FINANCIAL DERIVATIVES COMPANY LIMITED

Volume VII, Issue 86

July 04, 2017

FDC *ECONOMIC MONTHLY*

THE MUNDELL-FLEMING TRILEMMA: THE NIGERIAN EXPERIENCE

The Mundell-Fleming trilemma is an economic model first articulated by Robert Mundell[1] and Marcus Fleming[2] in the early 1960s, to argue that an economy cannot simultaneously choose to implement policies of monetary autonomy, free flow of capital and fixed exchange rates. Also known as the impossible or inconsistent trinity, the model states that a country can only choose two of the options as it is impossible to achieve all three at once. A country that wants to maintain a fixed exchange rate regime and have an autonomous interest rate policy cannot allow capital to flow freely across its geographical borders. Similarly, if the exchange rate is fixed and the country is open to cross-border flow of capital, it cannot have an independent monetary policy that is free from external influence. In addition, if a country chooses free movement of capital and wants monetary policy autonomy, it cannot have a fixed exchange rate regime. It has to allow its currency to float.

Let's examine why there is a conflict in adopting all three options simultaneously. A country adopts a fixed exchange rate regime (a currency pegged against the USD) and is also open to foreign capital inflows. If its central bank sets interest rates (adopting an autonomous monetary policy) above the interest rates set by the Federal Reserve, foreign portfolio investors in search of higher returns would flood in, ceteris paribus. These foreign capital inflows would increase demand for the local currency, causing the currency to appreciate. If interest rates are below the benchmark rates set by the Federal Reserve, capital would leave the country and the currency would depreciate.

In a situation where barriers to cross border capital flows are ineffective or futile, the trilemma presents a choice - between a float-

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[1] Mundell, R., 1963. Capital Mobility and Stabilization Policy under Fixed and Flexible Exchange Rates, Canadian Journal of Economic and Political Science, 29 (4), pp.475– 485.
[2] Fleming, M., 1962. Domestic Financial Policies under Fixed and under Floating Exchange Rates, IMF staff papers, 9 (3), pp. 369-380

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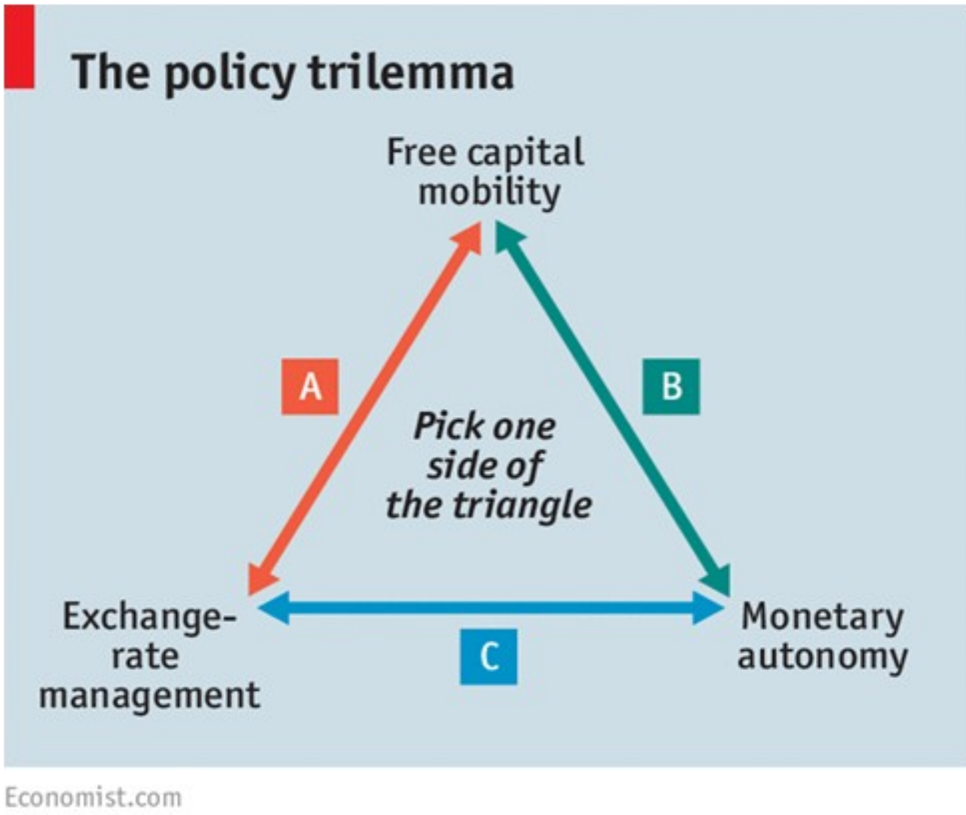
ing exchange rate and control of monetary policy; or, a fixed exchange rate and monetary policy dependence. Developed countries have typically chosen the former. However, countries in the Eurozone have adopted the latter. This is because capital moves freely in the Eurozone. As a result, any country whose interest rate is lower than the rest risks losing foreign capital to countries with higher interest rates.

ASSUMPTIONS

The Mundell-Fleming model makes the following basic assumptions.

- The country under consideration is a small open economy. That is, the country is so small that it cannot affect global interest rates and it engages in trade with other countries.
- There are no barriers or controls to the free flow of capital across borders. All financial instruments are perfect substitutes. There are only risk neutral investors in the economy and investment depends on the interest rate.
- Spot and forward exchange rates are identical, and the existing exchange rates are expected to persist in perpetuity.
- Wages and inflation are assumed unchanged, the supply of domestic output is elastic and constant returns to scale are assumed.
- Taxes and savings are directly correlated with income.
- Trade balance depends solely on income and the prevalent exchange rate.



As can be seen from the graph above, there are three options:

A – Fixed exchange rate and free capital mobility (no monetary policy independence);

B – Free capital mobility and monetary policy autonomy (no fixed exchange rate system, rather a flexible exchange rate); and

C – Fixed exchange rate system and monetary policy autonomy (no free flow of capital).

If free capital mobility is chosen, then the trilemma is reduced to the following choice: either fixed exchange rate with no monetary policy autonomy or flexible exchange rate and monetary policy autonomy.

THE NIGERIAN EXPERIENCE

Since the burst of the commodity boom cycle in mid-2014, the naira has depreciated significantly at the parallel market and Nigeria's foreign exchange policy has been under the searchlight.

The Central Bank of Nigeria (CBN) fixed the exchange rate at N168/$ at the Interbank Foreign Exchange Market (IFEM) in November 2014. The apex bank further devalued the currency to N199/$ in November 2015 and employed capital controls. This resulted in a massive exodus of foreign capital from Nigeria. Meanwhile the CBN's monetary policy was independent and free from external control. Since Nigeria maintained a fixed exchange rate regime and an autonomous monetary policy, it could not control capital inflows, hence the plunge in capital imports.

In theory, if a central bank wants to fix its exchange rate, the bank must regulate the supply of foreign exchange (forex) in the market with its foreign reserves – buying excess forex in the market and selling where there is a deficit. In order to maintain a fixed exchange rate regime, a country requires a robust foreign reserves position. Since the CBN fixed the exchange rate in 2014, it has made use of external reserves to defend the currency. However this led to a sharp depletion in the level of external reserves. The plunge in global oil prices coupled with production shut-downs significantly reduced the inflows to the external reserves and constrained the ability of the CBN to continue to defend the naira. The resulting effect of this was an acute scarcity and a sharp depreciation of the naira at the parallel market. The huge gap between the official and the parallel market rate also incentivized unethical practices such as round tripping.[3] In July 2016, the CBN announced a new "flexible foreign exchange regime" which saw an increase in capital imports. However, due to scant details about the workings of the new foreign exchange market and heightened uncertainty, the naira depreciated further and capital imports declined.

In February 2017, the CBN announced an adjustment to the implementation of its forex policy. Although the exchange rate regime was still relatively fixed or a managed float, the CBN increased its interventions in the market which crashed the parallel market rate from an all-time high of N520/$ to about N385/$. This was due to a significant accretion in the level of external reserves.

