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Inside This Issue:

The Need to Invest in Nigeria's Infrastructure

There is a strong case for increased infrastructure spending around the world, more so in Nigeria, given the substantial infrastructure deficit. The severity of the downpour in most parts of the country in early July was unexpected. The high level of flooding from the rain exposed the precariousness of Nigeria's basic infrastructure. Increased spending on roads, railways and power plants will benefit Nigeria greatly as the spending boosts economic activity, creates jobs and improves the general quality of life. One can even say that infrastructure development is politically expedient as any progress gives the ruling administration an invaluable record of achievements.

Unfortunately, Nigeria has fallen far short in attempting to tackle its infrastructure deficit, a failure that stems largely from insufficient public expenditure. Driven by an oil price boom, Nigeria's public expenditure soared in the last few decades. Government capital expenditure failed to follow the same trend; instead, the focus was on recurring costs. In 2008, the total budgeted expenditure was ₦3.3trn, while the capital allocation was ₦1.2trn or 37% of the total budget. By 2016, the total expenditure had increased significantly to ₦6.1trn while the capital allocation rose to just ₦1.6trn, falling to just 25% of the total. In the 2017 budget, the allocation for capex was increased to N2.24trn. President Buhari recently sought approval from the Senate to borrow $5.5bn from the international capital market in the form of Eurobonds. The government intends to use the proceeds to finance infrastructure projects such as the Mambilla hydropower dam and a second runway for the Abuja airport

In order for Nigeria to realize opportunities that come with improved infrastructure spending, it needs to prioritize capital expenditure over recurrent expenditure, close the gap between budget allocations and actual disbursements, and engage the private sector for additional investment. Doing so will create a business operating environment more conducive to growth, which will in turn increase private investment and encourage foreign business travelers and tourists to come to the country.

Infrastructure development is critical for economic diversification

Bridging the infrastructure deficit will be a difficult task. Nigeria's infrastructure base in 2012 stood at 35% of GDP, compared to 58% in India and 87% in South Africa. The international benchmark is 70%, double our current ratio. The good news is that we have witnessed a notable rise in recent years as the present administration implements its expansionary fiscal policy. Following the appalling situation in 2015, when capital expenditure was merely 10% of the budget expenditure, the government has stabilized the allocation around 30%, with a significant jump in absolute terms. The oil price crash in 2014 precipitated a technical recession in 2016, highlighting the fragility of the Nigerian economy once again. To transform the country from an oil dependent economy to a diversified economy, the govern

ment must continue to increasingly prioritize infrastructure development that will support other key sectors such as manufacturing and tourism.

More importantly, the Federal Government of Nigeria (FGN) must bridge the gap between allocated amounts and what is actually disbursed. For instance, in 2014, only 50% of the projected ₦1.1trn capital expenditure was actually spent, due primarily to delays in budget ratification. Incessant cases of either budget padding or missing budgets have complicated and extended the process of passing the budget, particularly in recent years. These delays leave little time for civil servants to actually spend the allocated money before the fiscal year comes to an end. The hope is that a recent constitutional amendment bill will address this issue, reducing the ability of the president and state governors to withhold assent for bills passed by lawmakers and setting a time limit requiring the president and governors to submit annual budgets to their respective legislatures.

It is important to note that the FGN cannot bridge the deficit alone. The National Integrated Infrastructure Master Plan (NIIFP) suggests that Nigeria needs to spend $100bn each year for the next 30 years to reach this target. That is almost 33% of our annual GDP. It is clear that the gravity of our infrastructural decay requires a responsive private sector that sees the need and opportunities for investing in Nigeria. The government's Economic Recovery and Growth Plan states it will leverage private sector capital to achieve results. Engagement with the private sector may come in a variety of ways: direct investment, concessions, public-private partnerships (PPPs), investment funds, and other arrangements. A guiding principle is that basic infrastructure that is not economically profitable should be solely financed by the government while financially viable infrastructure should be the responsibility of private investment. The marginally profitable can be handled via PPPs.

For this strategy to work, the government has a vital role in creating: an enabling environment; maturing institutions to promote investment protection; and modernizing domestic capital markets to provide lower financing costs for longer tenors. A start would be streamlining the regulatory relationship between the Bureau of Public Procurement and the Infrastructure Concession Regulatory Commission to loosen the bottlenecks hindering current PPP projects. Private sector involvement in infrastructure development will eventually help discipline spending and target it towards the most productive uses. This would ensure that Nigeria avoids politically motivated projects and that the structures necessary for the growth of infant industries can thrive instead.

