

Slowing Economy



25,133 Cases
Covid-19 cases in Nigeria

Quick Response

No Quick Fix



*Presented by Bismarck Rewane
CEO, Financial Derivatives Company Ltd.
July 01, 2020*

Outline

Forecast vs Outcome

Strong Response &
Recovery Path

Proxies, Markets &
Sector Review

Political Update



Highlights in June

Economic Indicators

Slowing Economy &
Perplexed Nigerians

Forecast Vs Outcome



Roll of the dice



5 ✓

2 ✗

The Forecast

- ✓ Recovery stalled by surge in infections as testing increases
- ✓ Oil price will climb back to \$40pb
- ✓ Inflation will spike towards 12.5% in May
- ✓ Naira will trade in the parallel market at N450 - N460/\$



The Outcome

- ✓ COVID cases up by 152.89% in the last month; testing capacity <1% of population
- ✓ Brent crossed the \$42pb level before slipping to \$39pb on higher US inventories
- ✓ Inflation inched up marginally to 12.4% in May from 12.34% in April
- ✓ Naira traded at a tight band of N454-N457/\$

The Forecast

- ✓ Stock market will correct as Q2 earnings followed by guidance feed into the market



- ✓ CBN will commence more sales in the forex market

- ✓ External reserves will decline towards \$34bn

The Outcome

- ✓ Stock market lost 3.04% in June on weak earnings and investor scepticism

- ✓ CBN weekly sales still estimated at \$100-\$300mn

- ✓ External reserves slide to \$33.19bn before IMF disbursement of \$3.4bn

- ✓ Gross reserves = \$36.22bn



June Highlights

Born Again Reformists in Abuja

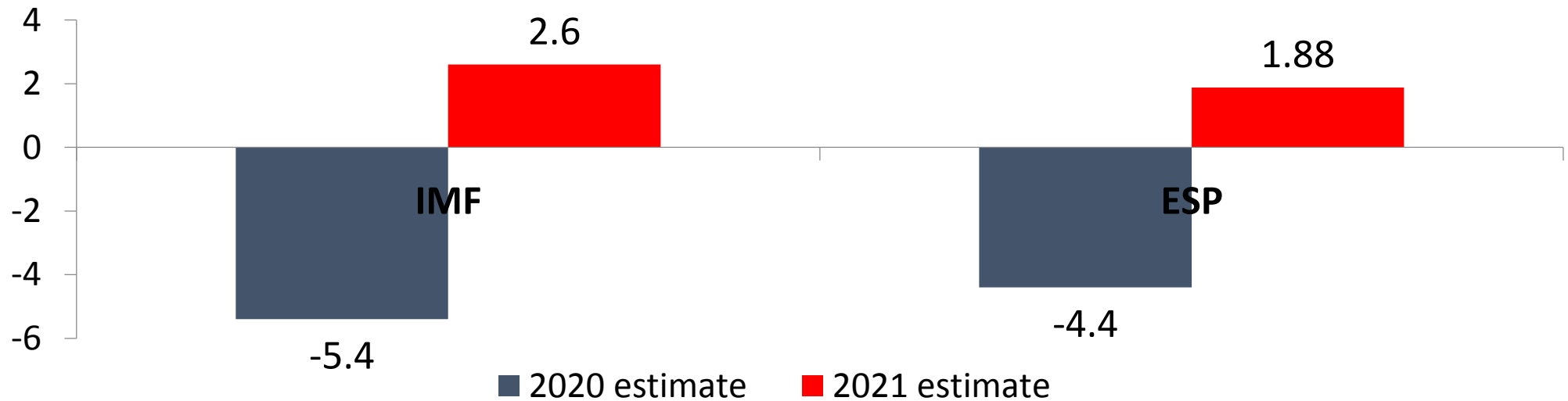
Petrol Price Changes 3 Times in 8 Weeks

- ✓ PMS price adjusted upwards by 18% to N140.8 – N143.8 per litre
- ✓ Average oil price in May was \$32pb while in June was \$41pb (up 28%)
- ✓ There is still some ambiguity about subsidy (under recovery) existence or levels
- ✓ Determination to move towards market reflective pricing seems entrenched



Economy in Recession

- ✓ IMF revises 2020 growth forecast to -5.4% from -3.4% in April
- ✓ Recovery expected in 2021 (2.6%)
- ✓ Q2 growth estimated at -2.5%



PMI Bounces Back to 53.9pts

- ✓ Due to inventory restocking on a very low base
- ✓ Unlikely to affect Q2 GDP numbers
- ✓ Economy still wallowing in GDP contraction and recession



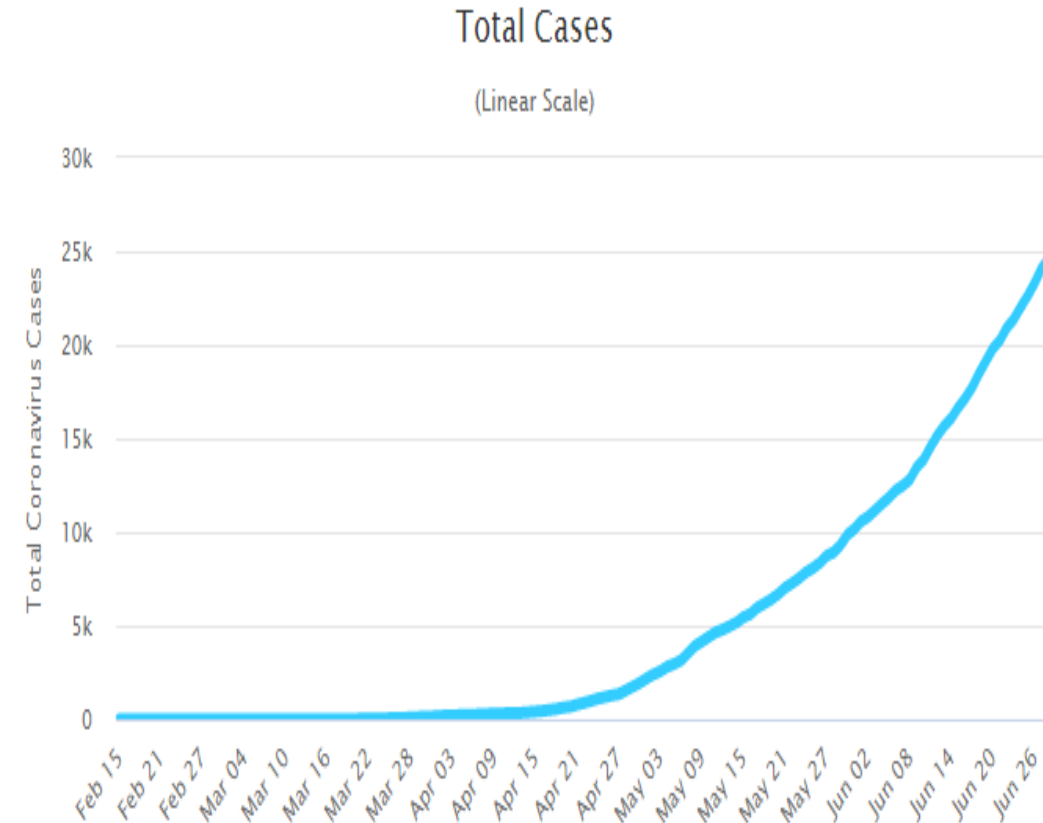
Disposable Income Down

- ✓ Inflation inched up marginally to 12.4% in May from 12.34% in April
- ✓ But set to spike further
- ✓ Food inflation now at 15.04%
- ✓ FAAC for the month of June fell 9.71% to N547.31bn
- ✓ New electricity tariff postponed to 2021
- ✓ Ambiguity around PMS price continues
- ✓ Forex rationing also continues



Infections Soaring

- ✓ Total infections in May = 10,160
- ✓ Total infections in June = 25,694
- ✓ Infections increased by 152.89% in June
- ✓ Infections as a % of population = **0.01%**
- ✓ Fatalities as a % of infected = **2.30%**
- ✓ Infected cases as a % of tested = **18.56%**
- ✓ Testing as a % of total population = **0.07%**
- ✓ Testing capacity remains suboptimal