In order to achieve exchange rate equilibrium and massive inflows

[3] Round tripping in this context refers to an unethical business practice where a person buys foreign exchange from one segment of the market say the interbank FX market at a subsidized rate i.e. N199/$ and then sells the FX in another segment of the market i.e. the parallel market for a higher rate i.e. N300/$

of foreign capital, the Central Bank needs to fully liberalize the foreign exchange market, thus changing its economic policy to an independent monetary policy and free flow of capital. This would boost the inflow of foreign exchange and incentivize foreign investors to return to Nigeria. The effect of this will be a stronger naira, an increase in economic activity and higher economic growth. After several calls for a liberalized foreign exchange regime by analysts, economists and international organizations, it appears the apex bank is finally succumbing to the pressure. The introduction of the investor and exporters window – where the exchange rate is determined by buyers and sellers - suggests that the Central Bank of Nigeria is “testing” a floating exchange rate regime. It also increases the likelihood of a fully liberalized exchange rate regime in the near term. A fully liberalized exchange rate system coupled with improved flows of foreign capital will have a significant impact on Nigeria’s economic recovery.

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GLASS-STEAGALL ACT 2.0: RIPPLE EFFECTS?

In a bid to maintain his rhetoric as 'a man for the masses', US President Trump intends to introduce banking legislation to separate the big banks and reduce excessive risk taking. The legislation referred to as the Glass-Steagall Act (GSA) 2.0 echoes the repealed GSA of 1933. Its repeal in 1999 is widely blamed for causing the global crisis of 2008/2009 that affected countries of the world, Nigeria inclusive. Critics of the 1999 repeal, most notably Nobel Laureate Joseph Stiglitz, argued that the removal of the GSA introduced the culture of excessive risk taking to a point where the risk-return balance of bank loans became fundamentally flawed.[4] Given the strong criticism of the repeal it would be fair to assume that its re-enactment could have positive effects on the American economy, and the global economy as a whole. However, the political undertones of this move, as well as the ongoing ambiguity of how and when the act will be reinstated, might undermine the impact of this policy shift on the US and global market, if implemented. On the Nigerian front, while the positive effects are ambiguous at best, the negative effects could be quite damaging. The break-up of the big banks could halt the velocity of lending into the country, which is likely to reflect through shocks to sectors such as the manufacturing sector. As leverage is a focal part of many business institutions, these institutions have to explore alternative sources of foreign debt.

The Glass-Steagall Act of 1933 was a reaction to the waning confidence in the banking system following the great depression. At the heart of one of the most turbulent years in US history, the banking system had nearly crashed with many banks in the then 48 states either completely closed or with restrictions on deposit withdrawals.[5] The Act established the Federal Deposit Insurance Corporation (FDIC), alongside a set of rules that prohibited the synchronized activities of commercial banks and investment banks. This effectively separated high-risk speculative investment activities associated with investment banking from fairly-low risk activities associated with commercial banks.

In the years leading up to the 1999 repeal of the GSA, the legislation had been open to subjective regulatory interpretations, which

[4] Stiglitz, Joseph(2009). Capitalist Fools. Vanity Fair. http://media.yoism.org/CapitalistFools-Stiglitz.pdf. Last viewed May 16 2017.
[5] Farming in the 1930's: Bank Failures. www.livinghistoryfarm.org/farminginthe30s/money_08.html

benefited certain stakeholders. In other words, business friendly practices, and not necessarily market friendly practices, were possible depending on the interpretation of the legislation. By 1999, the GSA was replaced with the Gramm-Leach-Bliley Act (GLBA). The GLBA lifted all barriers that prevented commercial banks, investment banks and insurance establishments from consolidating and as such any one enterprise could offer the services of all. With this change, the dominant high-risk high-return investment banks took prominence. Hence Stiglitz's conclusion about introducing a culture of excessive risk taking.

With President Trump's interest in the defunct GSA, the Congress, Senate and other stakeholders are submitting proposals. For example, the vice chairman of the FDIC proposed a requirement that big banks refurbish their internal structures, which in turn makes them less susceptible to high-level risk. While this renewed interest in increased regulation is welcomed, many are skeptical about the political undertones for the policy shift. There is also concern about the impact such legislation would have on the big banks. Banks such as JP Morgan Chase, Morgan Stanley, and Citigroup etc would be at risk of a break up. Some believe this would incapacitate these banks from cushioning other banks upon failure. Bank of America (BoA) head, Brian Moynihan gives the example of the BoA rescuing Merrill Lynch during the 2008 financial crisis. He argues that it was much better to have the failing brokerage form a part of the group, as it allowed for economies of scale and scope which facilitated stronger businesses, and in turn better, more stable and more secure products for the consumers.[6] However, others argue that in terms of a typical bank customer, a split up of banks would have absolutely no effect on utility. This is because the average customer will have access to the same kind of financial products as he is used to. There might just be a shift in the financial service provider. Downsizing would only encourage banks to resort to their functions from the not so distant past.

IMPACT ON THE NIGERIAN ECONOMY

From a Nigeria-specific perspective the negative impact likely outweighs the positive. Increased regulation is welcome in so much

[6] CNBC Exclusive with Brian Moynihan. http://www.cnbc.com/2017/05/18/cnbc-exclusive-cnbc-excerpts-bank-of-america-ceo-brian-moynihan-speaks-with-cnbcs-kelly-evans-today-on-closing-bell.html. Last viewed on the 20th of June 2017.

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as it contributes to a more stable global financial system. However, a possible disruption to lending from the big American banks to the Nigerian economy does pose a threat. With more stringent rules and regulations the banks will be forced to re-evaluate their business models and reduce exposure to high-risk investments. Currently given the political and socio-economic profile of Nigeria, lending towards the region might be capped, or stopped altogether in the worst-case scenario. This is likely to have an impact on sectors such as manufacturing, agriculture, and trading which have a high number of firms that leverage foreign debt. For those that leverage American loans, a proactive search for alternative funding sources of foreign debt may be in order.

On a more positive note, the country stands to benefit indirectly from what is perceived as a more transparent financial market. As has been discussed, many are of the opinion that the repeal of the Glass-Steagall Act in 1999 directly or indirectly caused the financial crisis. Since then, by means of legal and ethical standards set in place, confidence has relatively been reinstated in the market. It is believed the switch back to the GSA will push the financial market further towards the euphoria that is a perfect market, mitigating exposure to shocks. For a country like Nigeria, which only narrowly avoided the last financial crisis, it is one less challenge to worry about.

As many speculate on whether or not the GSA 2.0 will in fact take shape, the possibility of its reinstatement will likely influence the Nigerian financial market. This is because of how integrated the world has become (minus the recent anti-globalization rhetoric that has thankfully begun to dissipate). As such, the Nigerian market will have to evolve with this trend to be remotely attractive to investors.

The exact timing when the GSA 2.0 will be presented before congress remains unknown and the jury is still out on whether or not it is to have a significant impact in the US market and beyond. The one thing that remains true is that the global market can still benefit from increased transparency in the financial market and that it is likely to have a ripple effect on advanced and emerging markets alike, such as Nigeria.

ROLE OF DEBT IN NIGERIA

Debt has earned a bad reputation in recent times. Private debt spiralled out of control in the 2000s and fuelled the 2008 financial crisis. Public debt continues to cause jitters. What is often overlooked is the vital role that debt plays in global and domestic economies.

In Nigeria, private debt comes with various challenges. Few people have access to reasonable credit terms. Our culture exalts the view that taking on debt is an irresponsible act. To quote a famous Nigerian adage – "He that goes a-borrowing goes a-sorrowing". Another well-known saying counters that ideology - "You have to spend money to make money". Debt facilitates spending by increasing access to purchasing power. Without credit one has to use savings, which diminishes access to emergency funds, delays purchasing of goods and services, and ultimately slows economic growth.