A well-developed strategy for infrastructure renewal and development will change Nigeria. Not only will it create jobs and put money into the economy in the building phase, it will enable the country to attract investment (foreign and domestic), develop tourism, increase the ease of doing business, and strengthen the country's human capital. The government needs to make this a focus of its planning and budgeting, and ensure that the process allows the strategy to be successful.

Evaluating The Adequacy of Nigeria's External Reserves Level

Nigeria's external reserves grew significantly in the last two decades, from $3.4bn in 1996, to an all time high of $62.1bn in 2008. By August 2014, as the oil price shock gained momentum, Nigeria's gross reserves level dropped to $39.6bn. Increased CBN market interventions, lower oil proceeds and capital flight all contributed to the sharp decline in external reserves to a decade low of $23.9bn in October 2016. After lingering between $30-30.9bn in the first half of 2017, the external reserves crossed the $31bn threshold on August 29th, to settle at $32.7bn on October 3rd. The accretion was primarily due to the rise in oil revenues. Additionally, the introduction of the Investor & Exporter Foreign Exchange (IEFX) window helped boost investor confidence and foreign portfolio inflows.

The accretion has some wondering if Nigeria has reached a point of comfort with its reserve levels. When measuring the sufficiency of a nation's external reserves, it is generally accepted that there are four key considerations: import cover, broad money, current account deficit and the stress test. Of the four, the stress test is considered to be the most important because it determines the country's vulnerability to possible crisis. A review of the four considerations demonstrates that while Nigeria performs well in the first three, it fails the fourth. Therefore, while the increase is positive, further growth is still needed if the country is to build resilience against external factors such as another global economic slowdown or oil shock.

WHAT ARE EXTERNAL RESERVES ???

External reserves are assets stored in foreign currency by a country's monetary authority. The foreign currency is viewed as a stable safe haven for capital. More than 60% of all external reserves are held in US dollars, the world's most traded currency. Other currencies commonly used as reserve currencies include the euro (20.3% of global reserves), the British pound (4.7%), the Japanese yen (4.2%) and the Canadian dollar (2%)[1]. China has the world's largest external reserves, with approximately $3.1trn. Japan comes second, with $1.25trn, followed by Switzerland with 714.3bn Swiss francs ($0.73trn) in external reserves. [2]

[1] Source: Investopedia. Available at : http://www.investopedia.com/terms/m/monetary-reserve.asp
[2] Source: Trading Economics. Available at: https://tradingeconomics.com/country-list/foreign-exchange-reserves?continent=america

Foreign reserves include foreign bank notes, bank deposits, bonds, treasury bills and other government securities. Nigeria's external reserves are mainly from the proceeds of crude oil production and gas, which make up at least 91% of the reserves. Other sources include non-oil export revenue, Diaspora remittances, recovered funds, tax and commissions.[3]

Why does a country need robust external reserves ?

There are many reasons why a country may look to build-up its reserves

A tool for monetary policy

Using external reserves, the CBN can exert some control over exchange rates. If the monetary authority desires to make the national currency cheaper, to promote international trade, it can restrict the supply of forex. Prior to its adoption of a managed float, China's central bank frequently intervened in the forex market, to weaken the yuan and boost the attractiveness of its exports. Alternatively, a central bank could increase supply of the foreign currency to the market. This strategy reduces pressure on the local currency, leading to its appreciation. This policy is a favorite of the Central Bank of Nigeria (CBN). The higher the reserves level, the more the CBN can intervene to influence the exchange rate.

As a buffer against external shock

An external shock is anything that can affect aspects of the domestic economy (consumer prices, government revenue or investment flows) and is outside the control of the government or monetary authority. These can include global economic slowdowns, financial crisis in major trading partners, natural disasters, or commodity price falls. In the event of any of these, external reserves provide an interim cushion, by providing back-up funds; it can support a quick recovery or adjustment. The more robust the external reserves, the more resilient a country is to external shocks.

To maintain investor confidence

In measuring the credit worthiness of a country, investors sometimes consider its external reserves. Robust reserves suggest that, if push comes to shove, the country can utilize part of its reserves to pay its debts and liabilities. The higher the reserves level, the lower the risk of a repayment default.