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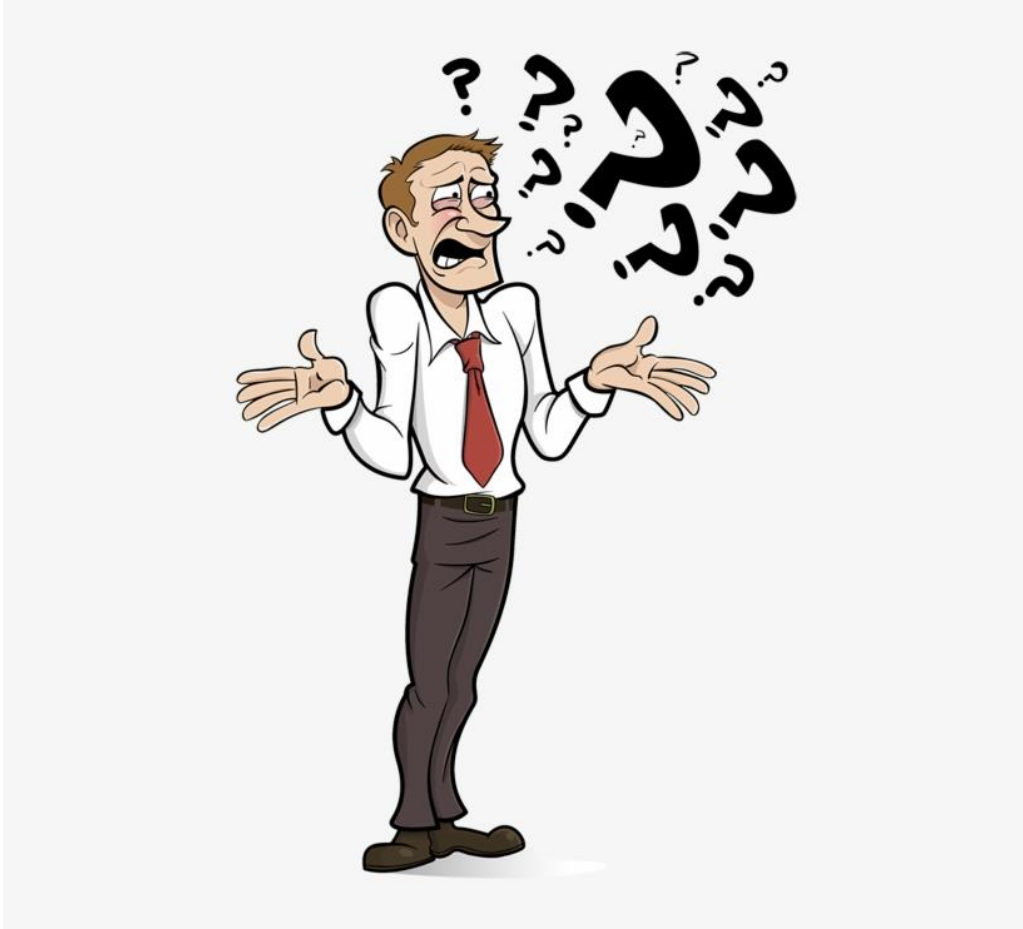
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Who is a Perplexed Man??



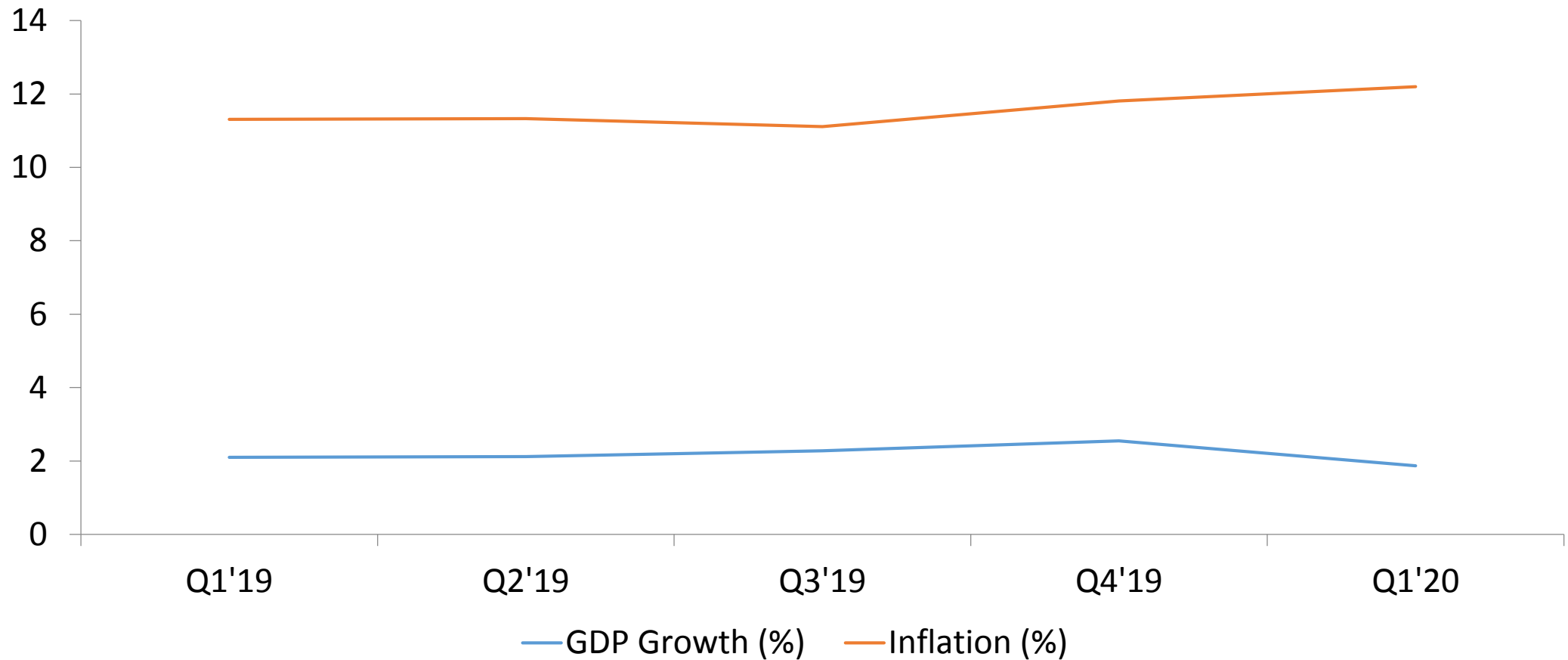
- ✓ Feels baffled
- ✓ Very puzzled
- ✓ Confused
- ✓ Dumbfounded

Why

- ✓ Full of uncertainty
- ✓ No idea of what is coming next

A Slowing Economy

2019/2020 GDP Growth



Source: NBS

A Slowing Economy

- ✓ Negative GDP growth due to exogenous variables
- ✓ Pandemic healthcare crisis
- ✓ Falling oil prices & fiscal strokes
- ✓ Security challenges
- ✓ Unemployment
- ✓ Rising inflation

Perplexed But No Denial

Denial



Acceptance



Adjustment



Outcome



Perplexed Nigerians

Categories

Concerns

Investors

- ✓ Stock market has lost 17.34% in 52 weeks
- ✓ Crushed by Ponzi schemes
- ✓ 35% of properties are vacant in Ikoyi, VI and Garki

Traders

- ✓ Cannot go to Dubai, Shanghai or Mumbai
- ✓ Inventory build up with expiring date nearing
- ✓ Borders are closed
- ✓ Naira/dollar rate volatile

Travellers

- ✓ Closed embassies and expired visas
- ✓ When will they reopen?
- ✓ New airport tax of \$100 per trip
- ✓ Quarantine policy at destination
- ✓ I'd rather do a Zoom meeting
- ✓ Can catch COVID on board

Perplexed Nigerians

Categories

Concerns

Students

- ✓ When will schools reopen?
- ✓ Physical or online?
- ✓ How do I get there?
- ✓ Will I get a refund for online classes?

Medical tourism

- ✓ Expensive and could be infected on board
- ✓ Hospitals are congested at destination
- ✓ Medical visas are difficult to obtain



Global Developments

Global Developments

- ✓ Retail sales surged in the US in May by 17.7%
- ✓ Higher than expected and great news for investors
- ✓ April retail sales- 14.7%
- ✓ Biggest IPO in 2020, Royalty Pharma, raised \$2.2bn
- ✓ Royal Dutch Shell to take a \$22bn hit from falling oil prices
- ✓ IEA expects demand for oil to increase by 5.7mbpd in 2021
- ✓ BOE ,Andy Bailey, says bond buying program will not become a permanent feature
- ✓ Recent QE program is \$125bn

Winners in a Crisis

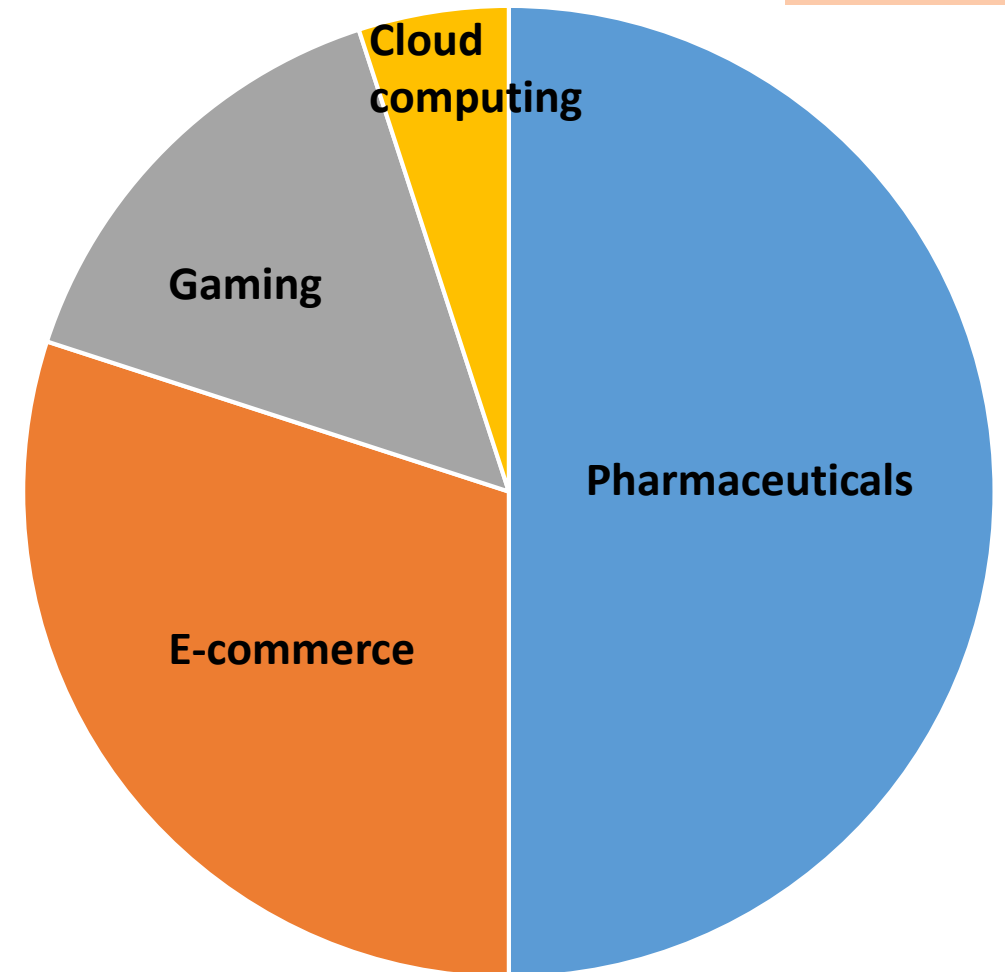
FT

✓ The winners in a pandemic setting:

