent economies like Nigeria have been severely affected by the sharp decline in global oil prices, which was triggered by the price war between Saudi Arabia and Russia. This was preceded by the pandemic-induced weak global oil demand. Travel restrictions and the general slowdown in economic activities globally has resulted in a fall in global oil demand by about 30%.[18] The Nigerian government has been forced to revise its oil price benchmark for the 2020 budget twice, down to $25 per barrel from the initial $57 per barrel.[19] However the NASS has approved $28pb. The good news is that oil prices are slowly inching up as the effect of the OPEC (+) supply cuts are beginning to bear fruits. Non-oil export activities and other productive activities have also been limited by the land border closures, travel bans and lockdowns implemented to curb the spread of COVID-19, which has infected over 10,000 people.[20]

[14]EIU
[15]National Bureau of Statistics (NBS), 2019. Foreign Trade Statistics Q4 2019. Author. file:///C:/Users/user/Downloads/FOREIGN_TRADE_STATISTICS_Q4_2019.pdf
[16]ibid
[17]ibid
[18]Rania El Gamal, Ahmad Ghaddar & Alex Lawler, 2020. Exclusive: OPEC+ wants to maintain oil output cuts beyond June. Reuters. https://www.reuters.com/article/us-oil-opec-exclusive-idUSKBN22O2AH
[19]Johnbosco Agbakwuru, 2020. COVID-19: FEC cuts Budget 2020 to N10.523trn. Vanguard Newspaper. https://www.vanguardngr.com/2020/05/covid-19-fec-cuts-budget-2020-to-n10-523trn/
[20]The Nigeria Centre for Disease Control (NCDC), 2020. COVID-19 Nigeria. Real Time. https://covid19.ncdc.gov.ng/

On the import side, the Nigerian government imposed a ban on all international travel on March 18.[21] In addition, two of Nigeria's largest import trading partners, China and the United States, are amongst the countries most affected by COVID-19. However with most countries gradually reopening their economies and the possibility of domestic flights resuming in Nigeria from June 21, there may be a pick up in global trade. The IMF forecasts a decline in China's GDP growth to 1.2% in 2020 from 6.1% in 2019 and expects the US will contract by 5.9% in 2020 from a growth of 2.3% in 2019.[22] This implies that even when international travel restrictions are eventually relaxed, these countries are likely to prioritize stabilizing their respective economies.

Surviving an economic downturn in a seemingly closed economy

The current constraints to international trade highlight the need for a relatively self-reliant economy and a reduction in Nigeria's dependence on the external economy. The government will need to:

Intensify measures to develop the agricultural sector: the need for a more developed agricultural sector in Nigeria cannot be overemphasized. It is noteworthy that the Nigerian government had initiated some drastic measures in Q3'19 to discourage importation of agricultural produce such as the closure of the Seme land border to promote domestic production. However, the Q4'19 foreign trade statistics showed that imports still accounted for 77% of agricultural goods traded in the quarter.[23] The government should learn from its focus on domestic rice production and replicate these efforts with other highly imported commodities like durum wheat.[24] Therefore, the production of such goods will reduce the country's reliance on the external economy.

Strengthen the linkage between the agriculture and manufacturing sectors for industrial development: Agricultural produce should become raw material for manufacturing firms in the production of finished or semi-finished goods. A stronger link between the agriculture and manufacturing sectors will ease access to raw materials and support industrial development. It will also provide a market for farmers, which will bolster increased agricultural productivity in the country.

Promote domestic production of medical supplies: the COVID-19 pandemic has proven that a better health care system is a must for every country. The development of the Nigerian health care system will lower the country's high dependence on medical tourism and facilitate a healthier workforce.

[21]Stephanie Busari & Bukola Adebayo, 2020. Nigeria bans entry for travelers from 13 countries as it announces five new cases of coronavirus. CNN. https://edition.cnn.com/2020/03/18/africa/nigeria-coronavirus-travel-restrictions-intl/index.html
[22]The International Monetary Fund (IMF), 2020. World Economic Outlook. Author. https://www.imf.org/en/Publications/WEO
[23]National Bureau of Statistics (NBS), 2019. Foreign Trade Statistics Q4 2019. Author. file:///C:/Users/user/Downloads/FOREIGN_TRADE_STATISTICS_Q4_2019.pdf
[24]ibid

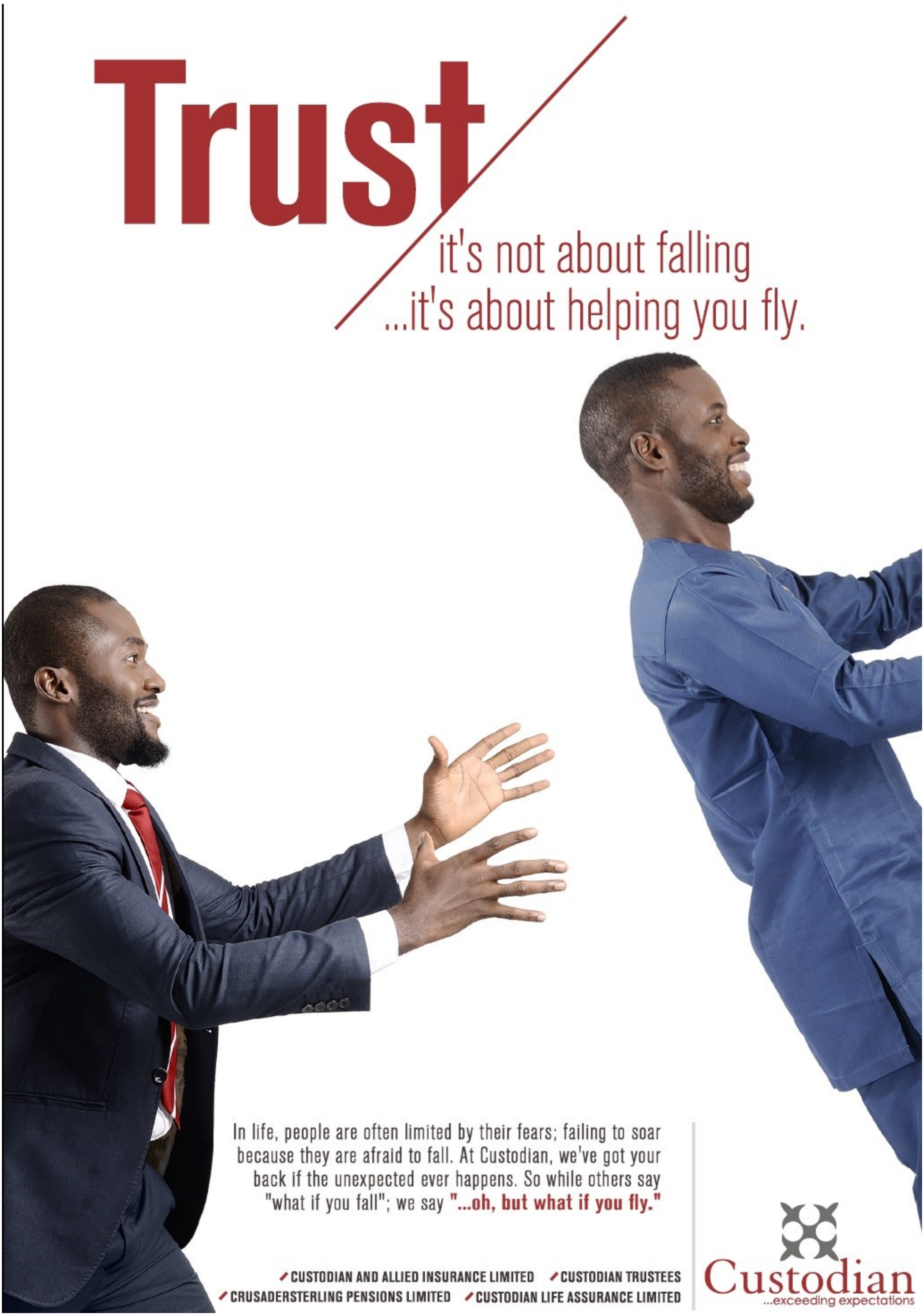
Ensure successful implementation of proposed policy responses: a plethora of policy measures have been formulated in response to the COVID-19 pandemic.[25] However, Nigeria is known for development plans that mostly remain unexecuted.[26] The implementation of proposed economic reforms will largely influence the country's ability to survive an economic downturn and develop its economy after the pandemic.

Conclusion

The move to close the economy and restrict international trading activities by both developed and developing economies in response to the COVID-19 pandemic has presented Nigeria with a new reality of the need to survive on its own. Meanwhile, building a relatively self-sufficient economy is contingent on the formulation and implementation of proactive economic reforms in the country.