Government savings

External reserves are a form of government savings that can be used when access to capital markets and borrowing is curtailed. A central bank may also build-up its reserves to accumulate wealth or provide backing for the domestic currency.

[3] Source: Central Bank of Nigeria. Available at: https://www.cbn.gov.ng/out/2015/ccd/determination%20of%20optimal%20foreign%20exchange%20reserves%20in%20nigeria.pdf

When do reserves become large enough?[4]

Compared to its peers, Nigeria lags behind.

Oil Producers

Country	External Reserves ($bn)
Russia	418.9
Saudi Arabia	377.17
Indonesia	127
Nigeria	32.7
Venezuela	10

Countries with similar GDP size ($350-450bn[5])

Country	External Reserves ($bn)
Thailand	190
UAE	86.31
Norway	67.96
Nigeria	32.7
Austria	23.41

African countries

Country	External Reserves ($bn)
South Africa	46.74
Egypt	36.03
Nigeria	32.7
Angola	18.02
Kenya	11.14

Emerging Economies

Country	External Reserves ($bn)
China	3,092
India	402.25
Brazil	381.84
Mexico	175.28
Nigeria	32.7

[4] Tables in this section present External Reserves data as at August 2017. Expect for Nigeria and where otherwise stated.
[5] Table includes data for countries which recorded a GDP within this range in 2016

However, comparisons aren't always the most beneficial way to assess the size of the reserves. When measuring the sufficiency of a nation's external reserves, the following factors provide some guidance:

Import Cover

The rule of the thumb is that external reserves should be able to cover at least three months worth of imports. However, according to a case study research carried out by the International Monetary Fund (IMF)[6], countries that exceed the three month advised minimum are less likely to experience a significant slowdown in gross domestic product (GDP), as a result of external shock. At $32.7bn, Nigeria's external reserves are equal to approximately 9 months of imports and service payment cover. Using this measure, Nigeria's external reserves are adequate.

Broad Money

Another benchmark for measuring adequacy suggests that reserves should be at least 20% of broad money.[7] Broad money is the amount of money in circulation plus banks' short-term deposits and 24hour money market funds.[8] As of July 2017, broad money (M2) stood at N22.2trn. 20% of this is N4.44trn. Using an exchange rate of N305/$, this is equivalent to about $14.21bn. Again, using this measurement, Nigeria's external reserves prove sufficient.

Current account

It is usually recommended that a country has enough in its reserves to cover its debt payments and current account deficit for 12 months. Nigeria's current account balance is projected to close 2017 at $7.6bn. Total debt service payments stood at $2.45bn in H1'2017.[9] Using this as a proxy, we can estimate that total debt service payments, both domestic and external, for 2017 will reach $4.9bn. This means, using the current account measure, Nigeria's external reserves would need to be at least $12.5bn. Again, Nigeria passes this yardstick.

Stress testing or worst case scenario analysis

This simulation technique involves evaluating if the external reserves level could provide an adequate buffer in the event of an external or domestic crisis. This method is similar to the banking industry's stress test. In this instance, a worst case scenario for Nigeria would be an oil price below $40, and/or the resurgence in disruptions, push production below 1.4mbpd. With this method, Nigeria's reserves are inadequate. 2014, serves as a case in-point for this. Despite an external reserves level of $39bn during that year, when oil lost over 50% of its value, the exchange rate plunged, and Nigeria was thrown into a full blown recession. Although some other factors, such as delayed policy response and oil dependence, exaggerated this, had the reserves been more robust, the impact of the oil price shock would have been less severe.

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6 Source: International Monetary Fund (IMF). Available at: https://www.imf.org/external/pubs/ft/wp/2012/wp1207.pdf

7 Source: Antilles Economics. Available at: https://www.antilleseconomics.com/reserve-adequacy/

8 Source: The Financial Times. Available at: http://lexicon.ft.com/Term?term=m0,-m1,-m2,-m3,-m4

9 Total debt service includes external and internal debt. Internal debt was converted to dollars using N305.5/$ exchange rate. Source: Debt Management Office (DMO) https://www.dmo.gov.ng/debt-profile/external-debts/debt-service; https://www.dmo.gov.ng/debt-profile/domestic-debts/domestic-debt-service