✓ Pharmaceutical groups – *hunt for COVID vaccine*

✓ Technology giants – *boosted by working from home trend*

✓ Retailers – *offering lockdown necessities online*



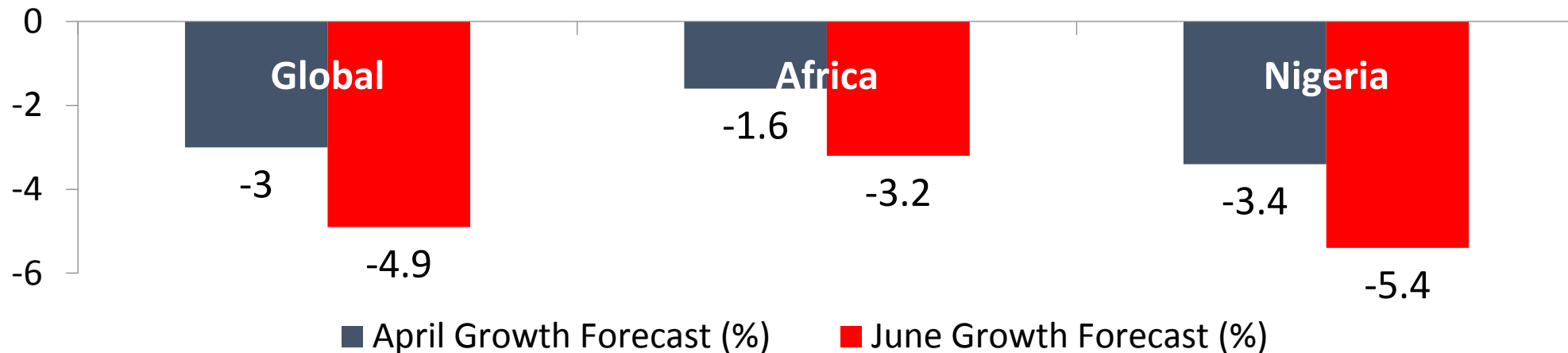
COVID-19 Infections Rise but the Worst is Yet to Come

- ✓ US records resurging cases in Texas, Florida
- ✓ Wiping out two months of progress
- ✓ China also continues to report new infection cases despite earlier slowdown
- ✓ Beijing has re-imposed lockdown measures
- ✓ Impact of another lockdown on global economy will be more severe than the first
- ✓ More jobs lost, sharply lower revenue

	Infections	As a % of population	Fatalities as a % of infections
Global	10,450,628	0.13	4.89
US	2,679,961	0.82	4.80
Africa	383,747	0.03	2.53
Nigeria	25,694	0.01	2.30

Pandemic Fall Out

- ✓ The IMF revises its forecast to reflect a deeper than expected global downturn
- ✓ Recovery will be uneven across regions
- ✓ Emerging markets to be the worst hit



Source: IMF

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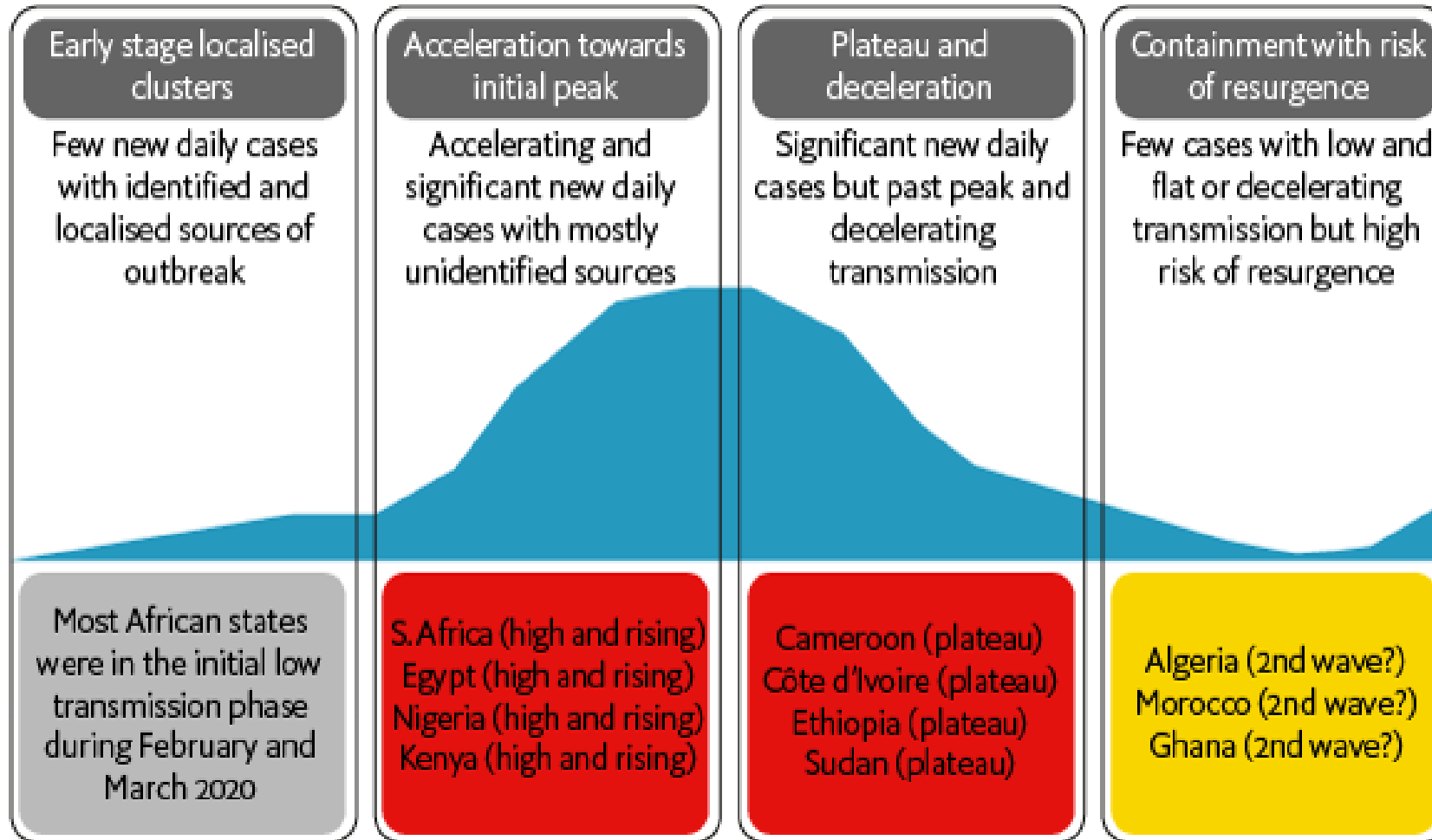
Cement | Sugar | Salt | Rice | Oil & Gas | Fertilizer | Petrochemicals | Automotive | Polysacks | Logistics | Real Estate | Maritime | Mining | Energy | Infrastructure



*Sub-Saharan
Africa*

Health Crisis in Africa

Africa: stage of pandemic



Caught between a rock & a hard place

Health Crisis in Africa

- ✓ Africa to be hard hit by economic setback
- ✓ Degree of contraction to vary across the region
- ✓ Policy uncertainty stoking investor anxiety
- ✓ Governments scrambling to put a lid on surging COVID cases
- ✓ And setting the foundation for economic recovery by 2021

Debt - Relief or Trap??