[25] Godwin Emefiele, 2019. Turning the COVID-19 tragedy into an opportunity for a new Nigeria. Central Bank of Nigeria. https://www.cbn.gov.ng/Out/2020/CCD/EDITED~Turning%20Covid%20Tragedy%20into%20Opportunity%20for%20New%20Nigeriat~OpEd%20by%20Gov%20Godwin%20Emefiele~Tue14April2020%201.pdf

[26] Iheanacho, E.N. 2014. National Development Planning in Nigeria: An Endless Search for Appropriate Development Strategy. International Journal of Economic Development Research and Investment. https://www.icidr.org/ijedri-vol5-no2/National%20Development%20Planning%20in%20Nigeria-An%20Endless%20Search%20for%20Appropriate%20Development%20Strategy.pdf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African Development Bank bows to US pressure over inquiry into alleged wrongdoing

GLOBAL PERSPECTIVE: culled from Financial Times

The African Development Bank has bowed to US pressure to open an independent evaluation of an inquiry into its president, Akinwumi Adesina, after weeks in which past and present African leaders have complained bitterly that Washington is meddling in the institution's affairs.

The accusations surrounding Mr Adesina, a dapper, bow-tie-wearing former Nigerian agriculture minister, have plunged the AAA-rated lender into its most serious crisis since 2003 when it had to relocate to Tunis for a decade because of civil war in Ivory Coast.

The dispute has been brewing since January, when whistleblowers, calling themselves "concerned staff members", sent a 16-point document to the bank's anti-corruption department and its ethics committee. They accused the president of ignoring bank procedures and appointing old friends, many of them Nigerians, to AfDB jobs. They also spotlighted examples of lucrative contracts that they alleged had been awarded without due process.

The ethics committee, chaired by Takuji Yano, Japan's executive director at the bank, cleared Mr Adesina of all wrongdoing. But in a leaked letter from May 22, Steven Mnuchin, US Treasury secretary, expressed "deep reservations" about the "integrity" of the internal inquiry and pushed for an independent probe. The US is the bank's second-biggest shareholder after Nigeria.

The AfDB on Thursday reiterated its support for the original decision of the ethics committee but said it had agreed to an "independent review" of those findings in order to satisfy all members of the bank's board.

Mr Adesina has vigorously denied what he called "trumped-up allegations", lashing out in a May 27 statement at "attempts by some to tarnish my reputation and prejudice the bank's governance procedures".

Under Mr Adesina, the bank, which lends to projects designed to combat poverty, won approval from its 80 members in October last year for a $115bn capital increase, the largest in its 55-year history, more than doubling its capital.

The decision was seen as a vote of confidence in Mr Adesina, 60, who is still planning to seek re-election for a second term in a contest that has been rescheduled for August because of the coronavirus pandemic. Mr Adesina has won support for his re-election as bank president from 54 African countries.

Mr Mnuchin's call for an independent probe has pitted the US — and several European governments that have also pushed for an investigation — against many of Mr Adesina's supporters, who quickly rallied to his defense.

"I've known Dr Adesina for several years, we've worked together, and I've no doubt about his integrity," said Arunma Oteh, an academic scholar at Oxford University and former treasurer at the World Bank.

"We are in the middle of a Covid-19 pandemic and the African Development Bank is one of the most important institutions for rallying the economic resources to fight this," she said, alluding to the bank's issuance of a $3bn "Fight Covid-19" social bond and its establishment of a $10bn crisis facility.

Ms Oteh refrained from criticizing Washington directly, saying only: "When you're an African you have to be above board because people will assume you're doing wrong. And when you are Nigerian it is even worse."

But other supporters were less restrained. "We are not in the 1950s. You can't write to Africans as if we were your slaves," said one person, who has worked at the bank.

Some allies of Mr Adesina said it was hypocritical for a US administration, in which President Donald Trump is advised by his daughter and son-in-law, to complain about Mr Adesina's alleged nepotism, one of the accusations against him.

They also accused Washington — fresh from its withdrawal from the World Health Organization — of using multilateral institutions to pick fights with China, although Beijing has not traditionally played a big role at the AfDB.

"The African Development Bank is a pride for all of Africa, and its President, Dr Adesina, has taken the bank to enviable heights," said Olusegun Obasanjo, a former president of Nigeria, and Ellen Johnson Sirleaf, a former Liberian president and Nobel Peace laureate, in a joint statement with several other former African leaders.

The bank's procedures should be honoured, they said, referring to the internal inquiry that had already cleared Mr Adesina, criticizing what they described as American hubris: "No nation, regardless of how powerful, has a veto power over the African Development Bank."

Some close observers of the bank said Mr Adesina's attempt to garner political support had backfired. "He's wrapping himself in the African flag to say these colonialists are interfering," said one African banking executive.

Others pointed to what they said had been Mr Adesina's high-handed style and alleged habit of firing people without due process in order to bring in his compatriots, something he has denied.

It was not only the US that had asked for an independent inquiry. The UK and several Nordic countries also pushed for an external investigation, if only to clear Mr Adesina's name in time for August's election. In its statement on Thursday, the bank said that the inquiry would take "two to four weeks maximum" in order to accommodate the electoral calendar.

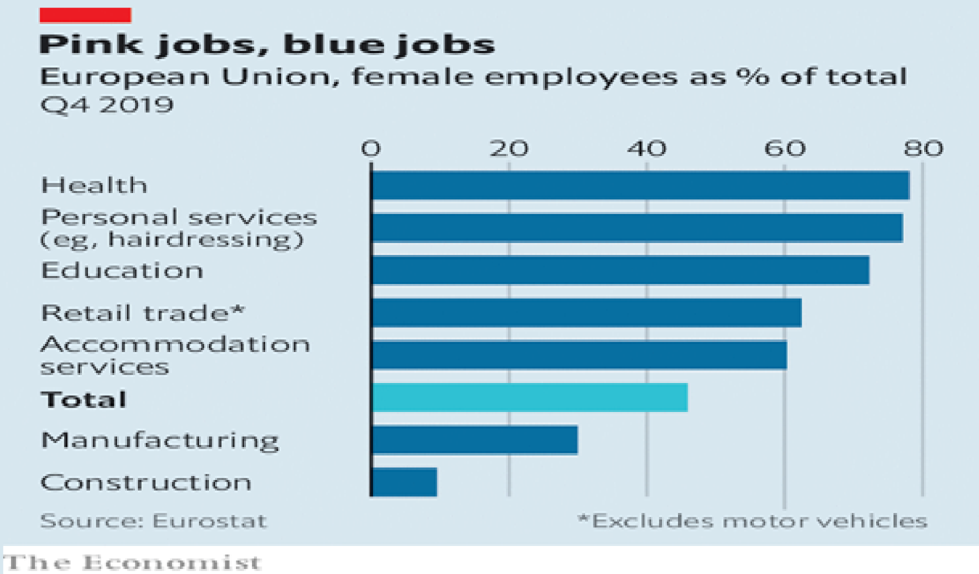
Ms Oteh, the former World Bank treasurer, said that attempts to impugn the bank's reputation were misguided. At least the AfDB held competitive elections to select its head, she said, referring to Mr Adesina's victory in 2015 against several candidates, including the finance ministers of Cape Verde, Chad and Ethiopia.

That was not like the Asian Development Bank, said Ms Oteh, where the president was always a Japanese national chosen by Tokyo. Nor was it like the World Bank itself, she added, where all 12 presidents since 1946 have been American.

Downturns tend to reduce gender inequality. Not under covid-19

GLOBAL PERSPECTIVE: culled from The Economist

Women's unemployment has risen more than men's

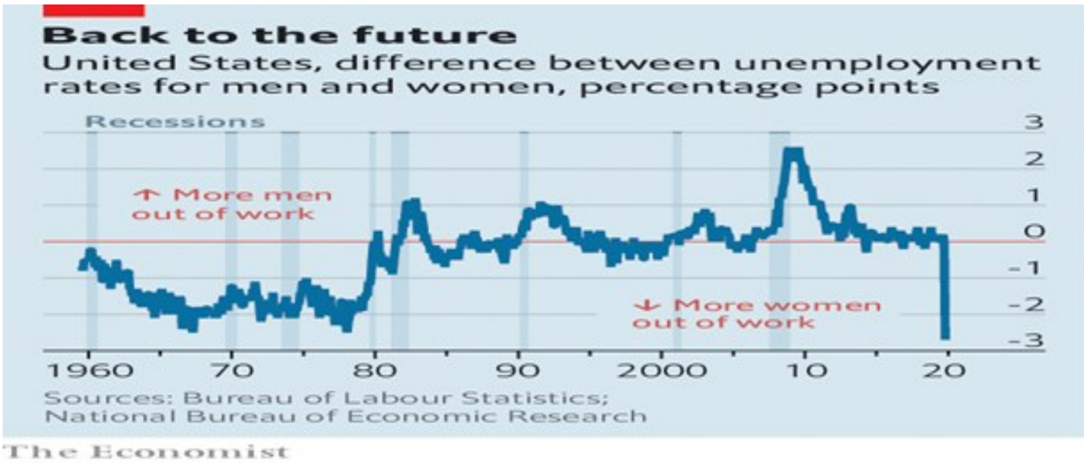


HAIR SALONS tend to be recession-proof. People always need haircuts. During the financial crisis of 2007-09, the number of hairdressers in America even rose. For Sylvia, who owns a small salon in Amsterdam, that crisis was very different from today's. "Lockdown came out of nowhere and I had no buffer. It was terrifying." She is relieved that her business has survived, and heartened that regulars phoned in as soon as she reopened. "If it had lasted any longer," she says, fighting back tears while disinfecting the previous customer's seat, "I would have gone under."