Should this scenario play out again, Nigeria is likely to face another recession. A fall in price to $40pb is a 29.12% loss from the current price of $56pb (Oct.12th). Compared to the price plunge of over 50% in 2014, this doesn't seem like much. However, with cost per barrel at $22, this represents a 47.1% fall in yield. Additionally, this is below the budget benchmark of $44.5pb. Accompanied with a possible decline in production, this will be pose severe risks to Nigeria's fiscal earnings. Additionally, the implications for the exchange rate are significant. This is because oil proceeds are the primary source of funding for the external reserves, which the CBN uses to maintain a stable naira. Any interruption to this inflow could deplete the reserves level rapidly. Meanwhile, to balance the shortfall in supply, and maintain stability, the CBN is likely to introduce restrictions on dollar demand, like it did in 2015 with the ban on 41 items. A forex liquidity and availability problem will mount pressure on the naira. This implies an inflationary impact on consumer prices and a decline in purchasing power. According to three out of four measures, Nigeria has an adequate level of reserves. Yet, it fails to pass the most important one of all: the stress test. This indicates that should there be another oil shock, or global economic slowdown, Nigeria will experience another crisis that will affect every aspect of the economy from consumer prices, to exchange rate, and investments. Fortunately, this impact is expected to be less severe than the 2015-16 crisis, seeing as Nigeria is at a lower economic base than it was in 2014. Also, given OPEC's aggressive drive to increase prices, and the recent decline in global rig count, the chances of an oil price below $35 is highly unlikely- at least in the short to medium term. However, with the increasing prominence of green energy and electric cars, oil faces an inevitable obsolescence in the long term. This means significantly lower demand will drive global prices down.

To shore up reserves, Nigeria will need to boost inflows and limit outflows. Inflows include export revenue and borrowing funds while outflows are primarily directed to the forex market. Thus, export diversification, improved investor sentiments and reduced forex market interventions, will help boost reserves.


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Market Data: The Bedrock of Wealth Creation

Introduction

I am greatly honored to be invited to be the keynote speaker at this epoch-making event. The topic "Market Data: The Bedrock of Wealth Creation" is not only important, but is critical at this juncture in Nigeria's history. As we tip-toe out of recession, and head towards another democratic election, it is important that macroeconomic, political, and market goals are aligned. As global economic growth becomes less resource-based and increasingly more knowledge and skill based, building sustainable wealth in Nigeria can no longer be left in the hands of Politicians and bureaucrats.

I am particularly glad that this event is coming at a time when the investment culture in Nigeria is beginning to gain traction. We have moved from a barter economy to an electronic payment & settlement economy. Historically, savings and investment culture was lacking and slow to be accepted by Nigerians. This was not necessarily because of low disposable income, but because of strong anthropological values. The Harmonized Nigeria Living Standard Survey Reports revealed that over N25billion is spent daily on food items. There is a high propensity to consume, but low propensity to save.

In Nigeria & Africa, wealth was mainly in real estate, which was based on the cultural view that a man's home is his castle. House rents at the time were collected by some in dollars, as this was a traditional way of hedging against inflation and exchange rate depreciation.

However as families and polygamy expanded, division of real assets became more difficult. As a result of this, financial asset acquisition became more prevalent. Investor friendly policies were adopted to boost the savings culture of the Nigerian populace. The Pension Reform Act was one of the measures enacted to transform the compulsory savings and defined contribution schemes.

The 2004 banking consolidation and recapitalization expanded the scope and size of the Nigerian Capital Markets. This resulted in both economies of scope and scale in the banking sector. This restored market confidence in the banking system and improved financial inclusion in Nigeria.

With these measures put in place, we have seen the level of savings and investments in the country improve immensely. Various forms of savings and investment schemes (formal & informal) have sprung up, and the Nigerian Capital Market is benefitting from this change and momentum in the investment culture.

Data: The Bedrock of Investment Decisions and Wealth Creation

We are in the era of increasing awareness and acceptance of "Big Data" as well as the "Internet of Things". Advancements in technology mean we are more connected than ever before through internet-enabled devices that send and receive messages without us even knowing. The information age began in the 1970s and is on till this day. Data and information have become easily accessible and now drive decision-making in even the most basic of tasks. Apparently, there is an app for everything – or almost everything. I wouldn't be delivering this keynote speech if there was.