- ✓ Pandemic has crippled economic activities and necessitated a cry for debt relief
- ✓ Africa's biggest lender is China (>\$150bn)
- ✓ China is only willing to exempt some countries from repaying zero-interest loans
- ✓ Preferential loans from Exim-bank not included

SSA - Unresolved Issues Threatening Regional Integration

Issues	Status	Impact
Border closure	Work in progress: <i>ECOWAS leaders recommending gradual reopening of borders in July</i>	<ul style="list-style-type: none">• Reopening of borders makes AfCFTA more feasible• Positive for African unity
Airport closure	Work in progress: <i>Simulation conducted in Nigerian airports</i>	<ul style="list-style-type: none">• Many carriers are stuttering (KQ, SAA, ET)• Aviation infrastructure is vital for trade and investment flows
ECO currency launch	Work in progress: <i>Nigeria feeling side-lined in negotiation process</i>	<ul style="list-style-type: none">• Threatens diplomatic relationship

SSA Countries in a Fiscal Crisis

- ✓ Budget deficits are projected to increase 11% of GDP across the continent
- ✓ Despite debt forgiveness and other relief packages (moratorium)
- ✓ Belt tightening measures will be required to plug widening fiscal gaps
- ✓ Tax hikes
- ✓ Cut spending (highly contentious)
- ✓ Rising debt stock still a major issue: average debt to GDP of African countries over 40%
- ✓ Cost of servicing debt to be excruciating when interest rates start to increase

Domestic Economic Performance



Leading Economic Indicators - Output

LEI	May'20	June' 20*	% Change	Comments	July' 20*
GDP Growth (%)	-2.50* (Q2'20)	-1.90 (Q3'20)	-4.40	Economic contraction consistent with SSA and global trends	-1.90 (Q3'20)
Inflation (%)	12.40	13.00	0.06	Driven by supply chain disruptions, planting season and higher logistics cost	13.20 (Jul'20)
Oil Production (mbpd)	1.59	1.40	-12.00	Nigeria to pay for non-compliance to OPEC quota	1.40
Oil Price (\$pb; avg)	32.41	40.79	25.86	Recovery in oil prices following consistent output cuts	41-43



Source: CBN, NBS, EIU, OPEC, FBNQuest
*: FDC's forecast

Leading Economic Indicators - Markets



LEI	May'20	June' 20	% Change	Comments	July' 20*
Primary T-Bills (%): 91-days	1.34	2.00	0.66	T/bill rates to remain low on high liquidity in the system	2.40
Average Opening Position (N'bn)	370.02	251.70	-31.98	CRR debits pushing short-term interbank rates up	400-450
External Reserves (\$bn; month-end)	36.59	36.22	-1.01	Fall in reserves to continue as CBN intervenes to support the naira	38-39
Exchange Rate (N/\$; month-end): Parallel	460	460	-	Exchange rate unification – a move in the right direction to attract investment flows	450 - 460
Stock Market Cap (N'trn)	13.17	12.77	-3.04	Market trades bearish on weak sentiments	14

Summary: 7 Negative, 1 positive, 1 neutral

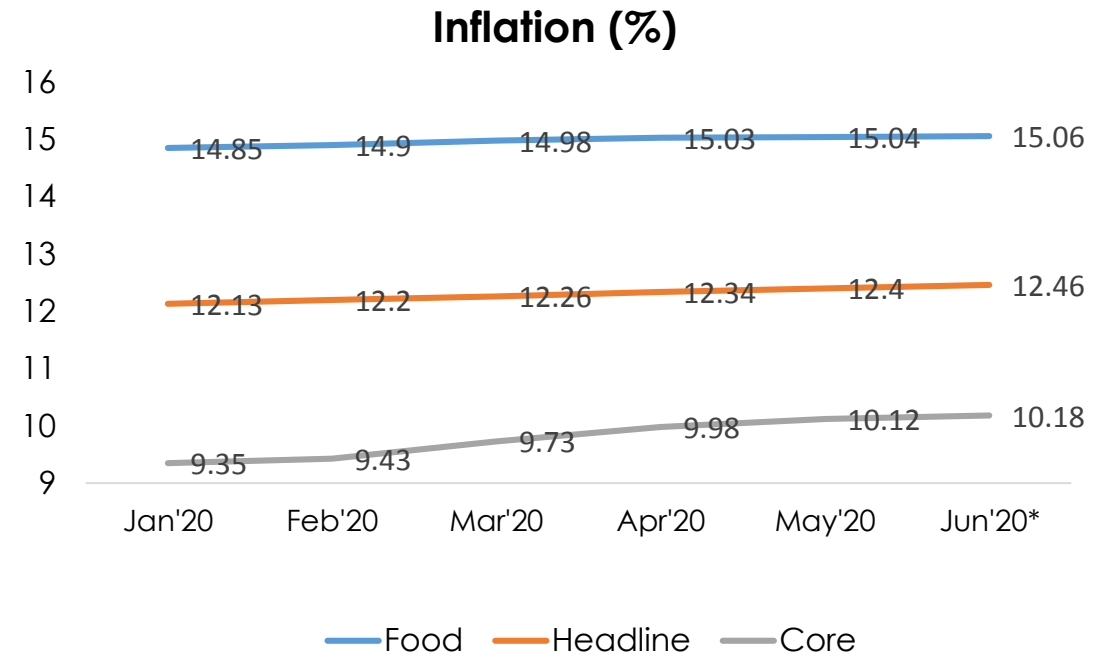
Source: CBN, NBS, NSE, FMDQ, EIU, *: FDC's forecast

Data Points Worth Noting

- ✓ GDP in Q1 down but not out
- ✓ Poverty map reveals income and opportunity inequality now pervasive
- ✓ Money supply growth shows underlying threat of high powered money on price inflation
- ✓ Inflation increases at much slower pace than anticipated
- ✓ Naira trading at artificially low levels
- ✓ External reserves buoyed by IMF loan
- ✓ The buffers are far lower than the picture being painted

Inflation = Taxation Without Legislation - Milton Friedman

- ✓ Headline inflation set to climb to 13%
- ✓ Driven by
 - ✓ Supply chain disruptions
 - ✓ Higher logistics cost
 - ✓ Exchange rate pass through
 - ✓ Planting season
- ✓ Would drive down disposable income of the already cash-strapped consumer
- ✓ Domestic demand likely to drop by 22% (\$369.4bn)



Source: NBS, FDC Think Tank



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Market Proxies

No Wishful Thinking

Business Proxies - showing a limping economy

Source: FBNQuest, Baker Hughes, FDC Think Tank



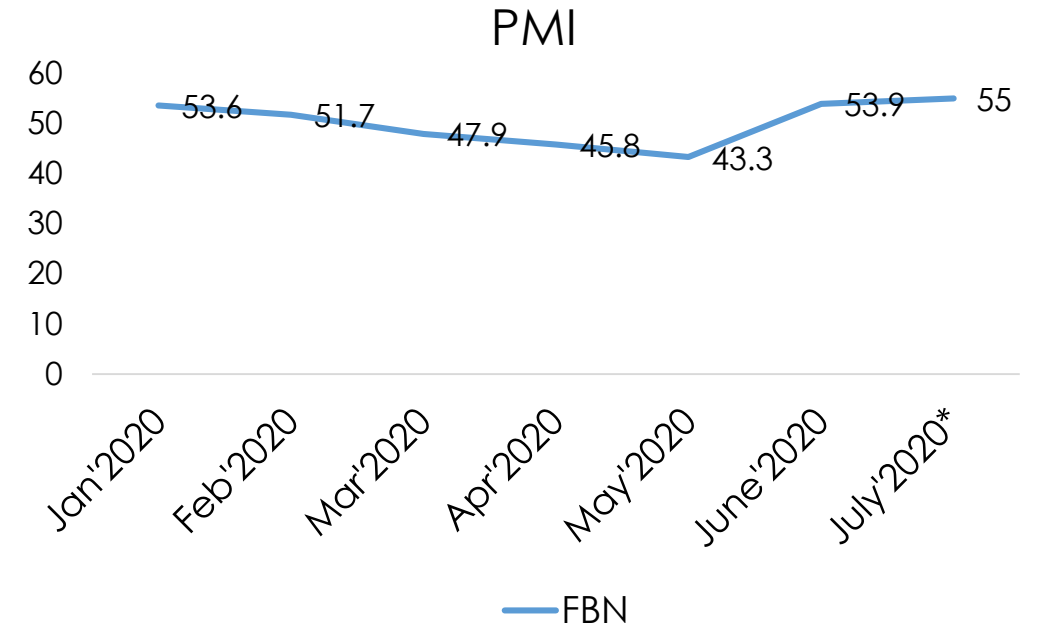
	May	June	Jul'20*	Comments
FBN PMI (end)	43.3	53.9	55	More business opened due to the relaxation of the lockdown
Oil Rig Count	16 (Apr'20)	8	8	Could drop further as Nigeria cuts back on oil production
Ships Awaiting Berth (Lagos Port)	31	24	25	Sub-optimal cargo clearing, COVID-19 still causing vessel delays
Vacancy Factor	24 (Q1'20)	24 (Q1'20)	30	To widen as consumer disposable income shrinks
Avg Power (MWH/h)	4,147	3,733	3,500	Power output below 4,000MWH/h

Validating the slowdown & negative growth

FBN PMI surged 24.5% in June

Source: FBNQuest, FDC Think Tank

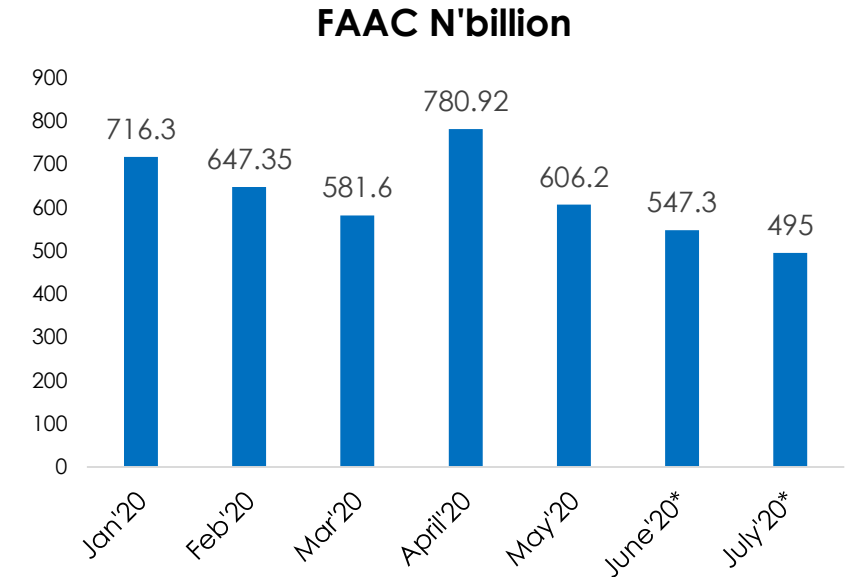
- ✓ Manufacturing PMI jumped to 53.9 points from 43.3 points in May
 - ✓ Back in the expansion territory
- ✓ All five sub-indices increased
 - ✓ Increased output - partial easing of the lockdown supported inventory restocking
 - ✓ Employment up marginally – business environment still hazy for fresh employment