Women have borne the brunt of the economic disruption caused by lockdowns. In America, despite making up less than half of the workforce, they accounted for 55% of jobs lost in April. In Britain, mothers are one-and-a-half times as likely as fathers to have lost or quit their jobs during lockdown, according to the Institute for Fiscal Studies (IFS), a think-tank.

The unevenness reflects the fact that women are more likely to work in services that require interacting with people (see chart). But hotels, restaurants and shops have been forced to shut, and the work cannot be done from home. Moreover, with creches and schools closed and grandparents socially distant, they are doing most of the child care. That has forced some to stop work and others to work less. If those job and productivity losses persist, they could reverse progress towards gender equality in the workplace.

Today's picture is in stark contrast to previous recessions (see chart). Men are usually worse affected, because they dominate sectors such as manufacturing and construction, which tend to be badly hit. Matthias Doepke of Northwestern University and Michele Tertilt of the University of Mannheim estimate that three-quarters of all cyclical employment fluctuations between 1989 and 2014 were due to men losing and gaining jobs. Women, by contrast, have acted as stabilizers. Employment in services and public sectors, which are female-dominated, tends to be less volatile. And wives take up work or increase their hours when husbands lose jobs.



This time, though, services involving face-to-face interaction, such as hospitality, have suffered most. In much of Europe employment in health care and education has held up well so far, cushioning women's job losses. But in America these sectors have not been spared, with five times as many women losing their jobs as men. And because firms run by women are concentrated in customer-facing sectors, female small-business founders were much more likely than men to expect a drop in sales owing to covid-19, according to a survey by Robert Fletcher and Nicholas Bloom of Stanford University. A dearth of job vacancies also means that women who are not already in the labour market are unlikely to enter to compensate for husbands' job losses.

Whether the hit to so-called "pink" sectors persists depends on whether customers flock back as restrictions are lifted. Some jobs will return quickly, but structural shifts could well mean fewer air hostesses or event organizers for some time. Temporary layoffs could become permanent as employers go bust. Those fired will struggle to find new jobs, particularly without downskilling. (The pink wave could also turn purple: in Canada, the latest figures show that job losses in "blue" sectors seem to be catching up.)

Sex segregation alone cannot explain why women have been hit hardest, though. Even after controlling for it, women in Britain were 15% more likely to have lost their job and 8% more likely to have been furloughed, found a survey led by Abi Adams-Prassl at Oxford University. "We kept thinking we could explain the gender difference away by controlling for the fact that men and women do different jobs," says Ms Adams-Prassl. A similar method explained why low-skilled workers were more likely to be out of work than high-skilled ones. "But with gender", she says, "this wasn't enough." Possible explanations for the difference include discrimination, or that, bereft of child care, some mothers chose to leave their jobs.

Productivity drains

Higher-skilled women are less likely to lose their jobs than lower-skilled ones, and more likely to work from home. Many are caring for children at the same time. British households with young children are doing an extra 40 hours of child care and schooling a week, find Almudena Sevilla of University College London and Sarah Smith of the University of Bristol. On average, mothers do two-thirds of this. Even furloughed fathers do no more child care than mums in paid work.

The gradual emergence from lockdowns could do particular harm to women's careers, worries Claudia Goldin of Harvard University. With workplaces reopening before child-care centers fully do, couples could be forced to decide who returns to work full-time and who minds the kids. The lower earner, often the woman, might stay home.

Even when working mothers do sit down to prepare that PowerPoint presentation, they are 50% more likely to be disturbed than fathers, according to a survey in May by the IFS. This "Mu-u-um" pattern continued even when the woman was the higher earner. Such productivity losses could harm pay and promotions. "I fear we'll start to see the impact of this in two to three years' time in a widening gender pay gap," predicts Vera Troeger of Warwick University. Academia offers a glimpse of what may come. Several journals report a drop in submissions by female scholars during the pandemic; male submissions to some journals have increased. "Scholarly articles are our currency," adds Ms Troeger. "They give access to tenure, job offers, and higher pay."

The pandemic has, at least, helped normalize remote working. Before covid-19 only one in 50 Americans worked from home full-time. By early April, more than one in three did. With the investments made and the concept proven, predicts Mr Bloom, "we're never going back to the old world.” That would be good news for mothers, who tend to pick jobs that fit around their children, with more forgiving hours and shorter commutes. But it will primarily benefit university graduates, who have jobs that are easier to do from home. Less-educated women cannot count on such a silver lining. A loss of employer demand and additional child-care duties make their job prospects altogether bleaker.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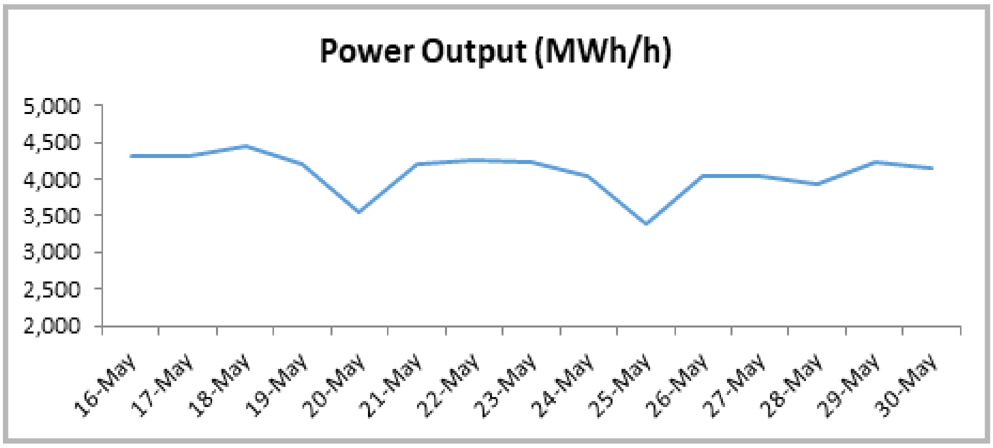
Macroeconomic indicators

Power Sector

The average power output sent out from the national grid within the period (May 16th–31st) was 4,092MWh/h. This represents a marginal decline of 0.05% when compared to the average of 4,094MWh/h recorded in the second half of April. The major constraints experienced during the review period were gas constraint (34,047MWh/h) and grid constraint (22,220MWh/h). Total constraints averaged 4,134MWh/h, resulting in a revenue shortfall of N29.76billion (annualized at N357.12billion).



[27]

Outlook

Gas challenges will remain the principal challenge to power generation. However, the rainy season has commenced and is expected to intensify in the coming weeks. This is expected to filter through to an increase in hydro-generated power. Hence, power output is expected to remain above 4,000MWh/h. The new electricity tariffs, which is expected to kick-in on July 1 will taper consumer disposable income and increase living costs despite the reduction in petrol price to N121.50/litre.

Impact

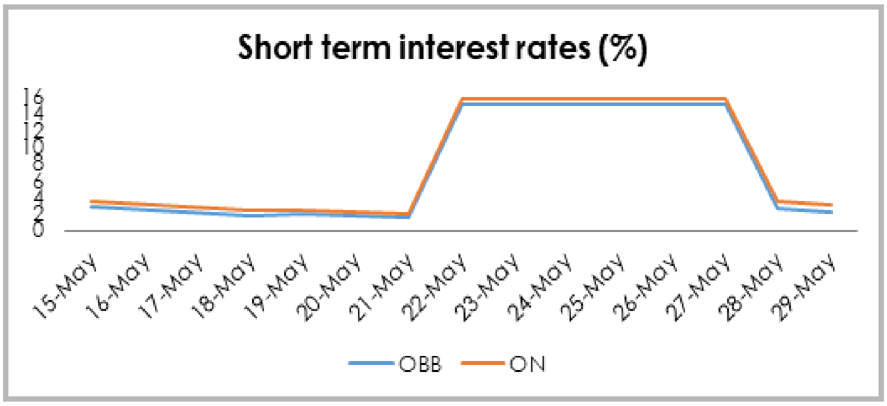
An improvement in power supply will reduce the use of alternative energy sources, which will in turn reduce firms operating costs and increase their margins. Fuel & power costs account for approximately 30% of manufacturing and operating expenses of most manufacturing companies. Nonetheless, the country is still producing way below its potential. Investments in the power sector are critical to ensure optimal production.

[27]FGN, FDC Think Tank

Money Market

The average opening position of banks fell by 14.42% to N471.39 billion in the second half of May from N550.85billion in the corresponding period of April. This was partly due to the CBN's retail forex auction. Total OMO sales during the review period amounted to N114 billion compared to N246.65 billion in the corresponding period last month. On the other hand, OMO repayments totalled N303.17 billion relative to N393.06 billion recorded in the second half of April. This resulted in a net inflow of N189.17 billion.