Creating wealth means creating value. The idea of market data creating value is not new, what is new is how the effective use of market data is fast becoming the ultimate differentiator. Value creation and wealth have now become a function of innovation and creativity.

Markets have grown exponentially, leading Alan Greenspan to coin the phrase 'Irrational Exuberance'. It is also important to note that most markets have advanced larger than their GDPs. The US stock market for example is approximately 1.5 to 1.8 times its GDP of $17trn, and the value traded is also 200% of its GDP.

Creating wealth by investing in the stock market is possible. What is required is diligence, vigilance, timing, perseverance and a degree of luck. As a country, the choice is ours to make the stock market a driver of economic growth and wealth creation. The stock market holds a distinct advantage in raising investment capital over most other sources.

Today, all investments require some form of due diligence, as the failure of Greece and more recently, Mozambique to meet debt obligations, means some government securities are no longer gilt edged. This establishes the fact that there are no guaranteed returns and there is always the risk of losing money. Stock market investors buy stocks because of the belief that there would be an increase in price. This is tricky because they are probably buying from people who are equally convinced that the price is on its way down. Some stock prices will rise, and some will fall. Some investors will make money while others will lose. People buy on the rumor and sell on the news.

Market data equips investors and businesses with the insight to make smarter and fact-based decisions in real time. In a challenging business environment such as ours, market data becomes all the more crucial. But beyond the historical and real time data, investors depend on future projections of market direction to make investment decisions – the forecast is far more important than the current price. The price of a stock is said to reflect the present value of future earnings. To predict these future prices, data analysis using statistical and predictive modeling techniques are utilized.

Driving Investment Decisions through Market Data

The most important ingredient in perfect markets is the availability of information to buyers and sellers. While the financial markets are the best example of perfect market in microeconomics due to some level of commoditization of products and services, it is still plagued with information asymmetry. To bridge this gap, we

must provide data that is high on integrity, transparency, quality, and in a timely fashion.

Over the last decade, the Nigerian Capital Market has been relatively slow in the adoption of the concept of market data. Unlike the Nigerian Capital Market which had been reluctant in the application of big market data, the financial services sector gained far more traction through market data. This is attributed to the 2008/2009 stock market setback, which saw the Nigerian stock market lose over two-thirds of its value in one year, as investors made decisions based on fictitious and skewed data. However, times have changed as the capital market is now better informed on the importance of market data in driving investment decisions for potential entrants into the market.

The importance of market data as a tool for making investment decisions cannot be overemphasized. Market data in its real context informs traders, investors, media & others on the quotations, latest price, and historical trends for the equities, fixed income, and ETF products that are traded on the exchange platform. Market data is not only used in real time to make instant buy/sell decisions, but historical market data is used to make price projections, as well as calculate risk on investment portfolios.

However, information asymmetry continues to pose a challenge in emerging markets such as Nigeria. It has been a challenge to capture and digest vast amount of information, most especially since the quality of data or reporting governance standards is lacking. Limited data is a sign of mispricing and uncertainty, and investors who are diligent enough to analyze and uncover potential opportunities in the market environment may be rewarded. It has therefore become imperative that all investments in the capital market are well informed and cerebral.

This can only be achieved through technology. Our capital market has not reached the level of sophistication of its global counterparts. Over the past few years, we have seen a major shift in how the buy side of our global counterparts conducts research, stock selection, and even how they make buy/sell decision. The reason for this is simply technology.

Driving Market Participation

We all agree that lack of data is a problem, but lack of reliable data poses a bigger problem leading to lower customer satisfaction and retention; as the stock market consistently fails to meet expectation of investors. This is because users of data (investors) expect a certain level of return on investment given historical data, profile and their rational expectation of the risks involved.
The Efficient Market Hypothesis (EMH) tells us that it is increasingly difficult to speculate on the stock market without taking on considerable risks, as stock prices reflects all available and relevant information. Consequently, stock markets with features of information asymmetry creates room for arbitrage .