- PMI could rise to 55 points in July on free interstate movement
- More businesses to open – will increase level of economic activities

FAAC Shared to fall to N495bn

- ✓ FAAC down 9.7% to N547.3bn
- ✓ On lower oil revenues in May
- ✓ Despite exchange rate gains
- ✓ Disbursements to fall below N500bn in July/August



Ships Awaiting Berth



Sea port	Number of vessels awaiting berth
Lagos – Apapa	10
Lagos - Tincan	14
Calabar	4
Rivers	6

E-payments

Source :NIBBS

	Value (N'bn)	Change in Value (%; m-o-m)	Change in Volume (%; m-o-m)
Cheques	178.12	↑ 1629.32	↑ 1739.97
POS	358.10	↑ 31.63	↑ 18.38
NIP	10,405.85	↑ 48.44	↑ 31.80
NEFT	912.29	↑ 11.02	↓ 3.79



- ✓ Cheque transactions surged post-lockdown
- ✓ Volume and value of transactions increased in May compared to April – except NEFT volume
- ✓ Velocity of money in circulation = 5x
- ✓ Covid pandemic to spur increase in demand for clean bank notes - De La Rue
- ✓ Online payments and transactions will continue to rise in the near term
 - ✓ As more customers and banks acquaint with the new normal for bank operations

E-payments - State by State Analysis

States with the highest value of cheque transactions

State	Value (N'bn)	Poverty Headcount (%)	Inflation (%)	IGR (N'bn)	Unemployment (%)	COVID Cases
Lagos	106.27	4.50	11.98	398.73	14.6	10,144
Abuja	15.97	38.66	11.70	74.56	24.4	1,792
Oyo	6.27	9.83	12.40	26.75	10.3	1,306
Ogun	5.92	9.32	11.95	70.92	16.4	782
Rivers	5.25	23.91	14.69	140.40	36.4	1,056

States with the lowest value of cheque transactions

State	Value (N'mn)	Poverty Headcount (%)	Inflation (%)	IGR (N'bn)	Unemployment (%)	COVID Cases
Gombe	206.28	62.31	12.06	6.80	27.0	492
Taraba	186.45	87.82	13.32	6.53	19.0	19
Zamfara	118.87	73.98	12.67	15.42	18.0	76
Yobe	62.32	72.34	13.18	8.4	29.0	59
Jigawa	39.37	87.02	12.12	12.93	26.5	317

E-payments - State by State Analysis

States with the highest value of cheque transactions

- 3 of 5 are in the south-west region
- Average inflation rate is 12.54%
- Lagos & Rivers have the highest IGR
- Lagos has the highest COVID cases, lowest unemployment & poverty rate

States with the lowest value of cheque transactions

- All 5 are in the Northern region
- Average inflation rate is 12.67% (- 0.13% higher than that of the top 5)
- Cumulative IGR (N50.08bn) is 29% lower than that of Ogun state
- All states have infected cases below 500 and high poverty rates

Source :NIBBS

E-payments Vs Economic indicators



E-payments vs Inflation

- There is an inverse correlation between velocity of circulation and inflation rate
- States with the highest volume of transactions – Lagos & Abuja- have lower inflation rates compared to the bottom 5

E-payments vs Poverty

- The higher the value of money transactions the richer the state
- An indicator of transactions
- Trading is 15% of GDPS
- Reflective of high business activities and job creation

E-payments vs Unemployment

- Level of unemployment is mixed across states. E.g Rivers with high unemployment rate despite high volume of money transactions
- Emphasis on unemployment as a function of available job opportunities
- Data reflects high rural-urban migration to states like Lagos, Abuja & Rivers



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Power Sector - Average Output Below 4,000MWH/hr

 **5173MW**
Peak Energy
Generated

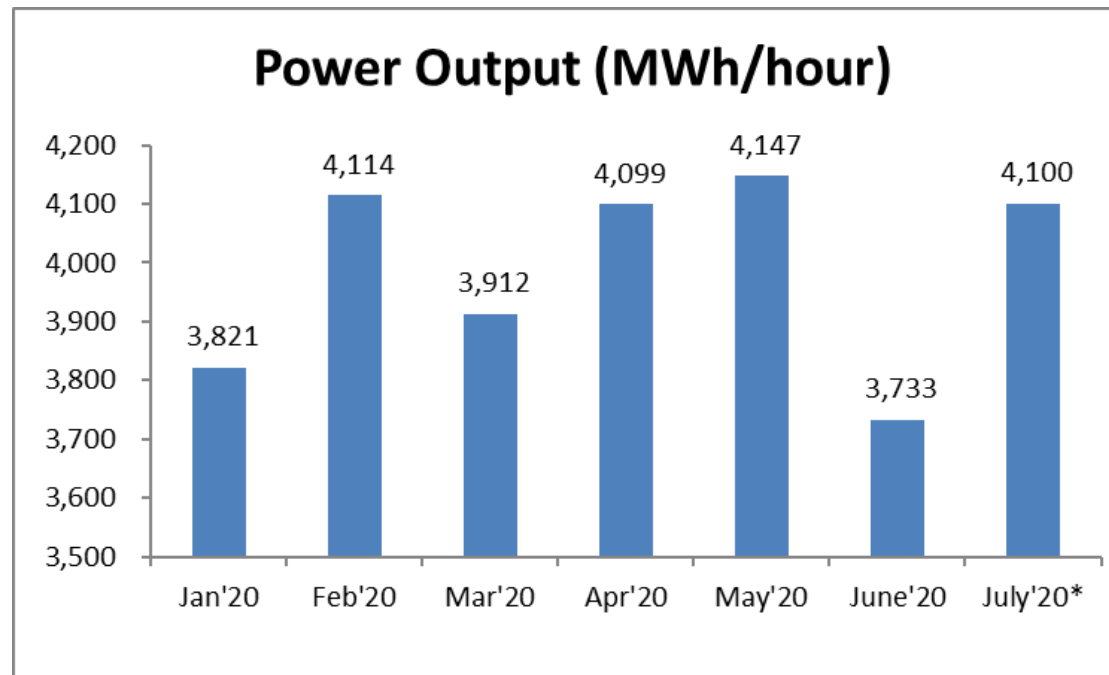
 **3733MWH/H**
Average Energy
Generated

 **No Data**
Average Gas
Delivered to Plants

0
Total Grid
Collapses

 **4305MW**
Average
constrained
energy

✓ Power output below 4,000MWH/h in 3 out of 6 months



Source :Lavayo

Power Sector News



- ✓ Tariff hike: postponed till Q1 '2021
- ✓ World Bank approves N291 bn to improve electricity in Nigeria
- ✓ Nigeria loses \$28bn annually to power shortages — World Bank
- ✓ FG to review customs duty on electricity meters
- ✓ IMF advocates \$49bn investment in Nigeria's power sector by 2030
- ✓ Discos seek FG's intervention on gas pricing for power generation

Exchange Rate Economics

policy

A hand holding a red marker is shown circling the word "policy" which is written in a large, black, handwritten font. The word is centered in the middle of the frame.

Why the Naira will not Crash

Currency Value Determinants

1. Terms of trade (ToT) =

$\frac{\text{Change in price of exports}}{\text{Change in price of imports}}$

✓ ToT has declined from 33 to 31 in 2020 (-6%)

✓ A 30% drop in the prices of key exports

Key exports

Oil = \$38.13pb (-40.4%)

LNG = \$5.68/mmBtu (-46.26%)

Cocoa = \$2,288/tonne (-2.26%)

Key imports

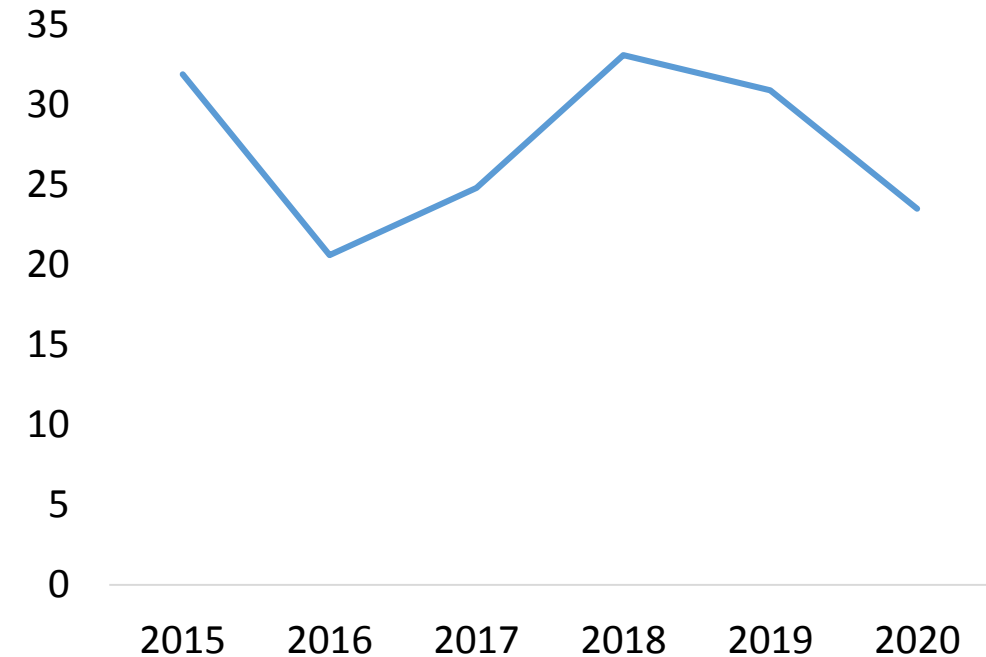
Sugar = \$11.98/lb (-5.1%)