It is well known that small enterprises play an important role in developing a robust economy. At a time when unemployment is as high as 14.2%, credit support for small business owners might be what is needed to create jobs and strengthen the market place. It is notoriously difficult to borrow at reasonable rates in Nigeria, without valuable collateral or a recognizable family name. For example, the rate of credit to the private sector ranges from 17%p.a. to as high as 30%p.a, while the sources of credit are limited. While we often chastise youths for being job seekers rather than job creators, the lack of financial support undermines their success.

It is impossible to ignore the role of "necessary debt" in the economy. Supplemental funds make it possible for individuals to purchase homes, go to school, own a car or buy appliances. Many Nigerians ask "if you cannot afford it why are you buying it?" The question ignores the role credit plays in expanding our ability to purchase. Credit can help us acquire goods and services through planned cash flow. This type of consumption keeps the economic engine running. It does not exclude people with low disposable incomes and high earning potential from the opportunity to make efficient consumption choices.

One interesting feature of mature financial systems is the development of individual credit history. Usually starting from early adult years, individuals build credit ratings by accumulating and servicing debts. Credit cards are a popular avenue for this, and enable the creation of a good credit score, a pre-requisite for credit availability.

Nigeria's financial institutions need to extend credit to participants from low-income groups. Those who prove their credit-worthiness will qualify for more credit. While income will always be a factor in judging credit worthiness, those who have a good credit score will qualify more easily than someone with no credit history. To achieve this goal, credit must slowly be extended to the wider population. Only then will it be economically feasible for debt to be a tool for wealth creation.

In 2015, a list of bank debtors was published, supposedly at President Buhari's request. It contained mostly upper echelon Nigerians and demonstrated the lopsided access to credit that is prevalent in the country. It remains a frustration to many that credit is available to those who arguably need it the least while many young entrepreneurs suffer under the weight of little or no access.

Nigeria can look to the experience of other countries to learn how best to develop and manage its private credit market. In today's Nigeria, there is a clear case for more debt to influence and strengthen the economy.


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IT IS STILL REMARKABLY HARD FOR AFRICANS TO GET AROUND THEIR OWN CONTINENT

By 2063, according to the African Union's (AU) rather long-range prediction, Africa will be "a continent of seamless borders". People, capital, goods and services will flow freely from South Africa to Tunisia and from Senegal to Somalia. Europe's frontier-free Schengen area may be creaking under the strain of migration and terror, but another will arise, this one encompassing a continent of more than 1.2bn people. Last year, with that goal in mind, the AU boldly introduced a single African passport. The first recipients were two of the continent's most powerful strongmen: Rwanda's president, Paul Kagame, and Chad's president, IdrissDéby.

For now, however, crossing borders remains a painful experience for most Africans. The World Bank estimates that intra-African trade is more expensive, all things considered, than trade in any other region. According to Anabel Gonzalez, senior director of a World Bank group on trade and competitiveness, one African supermarket chain reports that it spends $20,000 every week to get import permits for meat, milk and other goods in one country alone; every day one of its lorries is held up at a border, costs it $500. On average, Africans need a visa to travel to 54% of the continent's countries; it's easier for Americans to travel around Africa than it is for Africans themselves. So far, the AU has issued its single African passport only to heads of state and senior AU officials.

But in the past year things have improved a little, according to a new report from the African Development Bank. Africans now need visas to travel to slightly fewer countries than they did in 2015, and 13 African countries now offer electronic visas, up from 9 the previous year. Ghana made the most progress: in 2016 the government announced that it would provide visas on arrival for citizens of every AU member state, while offering entirely visa-free travel to 17 African countries, including the 14 other members of the Economic Community of West African States (ECOWAS). The Seychelles is still the only country on the continent to offer visa-free access to all Africans. (An archipelago in the middle of the Indian Ocean, it is a haven for well-heeled tourists but hard to get to if you are poor.)

Elsewhere, progress has been patchy. Less than a quarter of African countries provide "liberal access"—meaning visa-free travel or at least visas on arrival—to all African citizens, and most of the continent's richest countries tend to be more restrictive. War-torn central Africa remains the most closed region; east and west Africa have opened up the most.

THE WORST GROWTH FIGURES FOR TWO DECADES FAIL TO KEEP PACE WITH A RISING POPULATION

Wearing a cowboy hat and holding two scrawny goats at the end of a tether, the farmer scowls when asked how business is going at Nyamata Market, a patch of dusty earth about 25km south of Kigali, Rwanda's capital. "People have no money," he grumbles, pointing at his unsold animals. As if to underscore the point, one of the goats jets a stream of urine at your correspondent's shoe. Rwanda's economy, like many across Africa, has been hit by the twin blows of drought and low prices for minerals.

Growth in sub-Saharan Africa slumped to 1.4% last year, its slowest pace in two decades, reckons the IMF. Since the region's population is growing at about twice that rate, this means that GDP per head fell for the first time in more than 20 years. Economies slowed in two-thirds of countries south of the Sahara.

A year earlier, cheaper oil helped speed growth in some countries. Nigeria and Angola, where the black stuff used to account for as much as 90% of exports, were walloped. But countries that import most of their fuel, such as Kenya and Ethiopia, enjoyed a boomlet.

When the price of crude slumped further in the early months of last year, the big oil exporters fell into recession. This time there seemed to be no offsetting benefit for others. The misery was more widespread than in 2015, and more sustained than expected, for two main reasons. The first was a drought across much of east and southern Africa that shrivelled crops, driving up food prices and slashing farmers' incomes.

The second was that ill fortune was exacerbated by government policies that have hobbled growth in Africa's two biggest economies, Nigeria and South Africa. In Nigeria the government refused to let its currency float freely in response to the sharp drop in its export earnings from oil. Faced with an overpriced currency investors held back, waiting for the naira to fall. In South Africa, meanwhile, investment and growth dried up as news of government corruption and economic mismanagement spurred credit-rating agencies to downgrade the country's debt to junk.

Even many of the region's faster-growing countries have passed foolish economic policies. Kenya has capped the rate of interest banks can charge, prompting most of them to stop lending to businesses. Tanzania has barred its main gold producer from exporting gold concentrate. Cameroon's government, fearful of dissent, shut off the internet to English-speaking parts of the country, which is where technology start-ups cluster.

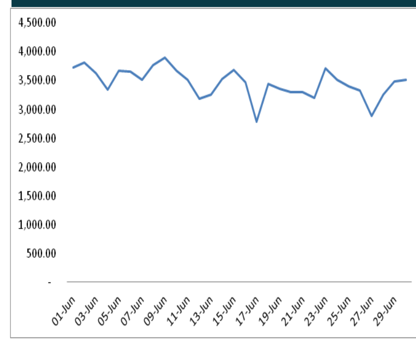
More worrying is that as economies slowed, the parlous state of public finances became clear. The ratio of public debt to GDP has jumped ten percentage points to 42% on average since 2014—the highest level for many countries since they had their debts written off a decade or so ago. The level may not look high by the standards of rich countries, but interest rates in Africa are much higher. The governments of Nigeria and Angola now spend more than half of all their revenue on servicing their debts. Countries such as Ghana, Zambia and Mozambique risk drowning in red ink, having ramped up government spending when GDP growth was stronger and global credit was easy.

Growth should pick up a little this year—the IMF hopes for about 2.6%—but its fragility highlights how the region has yet to kick its addiction to commodity exports, and how it can ill afford to keep piling on debt as it has in recent years.

MACROECONOMICS INDICATORS

POWER SECTOR

Chart 1: Power Output (MW/h)



[7]

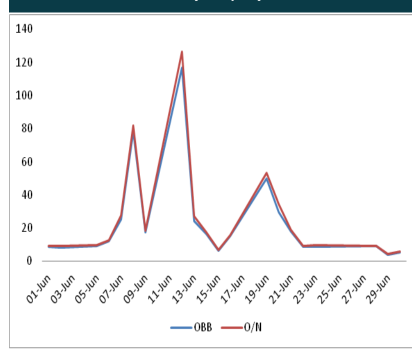
In June, the average power output from the national grid was 3,462MWh/h, 3.67% lower compared to May figures of 3,594MWh/h. During the period, power output reached a 10-week low of 2,786MWh/h, driven primarily by constraints to gas supply. Due to the suboptimal production, the sector lost a total of N38.894bn compared to N37.73bn in May.