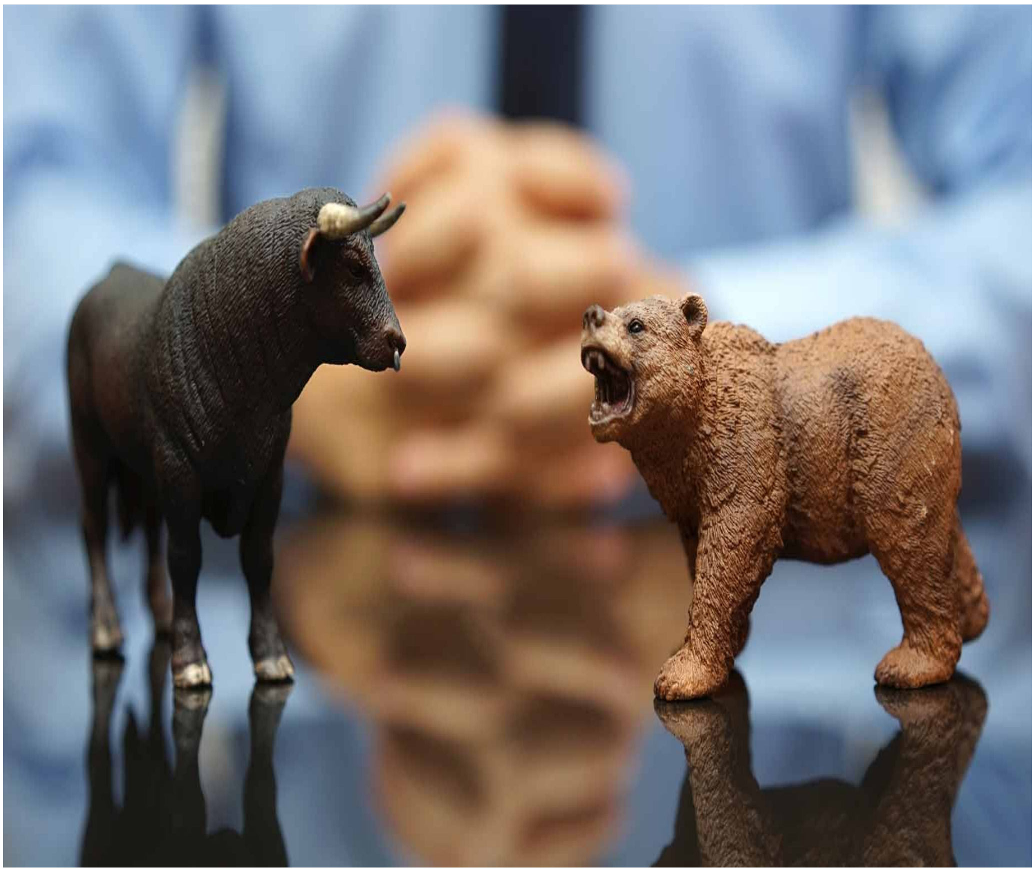
In order to assess market participation in the stock market, we need to profile the players in the market along with their respective needs. These players can be categorized based on risk appetite into two extremes; the risk lovers and risk averse, with risk neutral investors somewhere in the middle. The priorities of investors also vary widely depending on the nature of funds at their disposal. While speculators would be looking at the share price appreciation in the short term, income oriented investors would focus on stable stock prices along with a robust dividend policy.

We also need to look at the caliber of companies listed on the stock market and the key considerations of investors in the financial market. The class of companies available to investors would immensely affect investors' preference and whether or not to channel funds to the equity market. These investors could vary from foreign/ local investors to retail/ institutional investors.

In Nigeria, investors, especially foreign investors prefer treasury bills and government bonds. This is partly due to attractive yields on these government securities, but to a larger extent, the poor stock ratings and level of information asymmetry that exists in Nigerian equity space. Inventors' perception can be immensely improved by tackling information asymmetry and stock manipulation in the market.

Taking a cue from the South African stock market, Johannesburg Stock Exchange (JSE) has been rated as one of the best performing stock markets with a high level of foreign portfolio investment. Even with the political unease in the country, the JSE has surprised analysts, remaining the largest stock exchange in Africa.

Back to Nigeria, the strategic partnership between NSE and renowned international agencies like MSCI is a welcome development. More efforts must be made to build alliances and develop other indices. The cohort of indices gives the exchange visibility and status elevation in the financial market. Afterwards, these milestones and achievements must be communicated to the public, as they are key selling points that would portray the uniqueness of the market and efforts of the agency. Publicity, leveraging on technology, is crucial in improving the visibility of the stock market.