Wheat = \$231/tonne (+5.2%)

Rice = \$491/tonne (+22.1%)

Source: EIU

Terms of trade



Currency Value Determinants

- 2. Balance of trade** estimated to fall from \$2.9bn to -\$1.4bn
- 3. Inflation/interest rate differential** is negative at -10.6%
- 4. Net external reserves import cover** = 6.5months (anything above 6 months is okay)
- 5. The PPP value** of the naira is N400.8/\$

PPP Value of the Naira

Purchasing Power Parity			
	Jul-20		
	=N=	US \$	PPP ('=N=/US\$)
Bottle of Pepsi (50cl)	100	2.65	37.74
Beer (60cl)	260	2.91	89.35
Hamburger (Johnny Rock)	3,800	4.59	827.89
Indomie	2,300	3.65	630.14
Toyota Corolla	25,000,000	21,980	1137.40
Bottled Water (150cl)	120	1.31	91.60
Big Loaf Bread	450	2.39	188.28
Irish Spring Soap (1 cake)	300	0.86	348.84
Chicken Drumsticks (1 ki)	1,800	4.15	433.73
Eggs (Big Size)	1,000	4.47	223.71
Average PPP			400.87
Naira Price at IEFX			386.50
PPP (%)			
Decision: Naira is		overvalued	3.72%
Spot Rate (Parallel)			460
Outcome: Compared to IFEX rate of N386.50/\$1, the Naira is overvalued by 3.72%			

Currency Overvaluation of 3.72%

Assumptions

✓ Today, there are 4 rates:

✓ **Official** = N360/\$

✓ **I&E** = N390 – N395/\$

✓ **Parallel** = N465/\$

✓ **NDFs**: 90-day = N406/\$

180-day = N424/\$

Multiple Exchange Rates

✓ Unification means a 9.72% (N35) depreciation from N360/\$ to N395/\$

✓ Assuming total imports of \$38.5bn in 2020 (EIU)

✓ The naira liquidity mop up this year = N1.347trillion (4.78% of Money supply)

Assumptions

- ✓ Terms of trade decline of 6%
- ✓ External reserves cover after discounting \$5bn backlog and \$6bn swaps gives a 6.5months cover
- ✓ A money supply mop up of 4.78%
- ✓ Exchange rate liquidity mop up of 9.72%
- ✓ There is a possibility that the REER could be anywhere between N400-N420/\$

Hypothesis

✓ Unification depreciation = 9.72%

✓ Liquidity mop up = 4.78%

14.5%



✓ A 14.5% reduction in naira liquidity chasing the dollars will lead to a parallel market appreciation of 14.5% from N365/\$ to **N397.6/\$**

✓ A convergence of rates and equilibrium will be at N400 – N420/\$

✓ In 2018/19, the I&E rate average was N360/\$ and the parallel market was at N364 – N365/\$. The premium was 1%

✓ This analysis does not factor in the fear, uncertainty and speculation premium

Conclusion

- ✓ An overvaluation of approx. 15% exists between the official rate of N360/\$ and the REER of N400 – N420/\$
- ✓ An initial adjustment of 10% of the official rate will trigger a cobweb movement towards an equilibrium around N400 – N405/\$
- ✓ The NDF market is pricing in uncertainty and policy ambiguity at N424/\$ (180-day) and N461/\$ (1-year)
- ✓ The parallel market will not depreciate correspondingly with the exchange rate unification
- ✓ Because Naira liquidity will be short by 4.78% of broad money

Conclusion

- ✓ The fear of a runaway devaluation (Lebanon, Zimbabwe) with a pass through domestic galloping inflation outcome is widely exaggerated
- ✓ The tradeoff of a domestic currency priced at equilibrium far outweighs an unsustainable subsidy of the exchange rate

ESP

- ✓ Quick response but no quick fix
- ✓ N2.5trn stimulus 1.61% of GDP
- ✓ 25% of 2020 annual budget
- ✓ 12 month duration
- ✓ Good effort
- ✓ Dependent mainly on 2 pillars
 - ✓ Government expenditure + aggregate consumption
- ✓ No emphasis on investment
 - ✓ Now 15% of GDP
 - ✓ Optimum level 25% of GDP

- ✓ Raised \$3.4bn, \$1.5bn, + \$1bn from multilaterals
- ✓ Borrowed additional N850bn (domestic)
- ✓ CBN intervention to SME's reduced interest rates from 9% pa to 5% pa



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Stock Market Review

Nigerian Stock Market in June

✓ Market cap  3.04% to N13.17 trillion




✓ NSE ASI  3.12% to 24,479.16

✓ 8 days positive, 12 days negative

✓ P/E  4.2% to 8.13x

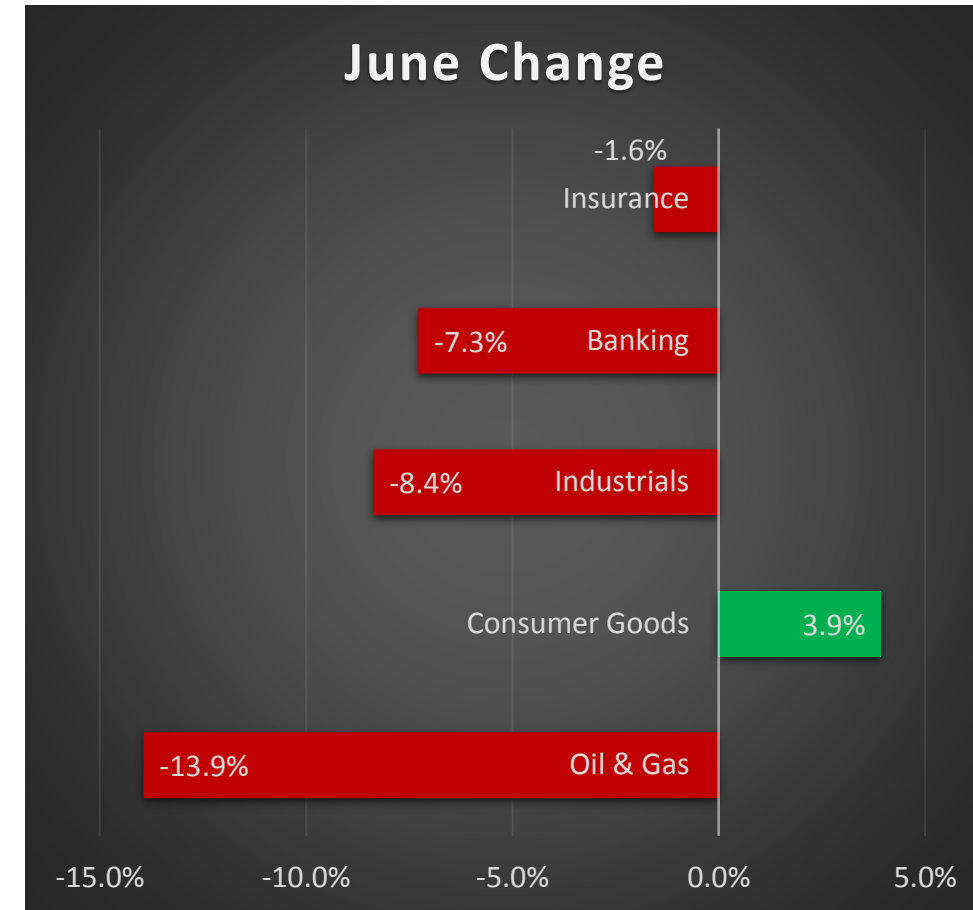


Peer Comparison

Exchange	YTD Return	Driver
NSE ASI	 3.12%	<ul style="list-style-type: none"> • Profit taking • Exit of FPIs due to weak economic fundamentals
JSE ASI	 7.25%	<ul style="list-style-type: none"> • Strengthening currency • Optimism around reopening of the economy • Gains in gold prices
GSE	 3.82%	<ul style="list-style-type: none"> • Negative sentiment driven by lingering banking concerns • Concerns about political risk • Restriction on dividend payment

Sub-Index Performance in June

- ✓ All sub-indices closed in the red except consumer goods
 - ✓ Due to profit taking after the previous month's rally
- ✓ Gains in consumer goods driven by
 - ✓ Gains in Nestle – 25.6%
- ✓ Oil & gas recorded the worst performance



Corporate Actions

- ✓ NSE upgrades data portal to further improve access to the market
 - ✓ To provide more efficient, user-friendly experience for subscribers
- ✓ Listing of Dangote Cement PLC bond
- ✓ AllCO Insurance PLC proposed rights issue
- ✓ NSE CEO meets CEOs of global securities exchanges to discuss capital markets in pandemic
- ✓ Seplat reveals new shareholder with over 5% equity
- ✓ MSCI announces monitoring of accessibility of the Nigerian, Lebanese and Bangladeshi equity markets