Outlook

The rainy season appears to have reached an early peak as the rains become less and farther between. This will have negative implications for hydro generation, which makes up 18.75% of total output. On the other hand, the re-opening of the Forcados pipeline will ramp up gas supply and possibly reduce constraints.

MONEY MARKET

Chart 2 : Short-term Interbank Rates (% pa)



[8]

The average opening position in June was N33.55bn long compared to May's average of N44.37bn. Average NIBOR (OBB, O/N and 30-day) was 22.9% pa in June, compared to 30.19%. In the review period, there were also bouts of aberrational spikes to a month high of 116.67%; 126.67% (OBB; ON/) and month low: 4%; 4.58% (OBB; O/N).

Shortage of naira continues to keep interest rates elevated in spite of inflows from OMO maturities and FAAC disbursements. In June, yields on Treasury bills increased by an average of 0.27% to 13.97% (91 day) and 19.17% (182 day). In the secondary market, average yields on Treasury Bills stood at 22.05% (91 day) and 20.48% (182day).

[7] Nigerian Electricity Supply Industry

[8] CBN, FMDQOTC, FDC Think Tank

Outlook

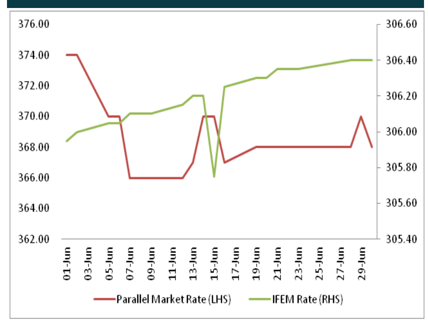
The volatility in the interbank rates is expected to remain in July, as CBN forex sales mops up naira liquidity in the banking system. Nevertheless, with the passage of the 2017 budget, we expect the FG's increased spending to provide some relief for the cash strapped market. Expenditure on capital projects, salaries and other recurrent expenses will boost liquidity in the market.

FOREX MARKET

EXCHANGE RATE

At the parallel market, the naira closed at N368/$ on June 30th, a 7.14% appreciation from N380/$ on May 30th. This was the result of the newly introduced CBN guidelines for trading at the Investors and Exporters forex trading window (IEFX). According to the new guidelines, banks are free to sell their excess liquid positions to other authorized dealers without prior permission from the CBN. This means free flow of dollar funds, easing the pressure on the naira. The naira remained relatively stable at the interbank market, closing 0.15% higher at N306.40/$. The spread between the parallel and interbank rates dropped to N61.60 on June 30th, compared to N74.1/$ on May 31st.

Chart 3: Exchange Rate (N/$)



[9]

Outlook

The outlook of the naira will essentially be determined by the CBN's ability to maintain its forex intervention. The volatility in the energy market would prove a stumbling block to current intervention efforts. Nevertheless, we expect the naira to remain relatively flat at N364-370/$ in the coming month.

Chart 4: External Reserves ($bn)

[10]

EXTERNAL RESERVES

Nigeria's gross external reserves decreased by 0.16% ($50mn) to $30.27bn as at June 30th from $30.32bn recorded at the end of May. Reserves level reached a 3-month low of $30.21bn on June

[9] FDC Think Tank

[10] CBN, FDC Think Tank

14th, before gaining marginally. The decline in the external reserves was due to the fall in oil prices combined with the settlement of forward contracts and obligations. The gross external reserves import and payment cover is 6.78 months lower compared to May's level of 6.83 months.

Outlook

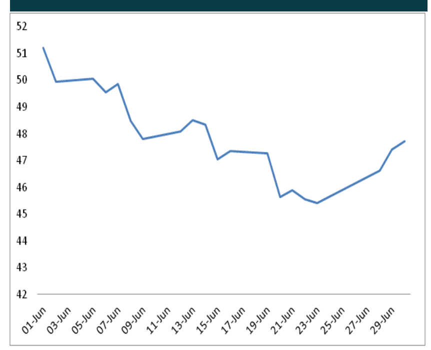
We expect a further slowdown in the pace of accretion of external reserves, as forward contracts mature, and oil prices remain below $50pb.

COMMODITIES MARKET - EXPORTS

OIL PRICES

The average price of Brent crude in June was $47.55pb, 7.38% lower than the average of $51.34pb in May. This price movement is contrary to consensus forecasts, which believed the OPEC deal extension will keep prices above $50pb. In May, major oil producers led by OPEC and Russia agreed to extend current production cuts to March 2018 from the initial June 2017 deadline. Prices reached a 10-month low of $44.8pb on June 21st. The market continues to be awash with oil, as U.S shale drilling and rig count increases weekly. Likewise, prices have been influenced by the surprising production rebound in Libya and Nigeria, whose output rose by 32.24% and 11.55% respectively in May.

Chart 5: Brent Crude ($/pb)



[11]

Outlook

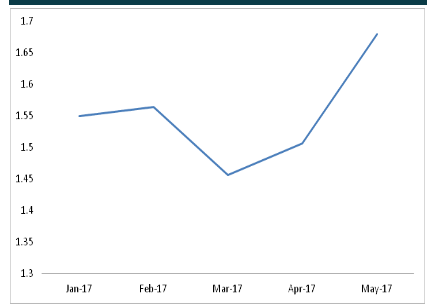
Overall, the outlook for oil remains bleak. Energy Information Administration (EIA) has cut it oil price forecast for 2018 to $55.61pb, 2.6% lower than previous forecasts. Goldman Sachs has reduced its 3-month average to a more conservative one of $47.50pb, from previous estimate of $55pb. JP Morgan and Barclays have also slashed their forecast for oil amid increasing global glut.

[11] Bloomberg, FDC Think Tank

OIL PRODUCTION

The latest OPEC report showed an increase in Nigeria's May oil production by 11.55% to 1.680mbpd from 1.506mbpd in April. While this is considerably lower than the FG's budget production benchmark, the pace of increase in commendable. Nonetheless, production is estimated to reached 2mbpd due to the lifting of the force majeure on Forcados pipeline and Shell's Bonny light exports. In Q3 2016, production reached as low as 1.376bn as militancy and pipeline vandalism peaked. So far this year, there have been little or no disruptions to pipelines and production.

Chart 6: Oil Production (mbpd))

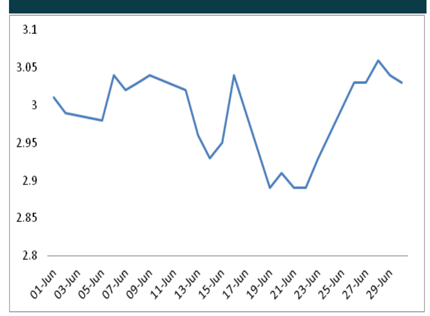


[12]

Outlook

With the level improvement recorded in production numbers, OPEC might reconsider including Nigeria in its production cut deal. If Nigeria is drafted into the output curb, potential revenue generated from oil becomes constrained due to the limitation imposed. However, with a production benchmark set at 2.2mbpd, there is still for improvement but this might weigh down the price of oil in the global market.

Chart 7: Natural Gas ($/mmbtu)



[13]

NATURAL GAS

In June, gas prices closed at $3.03/MMBtu, marginally lower than May's closing price of $3.07/MMBtu.

Outlook

The downward trend in price is expected to persist during the summer season as the demand for natural gas falls due to the humid weather.