On the average, OBB and O/N during the review period stood at 5.21% and 5.81% respectively from an average of 5.69% p.a. and 6.29% p.a. in the second half of April. During the review period, the Monetary Policy Committee (MPC) held its 3rd meeting of the year on May 28th. It was agreed with a vote of 7:3 to reduce the Monetary Policy Rate (MPR) by 100bps to 12.50% pa from 13.50% pa while keeping all other policy parameters unchanged. The rate cut was mainly a signalling move to anchor expectations of economic agents.



[28]

There was a primary market auction of N59.37 billion on May 27th. Yields on the 91-day and 182-day T/ bill tenors declined by 5bps and 13bps while the 364-day tenor increased by 18bps. T/bill yields were mixed at the secondary market. The 91-day tenor declined, 182-day increased

Primary Market

T/bills Tenor	Rate on May 13th	Rate on May 27th	Direction
91	2.50	2.45	
182	2.85	2.72	
364	3.84	4.02	

Secondary Market

T/bills Tenor	Rate on May 15th (% pa)	Rate on May 29th (%)pa	Direction
91	1.93	1.34	
182	2.14	2.30	
364	3.00	3.00	

[28]CBN

Outlook

The 100bps cut in the MPR will most likely have a muted impact on the market as seen in March 2019 when the MPR was reduced by 50bps. Hence, short term interbank rates are expected to remain around current levels in the near term.

Impact

The non-adjustment in rates will be neutral on short-term investments as the returns on most asset classes will remain the same in the short-term.

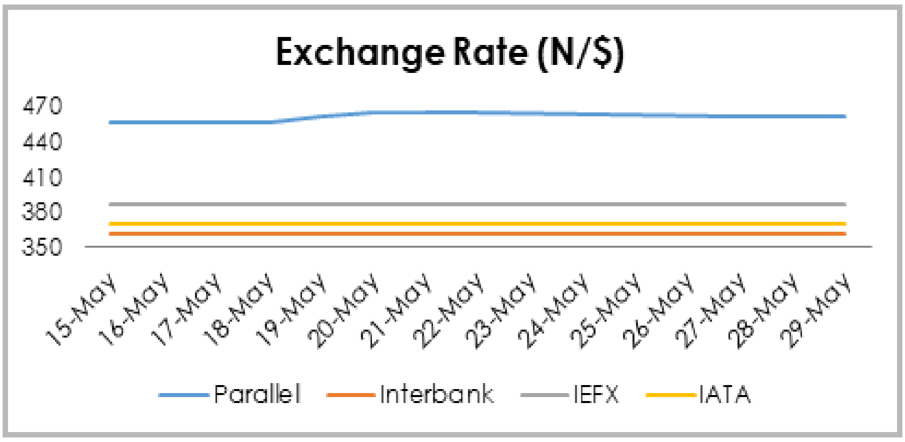
Forex Market

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 as not only 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

At the parallel market, the naira depreciated from N455/$ on May 15th to close the period at N460/$. This was largely due to the sparse dollar liquidity in spite of the CBN's weekly $100mn amid increased forex demand as the lockdown measures are gradually being eased off.

Similarly, the naira depreciated at the IEFX window from N386/$ on May 15th to close the period at N386.33/$. Total turnover at the IE window declined by 6.43% to $397.25mn in the second half of May from $424.56mn in the corresponding period in April.



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[29]FMDQ, CBN, FDC Think Tank

Outlook

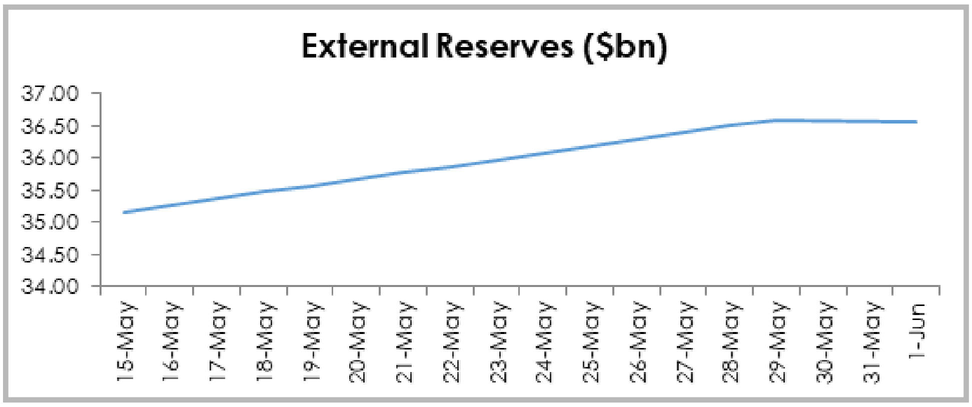
Currency volatility will persist in the coming weeks barring any improvement in forex supply. The Apex bank plans to resume forex sales to all licensed Bureau De Change operators as international travel commences. This will most likely contain the pressures on the currency. Notwithstanding, the possible reopening of airports would trigger a resurgence in forex demand pressures.

Impact

Currency depreciation will increase the country's import bill and that of companies that are highly import dependent. The cost of dollar denominated obligations will also rise.

External Reserves

The gross external reserves accretion continued within the review period, crossing the $36billion threshold. The external reserves rose by 3.84% ($1.35 billion) to close at $36.50 billion on May 29th from $35.15 billion on May 15th. This brings the payment and import cover to 9.09 months, up from 8.75 months on May 15th. However on June 1, the external reserves fell for the first time in 19 days to $36.57bn.



[30]

Outlook

We expect a reversal in the upward movement of the external reserves especially as airports reopen and the demand for forex heightens.

Impact

The steady accretion in external reserves increases the ability of the CBN to defend the naira.

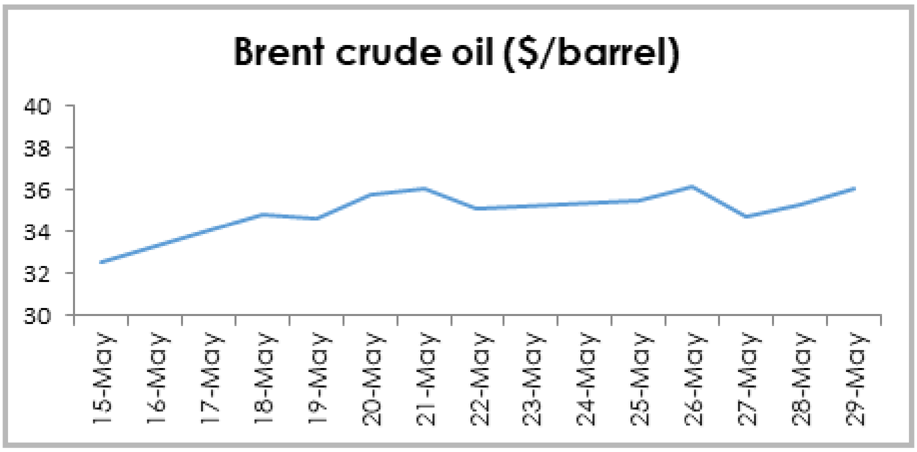
[30]CBN

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

On the average, oil prices increased sharply by 54.47% to $35.42pb in the second half of May from an average of $22.93pb in the second half of April. This bullish sentiment was partly as a result of the supply cut by OPEC+ and the slight recovery in oil demand as countries gradually ease off lockdown measures. Oil prices traded above $40pb briefly on market expectations of a possible extension of the OPEC (+) output cuts. The compliance rate to the supply cuts by the cartel has been high at 77%, predominantly by Saudi Arabia (96% compliance rate). However, Nigeria and Iraq have been labeled as underperformers, as these countries have failed to adhere to their quotas.



[31]

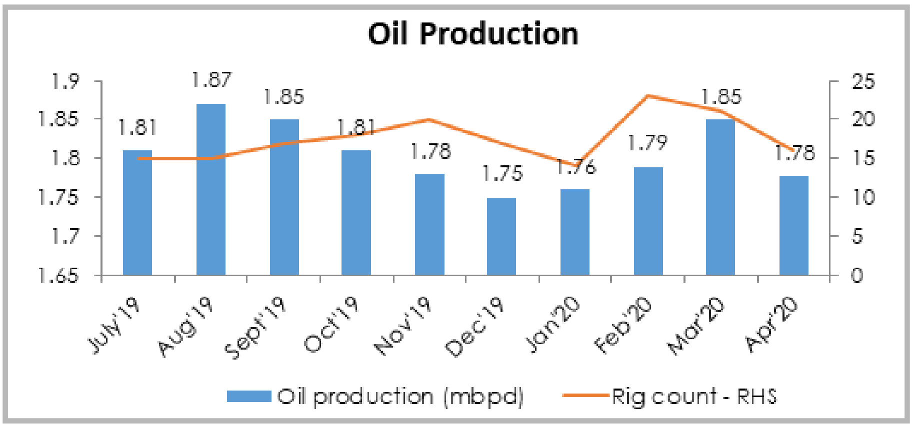
Outlook

We expect oil prices to increase marginally to trade within a range of $35 - $37 per barrel in the coming weeks as more countries reopen their economies. However, market sentiments could weaken and oil prices may dwindle to trade at an average of $30pb as Russia eases supply cuts by July

Oil Production

Nigeria's oil production declined by 3.78% to 1.78mbpd in April from 1.85mbpd in March. Likewise, Nigeria's rig count reduced to 16 in April from 21 in the previous month.