Outlook for July

- ✓ Likely negative market performance due to
 - ✓ Low turnover - indicating weak market sentiment
 - ✓ Indicative of lack of buy interest from institutional investors
 - ✓ Indicative of holding strategy by retail investors as they may not be willing to commit more money to the equity market
 - ✓ Bearish sentiment to persist
 - ✓ Investors not responsive to new policies
 - ✓ Proven track record of policy execution challenges
 - ✓ Expected underwhelming Q2'20 results



Corporate Earnings

Banking Industry- Q1'2020 Unaudited Result

	ZENITH	ACCESS	GTB
Gross Earnings	↑ 6% to N166.8bn	↑ 31% to N209.8bn	↑ 2.3% to N113bn
Interest Income	↓ 6.9% to N114bn	↑ 19% to N131.75bn	↑ 3.45% to N77.04bn
Profit After Tax	↑ 0.5% to N50.5bn	↓ 1% to N40.9bn	↑ 1.4% to N50bn
Impairment	↑ 97.5% to N24bn	↑ 154 % to N8.58bn	↑ 87.7 % to N1.2bn
EPS	N1.61	N1.21	N1.77
Dividend Yield	18.18%	10.16%	12.76%
P/E ratio	2.31	2.24	3.14
YTD change	↓ 4.3%	↓ 23.5%	↓ 16.0%

- ✓ Weak bottom line growth
- ✓ Likely increase in impairment
 - ✓ Increase in NPLs due to high sensitivity to devaluation
 - ✓ Impact of COVID-19 on the general economy

Unity Bank Q1'20 - NEW LOOK, NEW ATTITUDE

Operating a leaner & smarter balance sheet ●

Gross revenue up 18% to N11.8bn in Q1'20 ●

Operating expense declined by 5.5% despite inflation at 12.3% ●

Current optimization measures will deepen successes ●



● Cleaned up toxic legacy loan portfolios

● **NPLs at 0.9%**

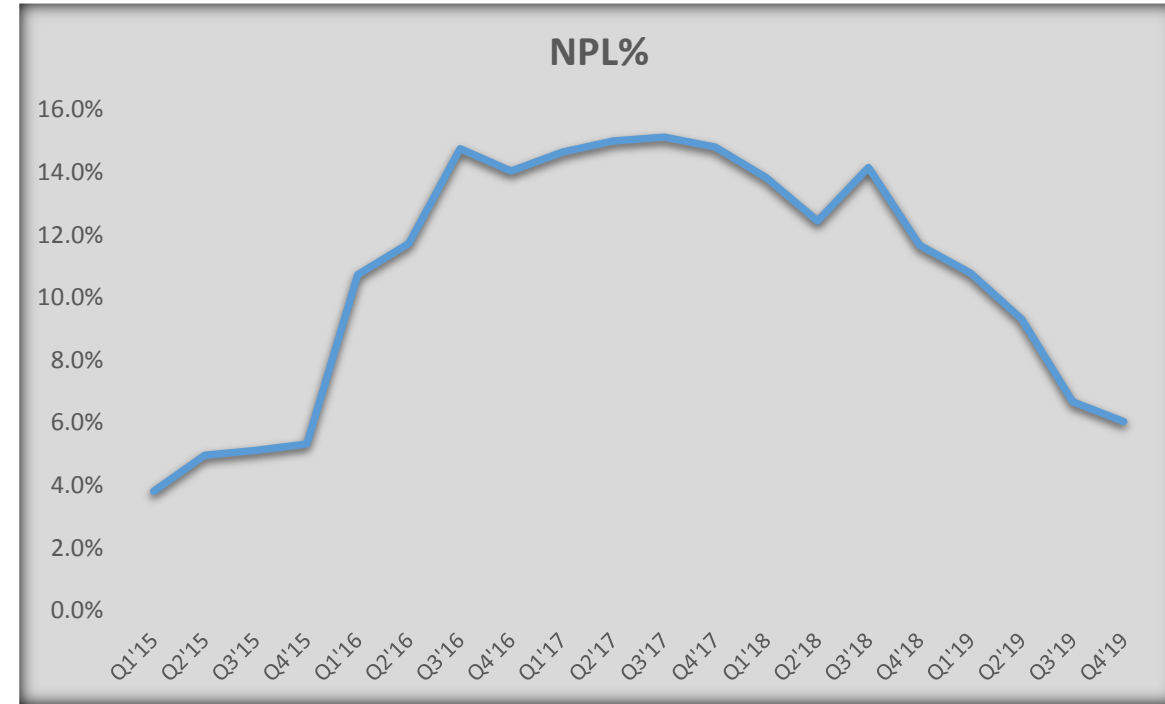
● Maintained liquidity ratio (33.9%) above regulatory requirement

● Upside to loan growth - Loan-to-Deposit ratio of 41% (including on-lending)

Pressured Margins and Prudential Ratios



	Tier 1		Tier 2	
	GTB	ZENITH	STERLING	WEMA
CAR	22.5%	26%	14.70%	13.59%
Cost-to-Income	36%	48.8%	81.2%	84.7%
ROE	31.2%	23.8%	9.8%	12.3%
ROA	5.6%	3.4%	0.9%	1.0%



- ✓ NPLs are highly sensitive to the exchange rate
 - ✓ Spiked during period of currency depreciation and volatility (2016/2017)
 - ✓ Declined during period of forex stability (2018/2019)
- ✓ NPLs expected to increase due to impact of pandemic and currency depreciation
- ✓ Prudential ratios and margins to be adversely impacted

Cement Industry - Q1'2020 Results

	DANGOTE	LAFARGE	BUA
Revenue	↑ 3.75% to N249bn	↑ 9.8% to N63.7bn	↑ 25% to N53.9bn
Operating Profit	↑ 4.3% to 91.8bn	↑ 2.6% to N11.8bn	↑ 16.6% to N20.98bn
PAT	↑ 0.5% to N60.6bn	↑ 167% to N8bn	↑ 26% to N19.8bn
EPS	N3.60	N0.50	N0.58
EBITDA	↑ 2.2% to N114.2bn	↑ 2.4% to N19.3bn	↑ 16.6% to N24.6bn
YTD Change	↓ 8.45%	↓ 20.2%	↓ 7.54%

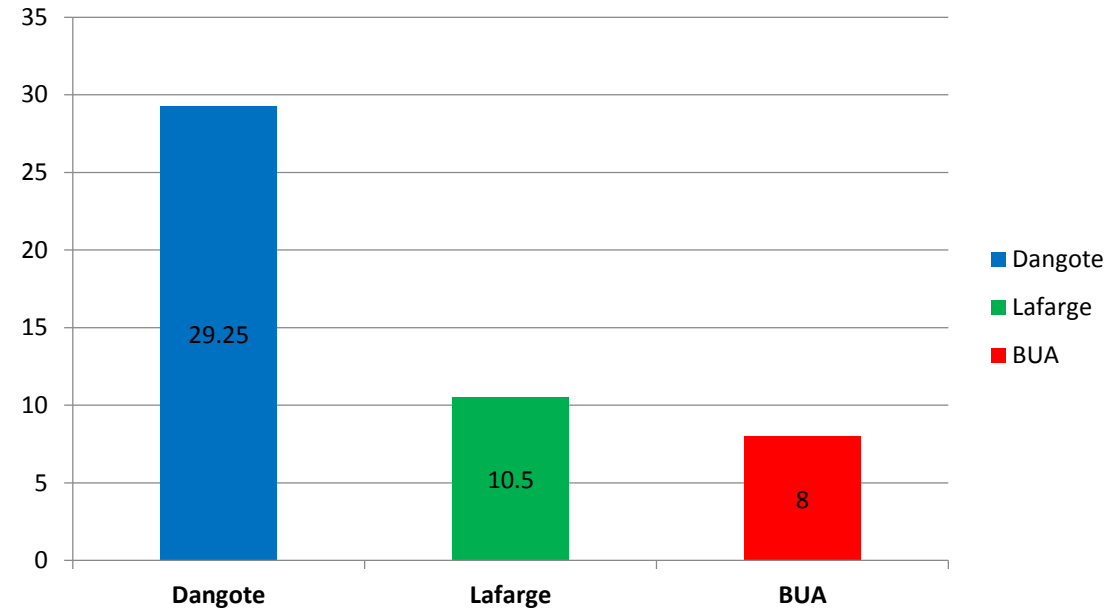
- ✓ Impressive performance across players
- ✓ BUA's double-digit growth attributed to synergy from merger with CCNN
- ✓ Lafarge's bottom-line performance benefitting from restructuring concluded in 2019
- ✓ Full year performance to be resilient to weak economic conditions

Cement Industry - Outlook

- ✓ Expected positive growth for the industry
- ✓ Cement consumption expected to grow by 1.7% despite the adverse effect of the pandemic
- ✓ 3 key players to maintain status-quo
- ✓ Dangote Cement's export activities beneficial to both the company and the country



Capacity Volume (MT)



Insurance Industry- Q1'2020 Result

	AXA MANSARD	AIICO	NEM
Gross Premium Written	↑ 20.7% to N21bn	↑ 23% to N17.6bn	↑ 16% to N7.9bn
Net Premium Income	↑ 37.6% to N8.2bn	↑ 19.8% to N13.3bn	↑ 10% to N4.84bn
PAT	↑ 120% to N1.96bn	↑ 83% to N1.88bn	↑ 24.6% to N1.06bn
YTD Return	↓ 12%	↓ 53%	↓ 14.9%