COCOA

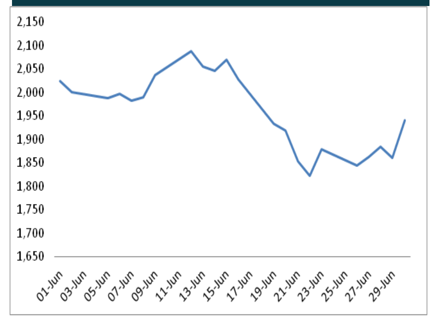
In June, cocoa prices remained low trading at $1,940/mt by the end of June, 4.15% lower than $2,024/mt recorded in the corre-

[12] OPEC, FDC Think Tank

[13] Bloomberg, FDC Think Tank

sponding period in May. This is the 9th-consecutive decline in prices, month-on-month. The drop in price was driven by last year's bumper crop and excess supply caused by favourable weather in Ivory Coast and Ghana. Additionally, chocolate manufacturers are cutting back on demand- further throwing the market into disequilibrium.

Chart 8: Cocoa



[14]

Outlook

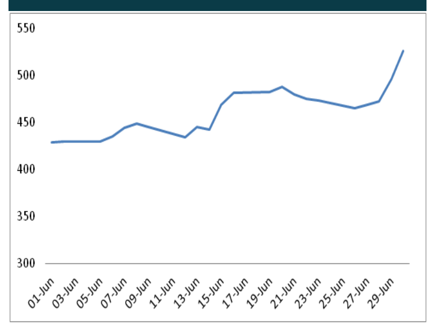
This global glut is expected to remain in the short run, as oversupplies from West African producers persist. However, overtime, experts hope that the low prices will act as a deterrent to future production, and ease the large- surplus.

IMPORTS

WHEAT

Wheat prices increased by 22.61% to $5.26 /bushel on June 30th from $4.29/bushel in May. Unfavourable climate change in Argentina and the US has negatively affected global production. Additionally, there was a fall in demand of winter wheat, as buyers were worried about the nutritional content of the wheat harvest.

Chart 9: Wheat (cents/bushel)

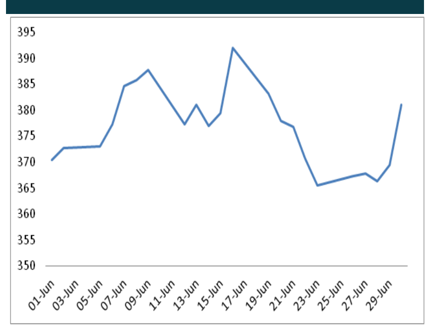


[15]

Outlook

We expect to see a further rise in prices as unfavourable weather affects production. Dry weather in the US and a heat wave in France and southern Europe will support bullish expectations.

Chart 10: Corn (cents/bushel)



[16]

CORN

Corn prices fell by 2.41% to $3.81/bushel in June from $3.72/ bushel in May. The market expectation for improved weather in the U.S. is the reason for the bearish movement.

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[14] Bloomberg, FDC Think Tank

[15] Bloomberg, FDC Think Tank

[16] Bloomberg, FDC Think Tank

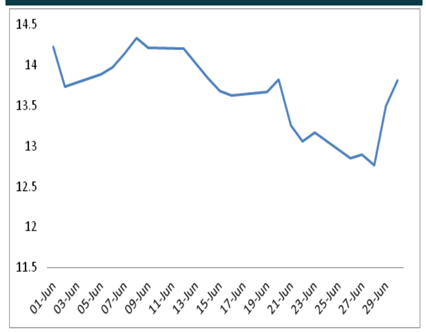
Outlook

Increased rains in the US Midwest, is expected to boost global production, pushing prices down in the coming months.

SUGAR

In June, sugar prices fell by 7.12% to $0.1381/pound from $0.1487/pound in May-end. The decline in prices has been fuelled by fall in Chinese demand. China, a top sugar importer, recently introduced a levy on sugar imports into the country. Consequently, Chinese sugar imports have fallen from 100 trucks per day to 10. In addition, there are increased market fears of a looming slowdown in Indian consumption. These combined with global sugar surplus drove prices to 19-months lows ($12.85/ pound) in the month of June- even below production costs.

Chart 11: Sugar (cent/pound)



[17]

Outlook

Industry experts have dismissed the possibility of a slowdown in Indian consumption. This is because the large Asian country has a large poor population who depend on sugar as a primary staple. Despite the current 40% levy on sugar imports, India is still the largest consumer in the world. Rather, according to Reuters, India could actually ramp up imports to take advantage of lower prices. Thus, we expect to see a recovery in sugar prices of up to 2%-5% in July.

[17] Bloomberg, FDC Think Tank

Avant-garde Academia Limited

Who We Are

Avant-garde Academia Limited (AAL) is an education advisory and counseling service organization that was incorporated in July of 2013. AAL was incorporated as an educational aggregator in grooming candidates to be potential global citizens who will reinvest their acquired skills in Nigeria in future. It is positioned to provide support, assistance and guidance to potential candidates and entrants to Ivy League, Elite and premium academic institutions in America. Our target market comprises parents of children in identified elite Nigerian secondary schools and/or top executives in the business community, who have a strong need for our services.

The market also extends to Nigerians resident in Diaspora, and expatriates resident in Nigeria. In Partnership with Ascent Education Advisors, a reputable Education Advisory Services firm, we have designed a range of admissions solutions to cater for children in different stages of secondary school education.

OUR STRATEGIC PARTNER – ASCENT EDUCATION ADVISORS

A reputable education advisory service firm, the lead consultant Ms. Peggy Hanefors has over 10 years experience in admissions; including a position as the Assistant Director of International and Transfer Admissions at the University of Pennsylvania. She was first reader and evaluator of about 3,000 applications for students from across the globe.

What We Offer

- Information and advice about the American University System and its application process.
- Evaluation of student's record prior to application.
- Assistance in selecting curriculum and summer activities that will match the student's desired course of study and also highlight his/her personality and interests.
- Development of personal application timeline, that includes standardized testing, college visits, application deadlines, etc.
- Help in selecting teachers for recommendations
- Guidance in presenting extracurricular record
- Guidance in putting together an overall great college application that highlights the unique attributes of the applicant
  - Essay topic brainstorming
  - Editing
  - Proof-reading
- Guidance in choosing the most suitable college among acceptances.
- Interview preparation

Our Packages

Package 1: 8th to 10th Grade (Final 3-5 Years)

This package is a program designed for candidates from as early at the 8th grade (Junior Secondary School - JSS 2) of high school. This is a full package with the benefits of all the services we offer in addition to education and assistance with entire college admission process, including an unlimited number of applications.

Package 2: 11th and 12th Grade (Final 1-2 Years)

This package is similar to Package 1 but is designed for students in the final two years of high school.

Package 3: (Per Application)

Unlike packages 1 and 2, package 3 only provides unlimited assistance with applications to pre-determined universities.

We host a Parents Admission Support Forum in Lagos bi-annually with the aim of giving parents the information they need to ensure their child(ren)/wards gain admission into reputable universities in United States of America.

To attend one of our events, kindly contact or visit us at

9a Idejo Street, Victoria Island Lagos.