The importance of research and analysis cannot be overemphasized, as the continuous success of the market is also on the premise that the users of market data obtain value. The quality of investment and subsequently returns earned through market information would aid the ultimate success of the market. Thus, there is the need for the agency to partner with research institutions with proven competencies to drive quality. This must also be combined with big data analytics as the internet of things is fundamental to driving market participation in this new age. This would aid utilization as users are not bogged down with the nitty-gritty of drawing trends and linkages in stock market investment decisions.

We all know, the current yield on government backed securities have somewhat made equities play the second fiddle. But the CBN's move to adopt a flexible exchange rate policy may see T-bills yield slide. The key agents in the stock market need to be proactive, elucidating the risk and rewards of the stock market. Cross-selling the products on the stock market along with complementary products that mitigate the risks in the market.

Furthermore, the regulatory bodies in the market should put in place stringent measures to ensure data integrity. For instance, there should be zero tolerance for late returns.

Expectations for the Future

The argument is not that the stock market is a sustainable avenue of growing wealth in the financial market space; it is about the need to provide safeguards to minimize investors' exposure and communicate safeguards. Futures have been proven to help investors hedge against the volatility in the stock market, especially where uncertainty is high.

Nigeria is becoming more transparent as the Nigerian Stock Exchange has strengthened its regulatory frameworks in terms of corporate governance and sanction for noncompliance to guidelines. Global investors now invest significantly which is responsible for over 40% of the market. Rating agencies are also looking at our instruments and as such it is imperative that clean and reliable data be the key driver of the market. Global best practice beckons on Nigeria to comply or we perish.

Today, Nigeria is now in the frontier under MSCI, and may be reinstated back into the J .P. Morgan index. Our currency could become a fully convertible currency by 2023. And we are likely to become a more open market for world trade. Therefore data availability frequency and integrity are critical success factors. The goal of being the most attractive destination for investment is essential.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The Next Financial Crisis may be triggered by Central Banks

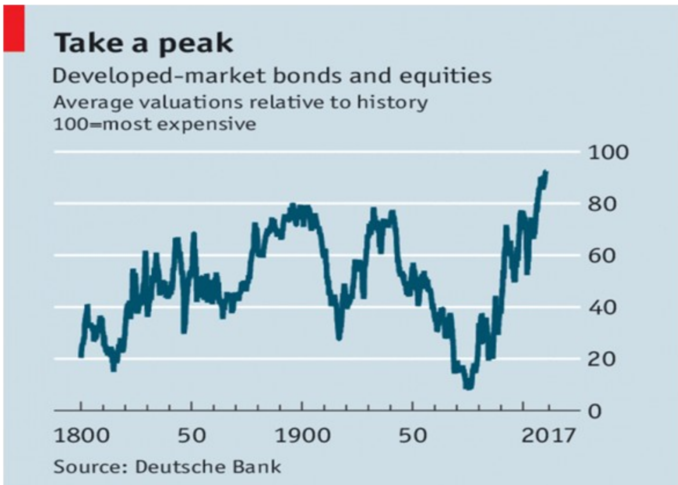
AS WITH London buses, don't worry if you miss a financial crisis; another will be along shortly. The latest study on long-term asset returns from Deutsche Bank shows that crises in developed markets have become much more common in recent decades. That does not bode well.

Deutsche defines a crisis as a period when a country suffers one of the following: a 15% annual decline in equities; a 10% fall in its currency or its government bonds; a default on its national debt; or a period of double-digit inflation.
During the 19th century, only occasionally did more than half of countries for which there are data suffer such a shock in a single year. But since the 1980s, in numerous years, more than half of them have been in a financial crisis of some kind.
The main reason for this argues Deutsche, is the monetary system. Under the gold standard and its successor, the Bretton Woods system of fixed exchange rates, the amount of credit creation was limited. A country that expanded its money supply too quickly would suffer a trade deficit and pressure on its currency's exchange rate; the government would react by slamming on the monetary brakes. The result was that it was harder for financial bubbles to inflate.
But since the early 1970s more countries have moved to a floating exchange-rate system. This gives the governments the flexibility to deal with an economic crisis, and means they do not have to subordinate other policy goals to maintaining a currency peg. It has also created a trend towards greater trade imbalances, which no longer constrain policymakers-the currency is often allowed to take the strain.
Similarly, government debt has risen steadily as a proportion of GDP since the mid-1970s. There has been little pressure from the markets to balance the budget; Japan has had a deficit every year since 1996, and France since 1993. Italy has managed just one year of surplus since 1950. In the devel-

oped world, consumers and companies have also taken on more debt.