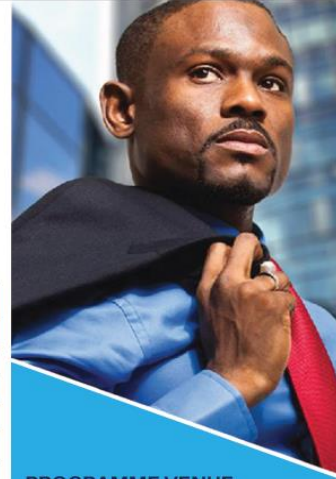


- ✓ Impressive top line and bottom line figures driven by
 - ✓ Improved regulatory support
 - ✓ Innovation of improved insurance products
- ✓ Likely consolidation across the Industry driven by:
 - ✓ Need to meet up with the new capital requirement

2020 EXECUTIVE EDUCATION PROGRAMMES

EXECUTIVE PROGRAMMES	DATE	FEE
Advanced Management Programme 34	Starts- June 15	N5,740,000
Advanced Management Programme 35	Starts- August 24	N5,740,000
Management Acceleration Programme 8	Starts- June 22	N1,095,000
Management Acceleration Programme 9	Starts- August 24	N1,095,000
HR Academy	Starts- July 13	N1,800,000
Senior Management Programme 76 (Lagos)	Starts- July 13	N2,932,500
Senior Management Programme 77 (Abuja)	Starts- June 22	N2,950,000
Senior Management Programme 78 (Lagos)	Starts- October 5	N2,932,500
Owner Manager Programme	Starts- September 7	N2,900,000

ONLINE PROGRAMMES	DATE	FEE
Strategic Marketing for Competitive Advantage	June 19 - July 19	N35,000
Making Strategy work in times of global disruption	July 16 - August 6	N100,000
Remodelling Sales for Enhanced Productivity	June 26 - July 17	N150,000
Turning Strategy into Action	August 10 - 14	N262,500
Authentic Leadership	July 6 - August 21	N296,000
Women in Leadership	August 4 - 7	N198,750
Advanced HR Management	July 28- 29	N165,000
Building and Leading the 21st Century Team	August 12 - 22	N273,500
Understanding the Agribusiness Value Chain Seminar	August 13 - September 3	N127,000
Stepping up to Management	September 29 - 30	N165,000
Managing People for Strategic Advantage	August 4 - 6	N232,500



PROGRAMME VENUE

Km 22, Lekki-Epe Expressway,
Ajah, Lagos

TIME: 9:00 am - 5:00 pm

PRIOR REGISTRATION

is mandatory to secure a place on
the seminar.

Discounts (only one category applicable)

10% off For 5 more nominees from the same
company
Per nominees on Corporate Partner
Programmes

15% off Financial members of
LBS alumni Association

Download detailed calendar from
our website www.lbs.edu.ng

RESERVATIONS/ADDITIONAL INFORMATION

Reservations/ Additional Information:
Efova Alorber: 0701 990 0758
Vivian Akere: 0708 609 5194
Ben Elezer: 0808 672 6686

email: exceedsales@lbs.edu.ng

FT Lagos Business School is ranked with
the world's top business schools in
open enrolment executive education
[2007 - 2020] and custom executive
education [2015 - 2020].
Financial Times London





Aviation Update

Global Aviation - Key Developments

- ✓ IATA estimates a 50% drop in passenger revenue to \$241bn in 2020
- ✓ Making this year the worst in the history of aviation
- ✓ Emirates recording load factor of approx. 70% since resuming flights
- ✓ Bain Capital takes over Virgin Australia after the carriers' request for government aid was denied

Global Aviation - Key Developments

- ✓ Kenya Airways is projecting loss of \$500mn in 2020
- ✓ SAA bailout stalled by squabble with unions
- ✓ \$1.5bn by investors set aside for SAA rescue

Global Aviation - Key Developments

✓ Boeing 737 Max to commence test flights after being grounded since March 2019

✓ Boeing also feeling the pinch of the pandemic

✓ Reported an operating loss of \$1.7bn in Q1 '20 and delivered only 50 commercial aircrafts



Domestic Aviation - Key Developments

- ✓ N27bn (\$75mn) bailout for entire ecosystem is far below other African countries
- ✓ Small carriers will struggle to make a comeback
- ✓ No backlog on forex sale to airlines
- ✓ CBN bans dollar denominated tickets (forex rationing strategy)
- ✓ Trader traffic likely to re-route to Dubai via Emirates

Domestic Aviation - Key Developments

- ✓ FAAN raises airport taxes by 100% from August 1
- ✓ Holds simulation tests on Abuja and Lagos airports
- ✓ Schedule for domestic airport reopening:
 - ✓ Lagos & Abuja – July 8
 - ✓ PH, Owerri, Maiduguri – July 11
 - ✓ Others – July 15
- ✓ Demand remains dependent on passenger confidence
- ✓ Trader, student and medical tourism traffic will be the first to recover

Before MMA is Reopened



Thermal check points



Contactless Check-Ins



Disinfection of passengers and baggage

Political Update
Buhari takes a grip

Politics

- ✓ After months of infighting, the gladiators lost
- ✓ The president took a grip of the party and government
- ✓ The race for 2023 has been temporarily halted
- ✓ The government refuses to be a lame duck in 2020
- ✓ All the bets are off for the 2023 APC presidential nomination
- ✓ Edo state seems likely to be held by the incumbent
- ✓ Playing a deft game of chess, the Governor has outwitted the godfathers
- ✓ The erstwhile chairman and party leaders played the winner takes all card and lost

Politics

- ✓ Even within the PDP the Edo state primary became a proxy war
- ✓ Between the Rivers state governor and his rival in the APC
- ✓ The 2023 presidential race is now wide open in both the PDP and APC
- ✓ The president remains in the driver's seat
- ✓ The Ondo state drama gets another sting in the tail with the governor testing positive
- ✓ Impeaching the defecting deputy governor just became more difficult
- ✓ It looks almost certain that the incumbent will coast to victory in the primaries and the election

Risk Footprints

Time & risk are fellow travelers but move in opposite directions

Risks

Risks	Probability	Impact
Health	High	<ul style="list-style-type: none">• Pandemic not under control
Economic downturn	High	<ul style="list-style-type: none">• Deep recession (-4%/-11%)• Deteriorating fiscal position• Rising unemployment• Increased poverty level
Security	High	<ul style="list-style-type: none">• Ethnic-based conflict• COVID induced protests
Political	Mild	<ul style="list-style-type: none">• 2023 race• Mismanagement of COVID crisis

Control Risks have projected scenarios for Global Risks

A – Prolonged Disruption

- ✓ Pandemic spreads globally
- ✓ International travel and migration restricted
- ✓ Disruptions in international supply chains
- ✓ Global economy enters recession
- ✓ Economic strains negatively impact political stability

B – Uneven Rebound

- ✓ Some countries control COVID-19 cases
- ✓ Others face rising cases, strained health systems
- ✓ Countries differ in their capacity to cushion economic impact
- ✓ Global economy to recover by late 2020
- ✓ Security situation worsens in hard-hit countries

We are of the view that Scenario B is more likely



Outlook for August

The Next Four Weeks



Lockdown relaxed
and interstate travel
permitted

June inflation

MPC Meeting

US Fed Meeting

Week 1

Week 2

Week 3

Week 4



Outlook for July

- ✓ Domestic airports will commence opening by July 8
- ✓ Lagos & Abuja first, others by July 15
- ✓ International flights likely to commence August 10 -15
- ✓ June headline inflation could spike to 13%
- ✓ Interest rates will inch upwards
- ✓ More corporates will tap the commercial paper market – approx N500bn of issues
- ✓ CBN will increase supply at the I&E window

Outlook for July

- ✓ Banks may begin opening confirmed LCs again
- ✓ Naira will remain at the N390-395/\$ range at the I&E window
- ✓ Will trade in the N450-460/\$ range at the parallel market
- ✓ Weak earnings and negative sentiment will push stocks lower again
- ✓ Oil prices will recover towards \$43pb
- ✓ Output restrictions will keep Nigerian revenue tepid
- ✓ MPC will maintain status quo

Corporate Humour



Don't cry because its over, just smile
because it happened – Dr. Seuss

Gratitude is a currency, we can spend
without fear of Bankruptcy -
Anonymous



Corporate Humour



Earth provides enough to satisfy every man's needs but not every man's greed – Mahatma Gandhi

What we do for ourselves dies with us what we do for others and the world remains and is immortal
– Albert Pike



Corporate Humour



Our vanity is the constant enemy of our dignity – Anne Sophie Swetchine

Success is not a doorway it is a staircase – Dottie Walters



Corporate Humour



There are 3 types of people
those who make things happen
those who watch things happen
and those who wondered what
happened
- Tommy Lasonda

Fortune favours the bold -
Terrence



Corporate Humour



Coward

Brave

Fortune reverses the brave and
overwhelms the cowardly –
Marcus Seneca

If the risk-reward ratio is
right, you can make big
money buying trouble - Anon



Corporate Humour



Results are what you expect,
consequences are what you get
- Anon

Life is the art of drawing
sufficient conclusions from
insufficient premises -
Anonymous



Corporate Humour



Many persons of high intelligence have notoriously poor judgement – Sydney Harris

It is better to be a failure at something you LOVE than to be a success at something you hate – George Burns





Bismarck J. Rewang, MD/CEO
Financial Derivatives Company Ltd.
Lagos, Nigeria
01-7739889



THANK
YOU