For more information about Avant- Garde Academia Limited please go to our website: www.avant-gardeacademia.com

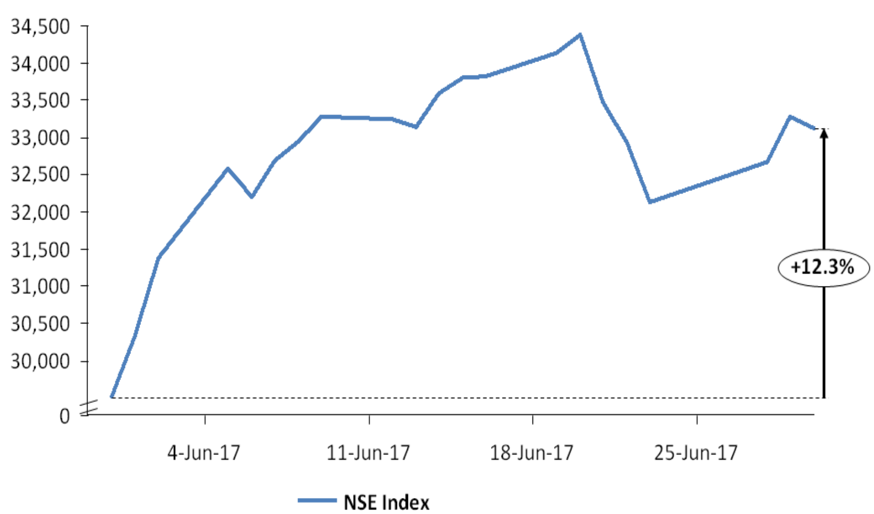
For enquiries or consultation E-mail us: info @avant-gardeacademia.com Or call Chinyere Ubani 08039238138 | Tope Vincent 08034017603

STOCK MARKET UPDATE

Bargain hunting in bellwether stocks, saw the Nigerian equities market continue its winning ways. The NSE ASI advanced by 12.3% to close at 33,117.48 points in the month being reviewed. The YTD return on the index increased to 23.2%, while market capitalization closed at N11.45trn. Market PE ratio for the week was 15.09x, and the liquidity weighted SFNG Blue Chip 30 Index showed that the market gained 10.7% in the month of June.

The Nigerian equities market closed positive for the month of June (+12.3%) to close at 33,117.48 points after recording gains of 14.5% in the month of May. The market catalysts were the success so far of the IEFX window and the MSCI rebalancing, which saw Nigeria's weightings reviewed upwards from 6.5% to 7.9%. This has increased interest in Nigerian equities as investors hunt for bargains in bellwether stocks in the banking, consumer goods and oil & gas sectors. This has seen net foreign inflows into the NSE increase for the second consecutive month by 670% to N51 billion in the month of May from N6.63 billion in April.

The YTD return on the index edged upwards to 23.2% from 9.8% as at June 30, 2017 whilst market capitalization also closed higher at N11.45trn having gained N1.25bn during the month. The market is currently trading at a price to earnings ratio of 15.09x from 13.5x. Daily changes, representing volatility on the ASI, ranged between -2.61% and 3.85% during the review period.



[18]

[18] NSE, FDC Think Tank

The Scott Free Nigeria (SFNG) Blue Chip 30 Index gained 10.7% in the review period, compared with 15.2% recorded in prior period, to close at 1,171.47. The SFNG is a market capitalization weighted index adjusted for free-float. It reflects the performance of the largest and most-liquid 30 companies listed on the Nigerian equity market.

Chart 13 : Scott Free Nigeria (SFNG) Blue-Chip 30 (BC30) Index

[19]

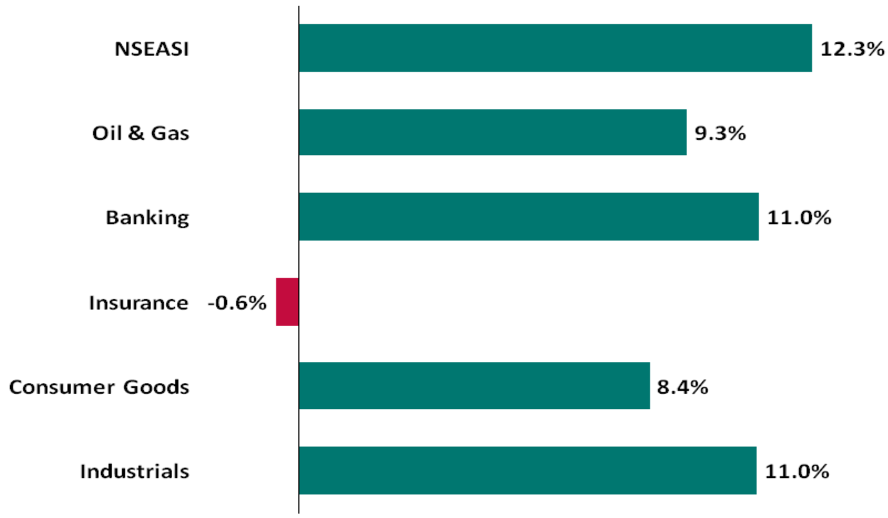
The performance across the sectors was positive with exception of the insurance sector. Banking sector (up 11%) led the chart in the review period. Aside from JAIZ Plc which shed 10.5%, all other banking stocks, closed positive. Gains in the sector can be attributable to the following stocks such as ECOBANK 31.8%, STANBIC IBTC 26.9% FBNH 20.4%, UBA 16.8%, ACCESS 16.8%, and ZENITH 10.2% respectively. As H1'17 results are released, the large cap banking stocks may witness increased activities due to investors taking positions for half-year dividends.

The insurance sector declined by 0.6% to 138.63 points from 137.86 points inspite of gains from AIICO 15.4% NEM INSURANCE 10.5% and LINKAGE INSURANCE 1.59%. The sector performance was dragged down by CONTINENTAL RE-INSURANCE -8.5%, AXA MANSARD -1.3% and WAPIC -1.96%. Overall, the industry is highly fragmented and dominated by top 10 insurers of which premium are skewed towards. Sector consolidation is slow and foreign driven.

[19] Scott Free Index & FDC Think Tank

SECTOR PERFORMANCE

Chart 14 : Sectors in May 2017



20

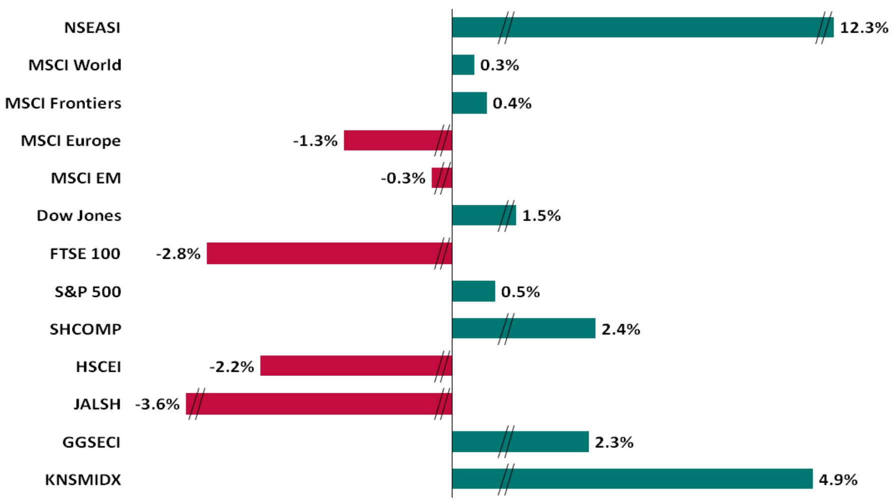
The best performing stocks were MAY & BAKER 160.4%, CEMENT COMPANY OF NORTHERN NIGERIAN 77.7%, ASHAKA CEMENT 55.2%, INTERNATIONAL BREWERIES 45.2% and PRESCO 43.1%.

TOP 5 GAINERS				
Company	Jun-17	May-17	% Change	Absolute Change
May & Baker Nigeria Plc.	3.88	1.49	160.40%	2.39
Cement Co. of North. Nig. Plc	9.70	5.46	77.66%	4.24
Ashaka Cem Plc	17.08	11.00	55.27%	6.08
International Breweries Plc.	30.57	21.05	45.23%	9.52
Presco Plc	73.00	51.00	43.14%	22.00

Top price losers were JAIZ (-26.3%), OANDO (-13.6%), MOBIL (-12.2%), UNIVERSITY PRESS (-11.4%) and C & I LEASING (-8.8%).