[31]Bloomberg



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Outlook

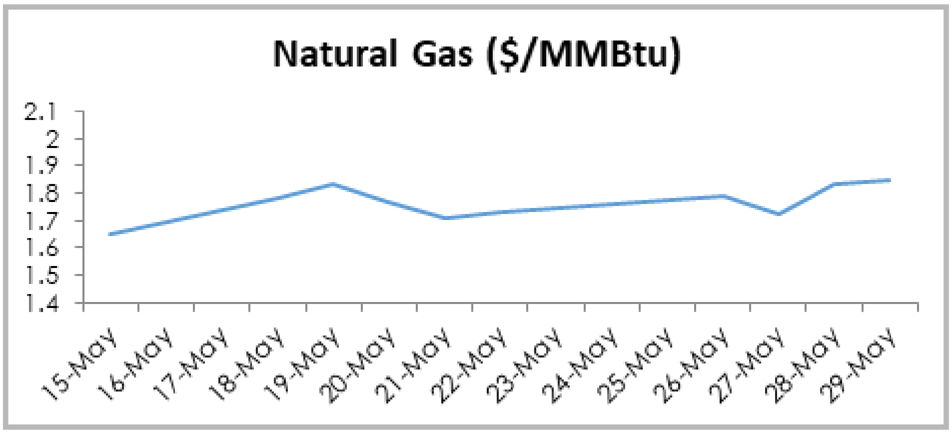
Nigeria's oil production is likely to fall below 1.5mbpd in the coming months due to OPEC's production cut.

Impact

Nigeria remains more oil production sensitive than oil price sensitive. Lower oil production will reduce oil revenue and negatively impact proxies such as FAAC allocation.

Natural Gas

The average price of natural gas for the review period was $1.78/mmbtu, which is 2.73% lower than the average of $1.83/mmbtu recorded in the second half of April. The fall in price was partly due to declining global gas demand amid excess supply particularly from the UK and US



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Outlook

Natural gas prices are expected to decline further in the coming period driven by weak demand outlook and supply glut.

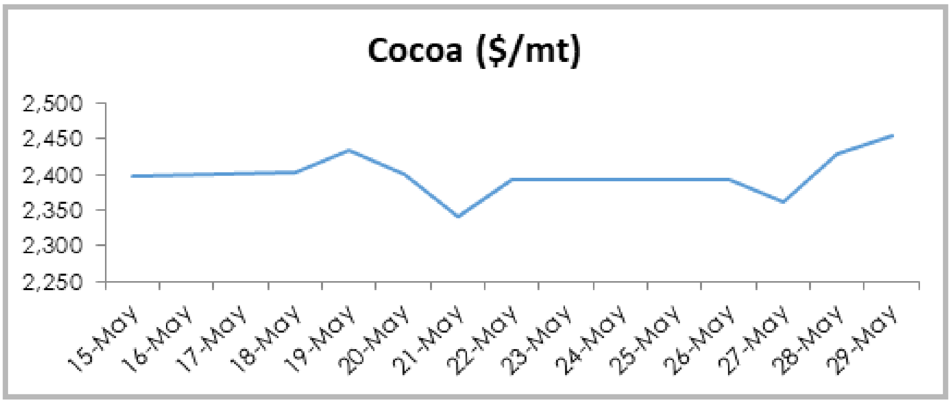
Impact

LNG is a major export for Nigeria that accounts for approximately 13%[34] of the country's export revenue. A decline in the global price of natural gas will negatively affect Nigeria's LNG export earnings.

[32]OPEC, Baker Hughes
[33]Bloomberg
[34]EIU

Cocoa

Average cocoa price increased by 2.30% to close the second half of May at $2,402/mt from $2,348/mt in the second half of April. The increase in price was partly due to reduced output from major producing countries as the covid-19 pandemic impacts on production.



[35]

Outlook

We expect prices to reduce in the coming weeks driven by waning global demand and increased supply as weather conditions improve in Ivory Coast.

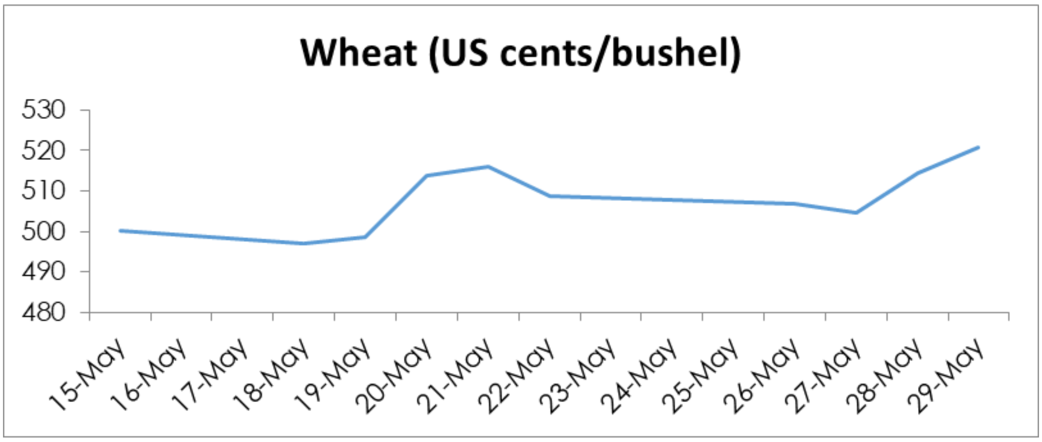
Impact

Cocoa is Nigeria's second largest non-oil export commodity. Thus, a reduction in cocoa prices would result to lower export earnings and revenue for the government.

Commodities Market - Imports

Wheat

During the review period, the average price of wheat was down 4.60% to $508.97/bushel from $533.50/bushel in the second half of April. This was due to increased global supplies amid waning demand.

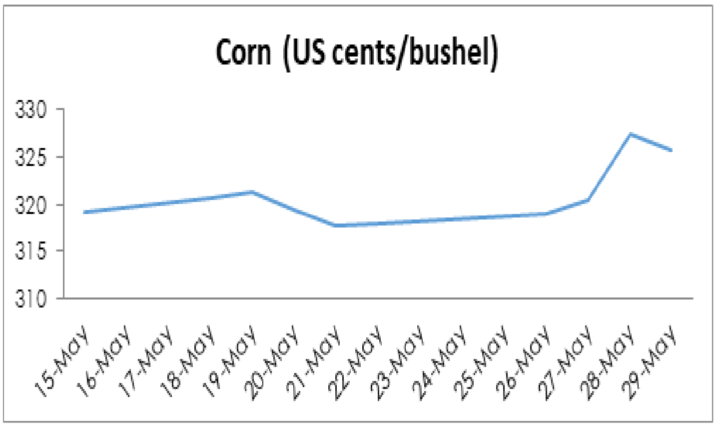


[36]

[35]Bloomberg
[36]Bloomberg

Corn

The price of corn averaged $321.11/bushel between May 15 and 29, up 0.11% from $320.77/bushel in the corresponding period of April. This can be partly attributed to the delay in US crop planting.



[37]

Grains- Outlook

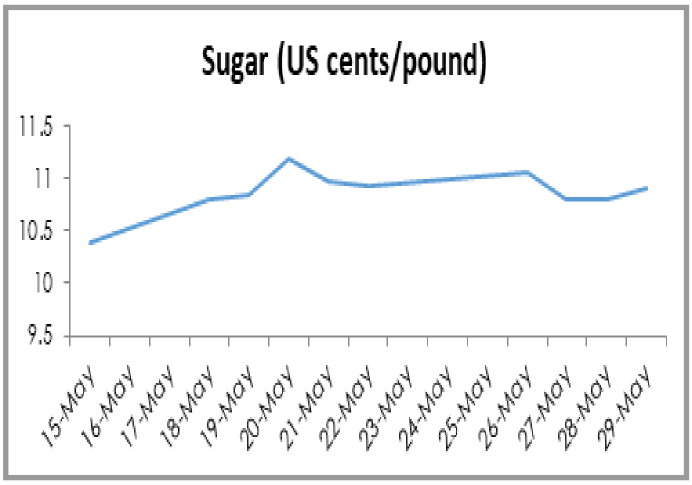
Prices are likely to increase in the short term on the back of supply concerns due to reports of unfavorable weather in Russia and the US.

Impact

Higher grain prices will lead to increased production costs for domestic companies that depend on the importation of grains.

Sugar

In the second half of May, the average price of sugar increased by 9.09% to $10.92/pound from $10.01/pound in the second half of April. This was partly due to high sugar cane price in Asia.



[38]

Outlook

Prices are likely to decrease in the near term owing to dwindling sugar demand.

Impact

A fall in the global price of sugar will result in reduced input costs of sugar-producing companies in Nigeria.