[20] NSE, FDC Think Tank

TOP 5 LOSERS				
Company	**Jun-17**	**May-17**	**% Change**	**Absolute Change**
Jaiz Bank Plc	0.70	0.95	-26.32%	-0.25
Oando Plc	7.30	8.45	-13.61%	-1.15
Mobil Oil Nig Plc.	250.02	284.65	-12.17%	-34.63
University Press Plc.	3.57	4.03	-11.41%	-0.46
C & I Leasing Plc.	0.62	0.68	-8.82%	-0.06



[21]

Performance in the global equity indices was mixed across regional markets in the month under review against the backdrop of political tension in Europe. In developed markets, the UK FTSE declined by 2.8% following the UK’s general election which significantly reduced Theresa May's authority to negotiate Brexit. Also, Bank of England increased the capital buffer for banks by $14.5 billion. The US S&P 500 advanced by 0.5%, buoyed by the US Fed’s fourth consecutive interest rate hike by 0.25% to 1%-1.25%. This suggests that the US economy is strengthening given labour market improvement and to a lesser degree inflation. However, advancement in US equities challenges the assumption that the interest rate hike is bad for stocks.

In the sub Saharan African region, Kenyan index (KNSMIDX) and Ghanaian (GGSECI) closed positive in the month, in tandem with

[21] NSE, Bloomberg, MSCI & FDC Think Tank

the performance of the NSE ASI by advancing by 4.9% and 2.3% respectively. South Africa's index (JALSH) declined by 3.6%.

OUTLOOK

Stock market rally is unsustainable. We expect a correction as fundamentals need to justify valuation. We also expect portfolio investment inflows in the equity market to increase in the long term as currency stabilizes.

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GENERAL INFO

PROGRAMME VENUE:
Km 22, Lekki-Epe Expressway, Ajah, Lagos

TIME:
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CORPORATE FOCUS- PRESCO PLC

Analyst Recommendation: SELL

Recommendation Period: 365 days

Industry: Agriculture

Market Capitalization: N73.0 billion

Current Price: N73.00

Target Price: N62.22

Agriculture is a sector that is increasingly becoming interesting to investors in Nigeria's capital market. The two major agricultural companies listed on the Nigerian Stock Exchange, Presco and Okomu recorded YTD returns of 82.04% and 53.35%, respectively. Therefore, placing a less than favourable rating on the stock of any such companies is difficult as they have both provided huge returns. However, given the recent dramatic increase in Presco's share, Presco's is currently overvalued. Presco's valuation was derived using intrinsic valuation.

In less than 8 weeks since 27 April, 2017, Presco's share price has increased by 68.9% from N46 to N76. During this period, the Nigerian All Share Index (ASI) also increased by 30% from 25,753 to 33,477.89. Thus, the remarkable increase in Presco's share price coincided with intense positive investor sentiment. In determining Presco's intrinsic valuation, factors considered included current financial performance, growth prospects, expansion plans, competitive positioning and macroeconomic fundamentals. Considering these, the spike in Presco's price and its fundamentals, we believe that Presco is valued and provides no upside for investors purchasing the stock right now. A good entry point will be N52 per share. Accordingly, we place a SELL rating on the company's stock.

INDUSTRY AND COMPANY OVERVIEW

Lack of improved seedlings and lower investment in the agriculture sector has led to the shrinkage of the Nigerian palm oil industry. As a result, there is inadequate palm oil supply. Oil palm consumption is growing at a compounded annual growth rate (CAGR) of 2.8% while local palm oil production is growing at 1.2%, leaving a supply gap estimated at 1.7 million metric tonnes (MT) per year. This supply shortage led to increased importation, a cheaper option than sourcing local product. However, the foreign exchange ban on 41 items including CPO by CBN has led to the increase in demand of locally produced palm oil. Importers of palm oil are left subject to the fluctuations of the parallel market. Any further weakening of the naira or decrease in global crude palm oil prices will further discourage importers. The ban provided a competitive advantage in pricing for local producers of palm oil, which partly explains why Presco and Okomu recorded high growth in sales and profit margins in 2016.

The two major palm oil producers are Presco and Okomu. These two are competitors in the segment related to palm oil plantation and the production of CPO segment. Both companies are listed on the NSE. Other players such as PZ Wilmar, Rumoil and DUFIL Prima Foods have made significant investments in the palm oil sector, and they all compete in the refined oil segment. This has increased the competitive landscape though Okomu and Presco are still the most recognized brands in crude oil production in Nigeria. It is estimated that the output from these increased investments in palm oil production could reduce the supply deficit by at least 60%, though it may take as much as five years for the yields of these oil palm plantations to be realized.[22] The oil palm gestation period is between three to five years.

Presco is the leading palm oil producer in Nigeria. The company was listed on the Nigerian Stock Exchange in 2002 and the current shareholding shows that SIAT SA holds 60% while the Nigerian public holds 40%. It is the only fully-integrated palm oil company in Nigeria; it is self-sufficient across all value chains of the oil palm sector. The company's main business activities are the development of oil palm plantations, palm oil milling, palm kernel processing and vegetable oil processing. Its products include crude palm oil, refined bleached and deodorized palm oil, palm olein, palm stearin, palm fatty acid distillate, palm kernel oil and palm kernel cake. Its major customers comprise wholesalers, consumers and industrial users such as Nestle, Friesland Foods

[22] Femi Adekoya. 2016. Nigeria's path to revamping the oil sector. http://guardian.ng/business-services/industry/nigerias-path-to-revamping-oil-palm-sector/

WAMCO Nigeria Plc, Cadbury, Beloxxi and Dangote Group.

As of December 2016, Presco's key biological assets consisted of palm trees from its 3 existing estates. Mature palm trees occupy a total of 15,356 hectares; immature palm trees occupy a total of 1,294 hectares; pre nursery and main nursery seedlings available to generate a total of 1,800 hectares. The company's milling capacity is 60MT/hour, and its refining capacity is 100MT/hour. The financial highlights below demonstrate the remarkable growth that Presco has witnessed through the years. Between 2013 and 2016, total asset increased by 154.6% while revenue increased by 85.2%. Its latest Q1' 2017 financial results show that both revenue and net income grew by 125.4% and 178.9%, respectively. The increase in revenue was driven by both price and volume increases. The price of domestic crude palm oil increased by 45% yoy, while sales volume increased due to import restrictions and peak oil production season.

Income Statement for Presco Plc (FY Dec 2016)

N'000	**2013**	**2014**	**2015**	**2016**
Revenue	8,485,144	9,137,704	10,448,353	15,716,198
Cost of Sales	(3,869,321)	(3,199,422)	(3,813,137)	(4,404,785)
Gross Profit	4,615,823	5,938,282	6,635,216	11,311,413
Gain/(loss) on biological assets revaluation	(223,045)	5,772,898	1,062,230	24,879,287
Distribution expenses	(159,927)	(169,110)	(198,608)	(223,945)
Selling, General & Administrative expenses	(1,550,368)	(3,300,732)	(2,940,936)	(4,378,794)
Other operating income	41,933	22,004	364,639	323,146
Operating profit	2,724,416	8,263,342	4,922,541	31,911,107
Net finance cost	(390,444)	(362,562)	(707,800)	(684,655)
Profit Before Tax	2,333,972	7,900,780	4,214,741	31,226,452
Income tax expense	(996,768)	(2,706,736)	(1,721,146)	(9,490,987)
Profit for the year	**1,337,204**	**5,194,044**	**2,493,595**	**21,735,465**
Other comprehensive income				
Acturial gains (losses) on defined benefit plans	(43,231)	3,397	22,463	41,034
Income tax relating to components of OCI		(1,019)	(6,739)	(12,310)
Comprehensive income for the year	1,293,973	5,196,422	2,509,319	21,764,189

Balance Sheet for Presco Plc (FY Dec 2016)