[37]Bloomberg
[38]Bloomberg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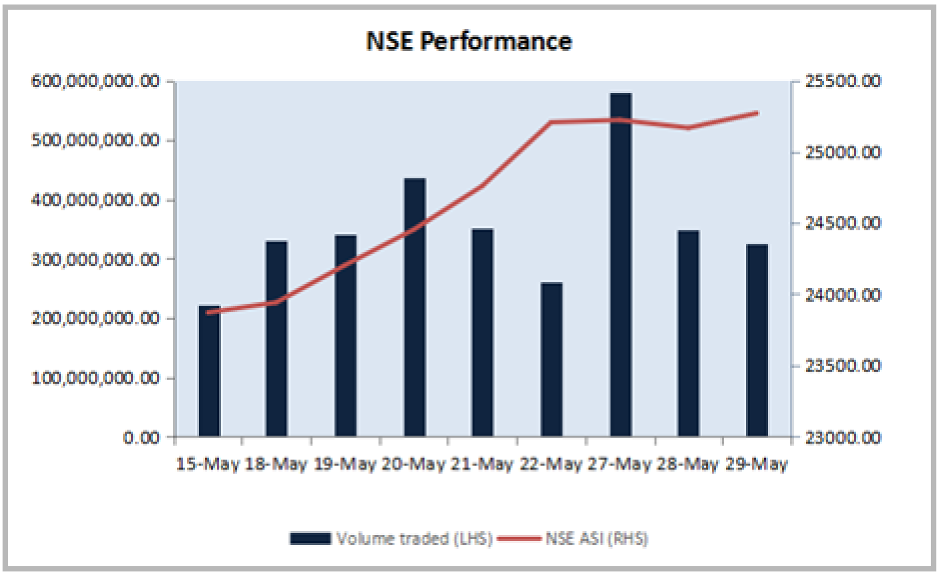
Stock Market Update

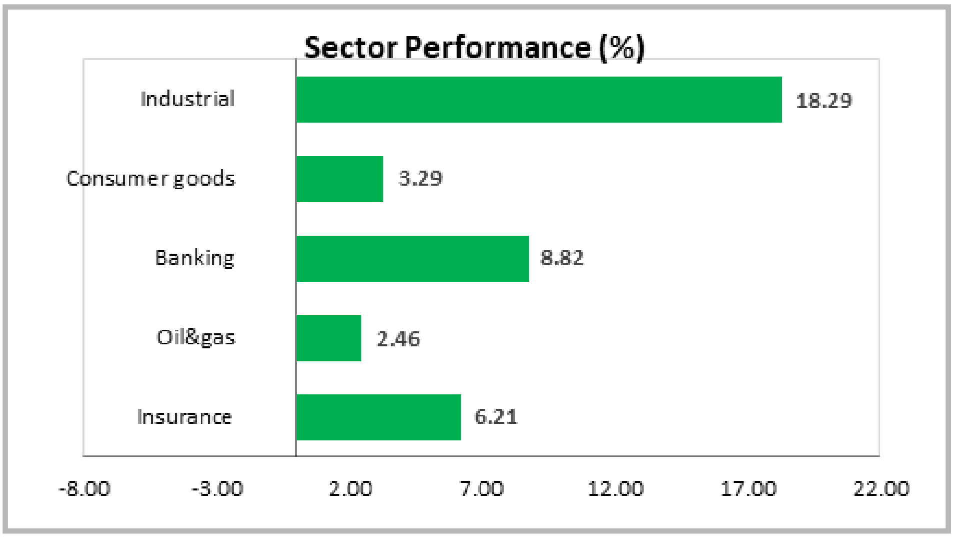
The Nigerian bourse performance was broadly positive in the second half of May. The NSE ASI gained 5.75% to close at 25,267.82 points on May 29th compared to its close of 23,892.92 points on May 14th. In the same vein, market capitalization was up 5.87% (N730bn) to N13.17trn relative to its close of N12.44trn on May 15th. Meanwhile, the market has lost 5.86% YTD so far in 2020. In the 9-trading day period, the market gained in 7 days and lost in 2 days.

The NSE traded at a price to earnings (P/E) ratio of 7.77x as of May 29th, 2.78% higher than the close of May 15th (7.56x). The market breadth was broadly positive at 5.18x as 57 stocks gained, 11 lost while 95 stocks remained unchanged.



[39]

On the other hand, the market saw an increase in activity level. The average volume traded rose by 34.98%% to 354.98mn units. Similarly, the average value of trades increased by 36.27% to N3.87bn in the review period.



[40]

[39]NSE, FDC Think-Tank
[40]NSE, FDC Think-Tank

The sector indices were broadly positive during the review period. The industrial goods sector gained the most (18.29%), followed by the banking sector (8.82%), insurance (6.21%), consumer goods (3.29%) and oil & gas sector (2.46%).

Neimeth International Pharmaceuticals Plc topped the gainers' list with a 56.94% increase in its share price. This was followed by Cutix Plc (37.50%), Unilever Nigeria Plc (33.86%), BUA Cement Plc (32.91%) and UACN Property Development Co Plc (29.50%).

TOP 5 GAINERS

Company	15-May (N)	29-May (N)	Absolute Change	% Change
Neimeth International Pharmaceuticals Plc	0.72	1.13	0.41	56.94
Cutix Plc	1.36	1.87	0.51	37.50
Unilever Nigeria Plc	12.70	17.00	4.30	33.86
BUA Cement Plc	31.60	42.00	10.40	32.91
UACN Property Development Co Plc	6.95	9.00	2.05	29.50

[41]

The laggards were led by Afromedia Nigeria Limited (-16.13%), Ardova Plc (-10.00%), Arbico Plc (9.91%), Royal Exchange Plc (-9.09%) and Lasaco Assurance Plc (-7.41%).

TOP 5 LOSERS

Company	15-May (N)	29-May	Absolute Change	% Change
Afromedia Nigeria Limited	0.31	0.26	0.05	-16.13
Ardova Plc	16.00	14.40	1.60	-10.00
Arbico Plc	2.32	2.09	0.23	-9.91
Royal Exchange Plc	0.22	0.20	0.02	-9.09
Lasaco Assurance Plc	0.27	0.25	0.02	-7.41

[42]

Outlook

Investor sentiment in coming weeks would be influenced by the release of H1 corporate results. We expect investors to take positions in stocks with a robust-dividend payment history.

[41]NSE, FDC Think-Tank
[42]NSE, FDC Think-Tank

Companies corporate earnings released so far in Q1'2020 have been mixed. The building materials sector earnings have been positive so far with the likes of Dangote Cement Plc and Lafarge Africa Plc reporting an increase in their topline earnings between January and March, 2020. Meanwhile, corporate earnings result from the oil sector have been mixed with companies such as MRS Oil Nigeria Plc, Ardova Plc and Mobil Oil Nigeria Plc recording an increase in their revenue but a decline in their profit (PBT and PAT). On the other hand, there was a drop in Total Nigeria Plc's revenue but a rise in its profit. Mixed earnings of the oil sector can be attributed to the impact of covid-19 on the global oil market thereby causing disruption to oil supply and demand.

Outlook

The NSE market is expected to be volatile in the medium term due to the release of mixed corporate earnings for Q1'2020, expectations of an economic contraction in the coming quarters, MPR cut and surging inflation. The CBN lowered its benchmark interest rate by 100bps to 12.5% to minimise the impact of an expected economy contraction in the coming quarters. The inverse relationship between lower interest rates and stock prices will lead to a pickup of the NSE ASI in the near term.

Analyst Recommendation: Buy

Market Capitalization: N61.05bn

Recommendation Period: 365 days

Current Price: N64.0 per share

Industry: Consumer Goods

Target Price: N78.15 per share

Equity Report: Okomu Oil Palm PLC

Analyst note

Okomu oil palm plc, is an integrated agricultural company with oil palm plantations, mills, crushing plants and oil refining plants. Its major sources of revenue are income from sales of palm oil and rubber production, while revenue from services remains insignificant. The company started out as a Federal government pilot project in 1976, before becoming incorporated in 1979 as a limited liability company. It began infrastructural developments by 1989 year-end, when its 5,055 hectares(ha) land was planted. Okomu has grown to become a leading oil palm company in Nigeria with 33,112 ha of total land mass, of which 18,879 ha is currently grown with oil palm trees and 7,335 ha is grown with rubber trees.

Okomu is a subsidiary of the Socfina Group, and benefits from its main shareholders Socfinaf S.A. This is a company based in Luxemburg that brings almost a century of sound technical industry knowledge in the cultivation of oil palm and rubber plantation. In addition, its quality management process over the years, earned the group an international presence in eight countries located in Central and West Africa, as well as two countries in Southeast Asia.

In determining Okomu's intrinsic valuation, we considered both historic and current financial performance, growth prospects, expansion plans, competitive positioning and macroeconomic fundamentals. The company's best year in terms of financial performance still remains 2017. Its operating margin increased by 55% to ₦1.13bn and solvency position improved astronomically from 5.19x to a double digit of 22.97x. However, in 2019, the company recorded a 40% increase in its operating margin despite the 7% decline in revenue, and an 11% increase in its solvency position. We expect the company to record a better performance in 2020. However, the gains may be capped by the adverse effect of COVID-19.