N'000	2013	2014	2015	2016
Intangible assets	303,296	147,933	183,581	192,566
Biological Assets	17,503,858	34,343,913	29,291,216	44,920,219
Property, Plant & Equipment	10,686,754	10,946,470	19,990,011	22,444,657
Other non current assets	110	110	110	110
Non-current assets	28,494,018	45,438,426	49,464,918	67,557,552
Inventories	2,126,962	1,363,929	1,105,632	1,420,597
Trade and other receivables	1,914,507	1,768,774	2,777,782	1,095,901
Other current assets (includes bio assets)	-	1,184,273	1,252,376	10,502,660
Cash and cash equivalent	127,812	63,088	877,291	2,585,128
Current assets	4,169,281	4,380,064	6,013,081	15,604,286
Total assets	**32,663,299**	**49,818,490**	**55,477,999**	**83,161,838**
Share capital	500,000	500,000	500,000	500,000
Share premium	1,173,528	1,173,528	1,173,528	1,173,528
Retained earnings	15,708,541	27,342,427	29,622,561	50,358,026
Other reserves	-	43,000	58,724	87,448
Equity attributable to equity holders of the company	17,382,069	29,058,955	31,354,813	52,119,002
Non controlling interests	-	-	-	-
Total equity	17,382,069	29,058,955	31,354,813	52,119,002
Provisions	730	-	-	-
Provisions for employee benefits	334,270	234,897	271,481	313,445
Financial Liabilities	4,151,080	3,415,994	4,787,517	4,781,433
Deferred tax liabilities	6,395,924	12,589,436	12,638,125	20,340,405
Non-current liabilities	10,882,004	16,240,327	17,697,123	25,435,283
Financial liabilities	702,943	687,031	2,069,896	1,917,514
Trade and other payables	3,391,864	3,397,025	3,356,707	1,699,761
Current tax liabilities	97,444	399,453	905,058	1,792,041
Other Current liabilites	206,975	35,700	94,401	198,235
Current liabilities	4,399,226	4,519,209	6,426,062	5,607,551
Total liabilities	15,281,230	20,759,536	24,123,185	31,042,834
Total equity and liabilities	**32,663,299**	**49,818,491**	**55,477,998**	**83,161,836**

MANAGEMENT IS FOCUSED ON EXPLORING GROWTH OPPORTUNITIES

Presco's management comprises individuals that have been instrumental in the growth of Presco. The chairman is Mr Pierre Vandebeeck, who has established several oil palm estates in Nigeria. He has been the chairman of Presco since January 2010. The Managing Director is Mr Felix Nwabuko. Mr Nwabuko, who assumed the position of Managing Director in 2015, has been instrumental to the firm's growth trajectory through the years. He was part of the team responsible for the public listing of Presco in 2002. Mr. Nwabuko has an extensive experience in strategic and operational management of large scale industrial oil palm plantations both in Nigeria and Ghana.

In a relatively recent meeting conducted between the Renaissance Capital research team and Presco's management, the company's management indicated its strategic goals of capacity expansion, revenue diversification and adequate capital structure. Presco plans to acquire extra 2,500 hectares for oil palm plantation. It was also indicated that Presco intended to acquire the Ada Palm Facility in Imo State. The company plans to increase its current capacity of 100MT/day of refined palm oil by the production of its palm-oil refinery and fractionation plant to 500MT/ day by 2020, its palm-oil mills capacity from 60 tons to 120 tons per hour and palm-kernel crushing capacity to 100 tons daily by 2018 from the current 60 tons capacity.

With respect to revenue diversification, the company earned forex through the export of palm kernel oil in 2016. Presco's management also mentioned its plans to export palm kernel shells. To further bolster its earnings potential, Presco's management indicated that the company has ventured into rubber production. The company has acquired 14,000 hectares of land in Edo State for its rubber plantation, but earnings will be impacted after the 7 year gestation period of the rubber plantation.

A major factor in Presco's expansion goals is the capital structure to be utilized in driving its plans. Its management indicated that Presco may raise capital via rights issue to fund its expansion and acquisition activities. Its plan to raise capital through the secondary market was hampered by the poor performance of the stock market last year as well as the poor macroeconomic conditions.

Nonetheless, the company has been able to raise capital through the Central Bank of Nigeria's intervention fund, and the management team stated its openness to securing public capital and other alternative means of capital.

Bulls Say:

- Leading brand in the Nigerian oil palm sector
- Increasing demand for crude palm oil and its derivative products
- Favorable government policies towards the agricultural sector
- Investment in palm kernel oils and palm kernel cake provide diversification benefits
- Highly experienced and talented management
- Increased investments in plantation

Bears Say:

- Competition from major players including Okomu, imported substitutes and small farm holders
- Change in government policies could affect the competitiveness of companies in the agricultural sector, particularly the palm oil sector
- Persistent macroeconomic headwinds could curb demand for palm oil products

RISKS AND OUTLOOK: SOLID PROSPECTS WITH CERTAIN RISKS BEYOND ITS CONTROL

Presco faces currency risks, interest rate risks, possible changes in government policy and inclement weather. The company buys and imports some of the raw materials and machinery in foreign currency. Presco undertakes its foreign transactions in USD and euro. The company's approach to managing the risk is to hold foreign currency bank accounts which act as a natural hedge for such transactions. Another risk is an increase in interest rates, which arises from trade finance for financing its transactions. The company manages this risk through negotiations with banks.

A change in government policy towards agriculture and foreign exchange management could affect Presco's earning potential. Leading players in the manufacturing sector have pressured the government to remove the tariff on imported palm oil as there remains an inadequate palm oil supply to meet demand. According to these manufacturers, unavailability of palm oil has led to the closure of some manufacturing plants. If the government accedes to these demands, this could change the competitive landscape in the palm oil industry and hurt Presco's earning prospects. Though the argument for a better import policy for palm oil is tenable, the government's commitment to protecting the agricultural industry and ensuring backward integration of the palm oil industry will likely forestall any possible change in policy. Finally, an inclement weather could affect the quality of the fresh fruit bunch (FFB) produced by the oil palm plantation, thereby diminishing earnings prospects.

APPENDIX - VALUATION

We derived our valuation for Presco Plc by using the Discounted Cash Flow (DCF) methodology. Our fair value estimate for Presco is N62.22, which is a 14.8% downside on the price of its share as of June 22nd 2017. The discount rate (weighted average cost of capital (WACC)) of 15.3% is derived using a 13.25% risk free rate, a beta of 0.4907, an after-tax cost of debt of 7.9%, and a market risk premium of 6.0%. The calculated long term cash flow growth rate to perpetuity is 5.6%.

Taking into account Presco's latest financial results, its revenue diversification strategy, expansion plans and possible prevailing economic conditions, we forecast a five-year revenue compound annual growth rate of 16.9%.

PRESCO PLC VALUATION USING DISCOUNTED CASH FLOW (DCF)

DCF Valuation					
N'000	2017E	2018E	2019E	2020E	2021E
EBIT	13,208,429	13,883,886	15,843,042	16,540,330	17,333,858
Less: Taxes	(4,014,578)	(4,219,877)	(4,815,344)	(5,027,278)	(5,268,463)
EBIAT	9,193,851	9,664,009	11,027,698	11,513,052	12,065,395
Plus: D&A Expense	2,590,649	2,821,248	3,178,647	3,488,622	3,914,018
Less: CAPEX	(6,407,208)	(7,106,619)	(5,650,651)	(4,947,447)	(5,197,880)
Less: Change in working capital	710,035	914,050	(1,291,761)	1,428,769	(794,444)
Free Cash Flow (FCF)	6,087,328	6,292,690	7,263,933	11,482,996	9,987,088
WACC	15.3%	15.3%	15.3%	15.3%	15.3%
Present Value (PV) of FCF	5,281,684	4,737,266	4,744,702	6,507,858	4,910,972
	2017	**2018**	**2019**	**2020**	**2021**
Terminal value					109,182,747
Present value of terminal value	40,417,922				
DCF Calculation	**Valuation**				
PV of explicit period	26,182,481				
PV of terminal value	40,417,922				
Enterprise Value	66,600,403				
+ Cash	2,318,501				
- Borrowings	(6,698,947)				
Equity Value	62,219,957				
Share price	**62.22**				
Shares outstanding ('000)	1,000,000				

Important Notice

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