Declining top and bottom-line growth rate

Over the years Okomu oil palm has not only grown in its asset size, but also in its operations, in terms of revenue and profit after tax. However, the company seems to be struggling with maintaining the current growth trajectory. Since 2018, the company's top and bottom-line growth rate have contracted. Even with the addition of a service stream of income to boost revenue in 2018, revenue remained unchanged from 2017. Administrative expenses have been well managed while cost of sales has hovered slightly above 50%. In 2019, cost of sales as a percentage of revenue spiked to 61% from 49% in the previous year, this can be largely attributed to the significant decline in revenue for the period and additional marketing promotions to boost sales. Q3'19 revenue was higher by 86% over Q3'18 as a result of the border closure and additional marketing promotions. However, the revenue increase was not enough to reverse the decline recorded in previous quarters.

Stable free cash flow

Cash they say is king, the company has maintained stable free cash flow over the years. These give investors some confidence in the company's ability to pay its debt, buy back stock, pay dividends and facilitate business growth. Although, the company has historically recorded double digit growth in its FCF with its 2018 value at N2.65bn, there was a 74% decline in FCF in 2019. On one hand, the company, like its other peers made significant investments in the ongoing expansion project of its palm oil plantation and two 30tone/ha oil mills. On the other hand, the company was affected by uncontrollable events relating to the business environment. India (one of the largest importers of crude palm oil (CPO)) increased its import duties on olein and the trade dispute between China and America depressed crude palm oil prices in the international market, which fed into the domestic market. In addition to these challenges, illegal importers of olein in Nigeria, among many other operating challenges affected the company's sales of CPO negatively.

Increased solvency

Five year historical records have shown how Okomu managed to utilize investors' funds. It has been able to pay its interest expense and dividends, which have grown over the years. Since then, the company has managed to maintain positive double digit growth of its solvency ratio. Amidst the severe impact from the downward pressure on prices in the global market in 2019, one would expect Okomu's solvency position to be negatively affected.

However, the border closure which favoured domestic production of commodities, boosted the company's performance and sustained its positive double digit growth on solvency. Furthermore, we estimate a steep decline of 67% to 12.92x (from 38.83x) in the company's solvency position this financial year. Nonetheless, Okomu's solvency growth is expected to increase as soon as economic activities return to normal by 2021.

Okomu Oil Palm PLC

Model period ending				31 Dec 15	31 Dec 16	31 Dec 17	31 Dec 18	31 Dec 19
Pre-forecast Vs forecast				Pre-forecast	Pre-forecast	Pre-forecast	Pre-forecast	Pre-forecast
Financial year ending				2015	2016	2017	2018	2019
Model column counter	Constant	Unit	otal	1	2	3	4	5
Statement Of Comprehensive Income								
Revenue								
Local (palm oil sales and services)		Naira '000'		7,742,484	12,164,748	17,014,400	17,148,945	15,798,765
Export (Rubber)				1,995,531	2,199,988	3,196,297	2,921,459	2,994,917
Services				-	-	51,221	187,265	73,589
Total Revenue Actuals		**Naira '000'**	-	**9,738,015**	**14,364,736**	**20,261,918**	**20,257,669**	**18,867,271**
Other work performed by the entity capitalised				1,448,193	2,293,062	3,752,431	3,446,502	2,552,986
Changes in inventories of FG and WIP				(41,178)	145,543	721,028	185,360	(296,029)
RM and consumables				(1,803,655)	(3,305,572)	(4,841,153)	(4,415,829)	(4,325,299)
External charges				(2,885,254)	(2,658,798)	(3,701,166)	(3,988,470)	(3,784,600)
Employees' expenses				(728,905)	(790,476)	(832,799)	(973,127)	(1,094,367)
Depreciation on PPE				(916,786)	(960,333)	(1,022,701)	(1,178,556)	(1,325,260)
Depreciation and impairment on biological assets				(228,288)	(234,786)	(253,560)	(327,814)	(369,293)
Administrative expenses				(1,490,374)	(2,016,548)	(3,109,342)	(2,929,317)	(3,065,881)
Other income				186,413	114,734	153,530	183,506	194,786
Operating profit (EBIT)		**Naira '000'**		**3,278,181**	**6,951,562**	**11,128,186**	**10,259,924**	**7,354,314**
Finance income - Other foreign exchange gain				43,111	291,273	490,894	353,685	348,889
Gain on disposal of assets				6,534	4,206	5,444	16,170	9,383
Finance cost				(429,181)	(1,340,588)	(484,382)	(292,608)	(189,399)
Profit from continue operations before other comprehensive income				**2,898,645**	**5,906,453**	**11,140,142**	**10,337,171**	**7,523,187**
Companies income tax charge				(239,038)	(996,180)	(1,825,820)	(1,835,322)	(2,473,550)
Deferred tax charge					-	-	-	-
Profit after tax				**2,659,607**	**4,910,273**	**9,314,322**	**8,501,849**	**5,049,637**
shares								
Interim dividend Actuals		Naira '000'		-	-	-	-	1,907,820
Proposed final dividend Actuals		Naira '000'		95,391	1,430,865	2,861,730	2,861,730	1,907,820
Total Dividends Actuals		**Naira '000'**		**95,391**	**1,430,865**	**2,861,730**	**2,861,730**	**3,815,640**

Industry Overview

Nigeria used to be the biggest oil palm producer in 1990 before Indonesia took over in recent years. Currently, it's the fifth largest producer of palm oil, supplying less than 2% (1.45%) of the global production. Crude palm oil (CPO) exports were also one of Nigeria's major exports and forex earner. Domestic demand of CPO is about ₦9.88bn, far in excess of the domestic supply. Hence Nigeria is still a net importer of crude palm oil. The Nigerian palm oil industry has been a major beneficiary of the government's protectionist policy, particularly as it is featured among the list of items banned from accessing foreign exchange from official sources. This is consistent with the government's policy to discourage the importation of products that can be produced locally. Thus, the oil palm industry can provide both unskilled and skilled employment for millions of Nigerians if there is increased focus on commercial large scale production. Most companies in this industry are currently focused on their expansion projects, and have been investing to increase their arable land area and milling facilities over the last three years to meet up with rising domestic demand amidst several business challenges. The major business challenges remain unlevelled playing fields, illegal importation of crude palm oil through Nigeria's porous borders. Others include illegal taxes and tolls, lack of unskilled manpower, insecurity and poor infrastructure in terms of road network, port delays and epileptic power supply. These have resulted into higher operating costs mainly from maintenance costs for generators and vehicles. The most recent challenge, which is also affecting the global market, is the COVID-19 pandemic that has led to supply disruptions and low demand.

The Nigerian Agricultural industry is highly fragmented with several small scale farmers. However the oil palm space is dominated by three main players - Okomu, Presco and PZ Wilmar. The industry is categorized by hectares into: Large estate plantations, medium and small scale plantations and semi natural groves. Both Presco plc and Okomu oil palm plc are classified as large estates plantations, and are the only two companies listed on the Nigerian stock exchange.

The global demand for palm oil has declined sharply due to the halt in global trade. The two largest producers of the commodity, Indonesia and Malaysia, were forced to impose lockdowns as a result of the pandemic. The global oil palm market is expected to remain weak in the short term, possibly into the third quarter of 2020. This is subject to a quick reopening and recovery of economies. A major threat to this forecast is the likelihood of a second wave of infections, which could force economies to shutdown again.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Okomu Oil Palm PLC								
Model period ending				31 Dec 15	31 Dec 16	31 Dec 17	31 Dec 18	31 Dec 19
Pre-forecast Vs forecast				Pre-forecast	Pre-forecast	Pre-forecast	Pre-forecast	Pre-forecast
Financial year ending				2015	2016	2017	2018	2019
Model column counter	Constant	Unit	tal	1	2	3	4	5
Statement Of Financial Position								
Non-current assets								
Property, plant and equipment		Naira '000'		9,848,681	9,217,423	11,216,535	13,392,195	13,922,995
Bearer biological assets				7,395,989	9,399,803	12,898,674	16,017,362	18,201,055
Total Non-current Assets Actuals		**Naira '000'**		**17,244,670**	**18,617,226**	**24,115,209**	**29,409,557**	**32,124,050**
Current assets								
Inventory		Naira '000'		1,490,595	1,719,080	2,687,196	3,148,880	3,734,734
Trade receivables				62,856	121,086	465,222	40,021	57,066
Advance to suppliers							704,292	4,177,038
Other receivables		Naira '000'		296,592	384,643	497,822	538,247	720,378
Cash and bank balances				905,527	3,198,251	512,911	4,129,434	2,684,061
Intercompany receivables				-	467,379	3,093,792	447,522	98,465
Total Current Assets Actuals		**Naira '000'**		**2,755,570**	**5,890,439**	**7,256,943**	**9,008,396**	**11,471,742**
Total Assets		**Naira '000'**		**20,000,240**	**24,507,665**	**31,372,152**	**38,417,953**	**43,595,792**
Equity and liabilities								
Equity								
Share capital		Naira '000'		476,955	476,955	476,955	476,955	476,955
share premium				1,867,096	1,867,096	1,867,096	1,867,096	1,867,096
Revenue reserves		Naira '000'		9,801,309	14,667,990	22,162,839	26,411,611	26,759,026
Non-distributable reserves							(241,508)	77,203
Total Equity		**Naira '000'**		**12,145,360**	**17,012,041**	**24,506,890**	**28,514,154**	**29,180,280**
Non-current liabilities								
Deferred tax liabilities		Naira '000'		1,733,273	1,755,473	1,660,273	1,548,010	1,684,600
Post-employment benefit obligation				352,650	315,965	671,133	1,165,774	935,379
Borrowings		Naira '000'		3,386,168	2,416,252	765,458	2,267,286	8,264,436
				5,472,091	4,487,690	3,096,864	4,981,070	10,884,415
Current liabilities								
Trade payables				888,636	641,148	487,695	1,548,070	1,252,738
Other payables				67,477	114,929	28,349	61,083	51,680
Provision and accruals				483,085	429,810	439,679	319,924	353,619
Borrowings				340,417	372,351	486,047	464,433	709,435
Tax payable				530,201	1,386,231	2,263,163	2,529,219	1,147,570
Dividend payable				63,465	63,465	63,465	-	-
Intercompany payables				9,508	-	-	-	16,055
Total current liabilities Actuals		**Naira '000'**		**2,382,789**	**3,007,934**	**3,768,398**	**4,922,729**	**3,531,097**
Total Liabilities Actuals		**Naira '000'**		**7,854,880**	**7,495,624**	**6,865,262**	**9,903,799**	**14,415,512**
Total Equity and Liabilities Actuals		**Naira '000'**		**20,000,240**	**24,507,665**	**31,372,152**	**38,417,953**	**43,595,792**

Governance Structure

After examining the governance model that birthed Okomu oil plc, we can see that the company has successfully integrated the expertise and industry knowledge of its parent company (Socfin Group) into the domestic environment in which it operates in Nigeria. Knowing that various countries have their peculiar business environment characteristics, Okomu's board of directors has structured its management process such that, the five non-executive directors who are Belgians not only represent the parent company, but also preserve the characteristics of the founding members. Thus, having a Nigerian as an independent (non-executive) director helps it adapt and integrate successfully, which ensures overall strategic intent is clear and easily governed.

In the general business environment, more value is obtained for selling a processed commodity than when sold in its raw state. The management team of Okomu Oil palm plc has created additional value for its investors, by moving from a company that sells just Fresh Fruit Bunch to a company that mills its own crude palm oil over the years. The Managing Director (MD), Dr. G.D. Hefer, a South African, governs and reports the operating activities of the company to the board, alongside Mr. A. Arhaninx who is the CFO of the company.

The board comprises of eleven members; one non-executive chairman (Mr. Gbenga Oyebode), two executive directors, seven non-executive directors and one independent (non-executive) director. It maintains three board committees (Audit, Risk Management and Governance/ Remuneration Committee).

Most of Okomu's directors have long years of service to the company, and also serve concurrently as members of other companies, but not companies that operate similar businesses to Okomu that could possibly create conflict of interest. We also noted that the company is in near compliance to regulatory corporate governance code as established by the Securities and Exchange Commission (SEC). It has some directors who have served for more than the stipulated three terms in office by SEC. The board members are subjected to a formal orientation programme that allows new directors to familiarize themselves. They are also exposed to regular related professional training to update their skills and knowledge as required by SEC's 2011 code of corporate governance.

Chairman

Mr. Gbenga Oyebode MFR

Managing Director MD

Dr. Graham D Hefer

Risk and outlook

We have identified the business operation of this company to be a volume led business model, which is synonymous with businesses of its kind in the consumer goods sector. It is worth noting that prices in the international market greatly define the price direction of the two products the company produces (palm oil and rubber), which can significantly affect the overall performance of the company. Illegal importers of these products will continue to benefit from lower international prices of CPO and a stronger local currency, which would be a potential threat to Okomu oil palm plc. Also, heightened political risk among other risks could dampen demand for the company's product, and the greater the demand the higher the chances of recording more gains for the company.

The Chief Financial Officer resigned after several years of service. This could be as a result of the poor financial performance of the company in the last two years, in terms of declining top and bottom-line. However the sustained positive solvency position is a remarkable effort. The company's 7 to 15 days policy of retrieving cash from its customer (this policy is available to only loyal customers who have been with the company for over two years) and a longer payable period of 39 days will help it recover from the pandemic effect.

Lastly, the company's historical records show that it has been strategizing and executing plans to expand its capacity. It has invested in both oil and rubber mills that can process up to 90% of the crude palm oil. The company also harvests and processes rubber on its plantation, thereby deepening the value chain.

Bulls and Bears say

Bulls Say:

- Leading player in the Nigerian oil palm market
- Diversified revenue stream (addition of service revenue stream and increased investment in the rubber market)
- The growing demand for crude palm oil and its derivative products
- Favorable government policies towards the agricultural sector
- Installation of five mill watts turbine
- Strong market presence
- Multiple entry points and appeal to the market – Okomu oil plays in both the retail and wholesale segment of the Nigerian oil palm market
- Land expansion initiatives to broaden the revenue base

Bears Say:

- Declining commodity prices particularly rubber
- High operating cost (Epileptic power supply)
- High rate of smuggling
- Dilapidated infrastructure
- Intense competition from leading players such as Presco, PZ Wilmar, as well as international players like Olam
- Change in government policies could affect the competitiveness of companies in the agricultural sector, particularly the palm oil sector
- Persistent macroeconomic headwinds could dampen consumer demand for palm oil products

Valuation Summary

Okomu's valuation was derived from using the Discounted Cash Flow (DCF) methodology. We estimated a stock price of ₦78.15, which is a 22.1% upside on the current stock price of ₦64.0 per share as at June 05, 2020. With a discount rate (Weighted Average Cost of Capital (WACC)) of 18.4% derived using a 12.75% risk free rate (FGN 5-year Bond as at 20th May 2020, a Beta of 0.867, after-tax cost of debt of 14.4%, and a market risk premium of 7.9%, long-term cash flow growth rate to perpetuity (2.5%) was derived by multiplying the return on invested capital of 13% by the retention rate of 24%.

Based on the analysis above, and current market happenings, Okomu's current stock price is undervalued, coupled with positive performance prospect in the long run if well managed. Thus, we place a BUY rating on the stock.

DCF Valuation for Okomu Oil Palm Plc			
Naira '000'	2020E	2021E	2022E
EBIT	9,733,525	10,772,718	11,998,870
Less: Taxes	(3,250,027)	(3,531,796)	(3,882,441)
EBIAT	6,483,498	7,240,922	8,116,430
Plus: depreciation expense	1,608,506	1,630,650	1,583,642
Less: CAPEX	(155,544)	(2,108,586)	-
Less: Change in NFO	(273,465)	(265,538)	(348,207)
Free Cash Flow (FCF)	7,662,996	6,497,448	9,351,864
WACC	18.4%	18.4%	18.4%
Present value (PV) of FCF	7,662,996	5,488,475	6,672,921
Terminal value @ perpetual growth rate (2020)	**2020**	**2021**	**2022**
Terminal value as of 2020	-	-	60,349,883
Present value of terminal value	43,062,004		
2020			

DCF Calculation	Valuation
PV of explicit period	19,824,392
PV of terminal value	43,062,004
Enterprise Value	62,886,396
+ Cash	2,684,061
- Borrowings	8,973,871
Equity value	74,544,328
Share Price ₦	**78.15**
Shares outstanding ('000)	953,910.00

WACC	
Debt-to-Total Capitalization	23.5%
Equity-to-Total Capitalization	76.5%
Interest Expense as a % of debt	22.20%
Cost of Debt	22.20%
Effective Tax Rate	35.00%
After-tax Cost of Debt	14.4%
Risk-free Rate	12.75%
Market Risk Premium (Rm-Rf)	7.9%
Beta	0.867
Cost of Equity	19.6%
WACC	18.4%

Infinite growth rate	2.5%
Payout ratio	76%
Retention rate	24%
Return on Invested capital	13%
Total Capital	38,154,151
EBIT	7,354,314

Economic Outlook for the Next Month

Nigeria's real GDP growth is projected to contract by -2.5% in Q2'20 and -1.9% in Q3'20. This implies that the economy will most likely slide into a technical recession in the third quarter of 2020. Recessions are usually accompanied by salary cuts and employee lay-offs. This will filter through to a spike in unemployment to above 30%. The good news however is that the gradual relaxation of the lockdown measures will provide some impetus for the collapsing economy.

Inflationary pressures will heighten as the planting season and partial lockdown measures (interstate movement restriction) disrupt the commodity supply chain . This will be exacerbated by logistics constraints and a weaker currency.

Oil prices are likely to trade within a range of $35pb - $37pb in the coming weeks. However, the price gains could be capped by Nigeria's impending production cuts as the country is more sensitive to oil production than price. This will negatively affect the country's fiscal and external buffers.