The result has been a cycle of credit expansion and collapse. Debt is used to finance the purchase of assets, and the greater availability of credit pushes asset prices higher. From time to time, however, lenders lose faith in borrowers' ability to repay and stop lending; a fire sale of assets can follow, further weakening the belief in the creditworthiness of borrowers.

Central banks then step in to cut interest rates or (since 2008) to buy assets directly. This brings the crisis to a temporary halt but each cycle seems to result in higher debt levels and asset prices. The chart shows that the combined valuation of bonds and equities in the developed world is higher than ever before.



Economist.com

All this suggests that the financial system could be due another crisis. Deutsche makes several suggestions as to what might cause one, from a debt-related crash in China, through the rise of populist political parties to the problem of illiquidity in bond markets.

The most likely trigger for a sell-off is the withdrawal of support by central banks; after all, the monetary authorities are generally credited with having saved the global economy and markets in 2009. In America, the Federal Reserve is pushing up interest rates and reducing the size of its balance-sheet. The European Central Bank seems likely to cut the scale of its asset purchases next year; the Bank of England might even increase rates for the first time in more than a decade.

Central banks are well aware of the dangers, of course; that is why interest rates are still so low, even though developed economies have been growing for several years. But the process of withdrawing stimulus is tricky.

> Many investors will want to ride out the volatility; that has been a winning strategy in the past. The problems will emerge among those investors who have borrowed money to buy assets-in America the volume of such debt exceeds the level reached in 2008. The big question is which is the most vulnerable asset class. American mortgage-backed securities were the killers in 2008; it is bound to be something different this time round.

A big sell-off in the government-bond markets in 1994 started when the Fed tightened policy after a period when rates were kept low during the savings-and-loan-crisis. The high level of asset prices means that any kind of return to "normal" valuation levels would constitute a crisis, on Deutsche's definition. That might mean that central banks are forced to change course and loosen policy again. But the process would take a little time; central banks will not want to appear too enslaved to the markets.

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Global Executive Leadership Programme

For global chief executive officers and managing directors

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January 2018
March 2018

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Chief Executive Programme

For potential managers and supervisors, early career employees

This programme equips chief executives with the knowledge, attitude and resources to lead in the 21st century.

May 15 - Aug 18, 2017

Duration: **4 months**

Senior Management Programme

For regional managers, unit heads and assistant general managers

This programme is designed for functional managers to enhance their strategic thinking capabilities and build their personal and leadership skills.

Mar 6 - Sept 18, 2017
May 22 - Oct 20, 2017 (Abuja)
June 19 - Nov 24, 2017
Sept 18, 2017 - Feb 16, 2018

Duration: **6 months**

Management Acceleration Programme

For potential managers and supervisors, early career employees

This programme is focused on providing the skillset required to accelerate the positive impact young professionals can have on their organisation.

Aug 9 - Nov 4, 2017
May 3 - Aug 5, 2017 (Abuja)

Duration: **4 months**

Owner Manger Programme

For founders, entrepreneurs and business owners

This programme is designed to position your company for improved performance and consistent growth by mastering what it takes to build a successful and sustainable business.

April 3 - Sept 8, 2017
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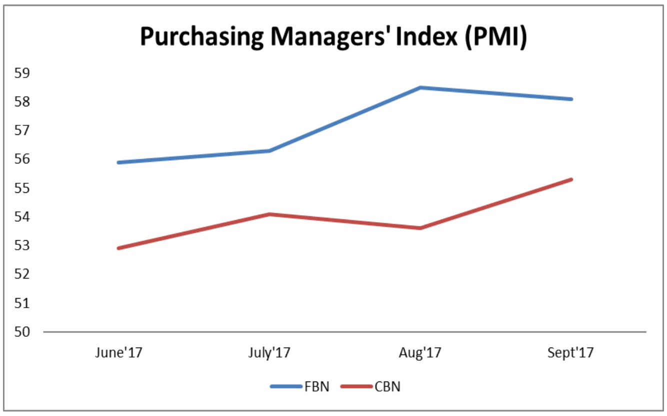
execedsales@lbs.edu.ng

Purchasing Managers Index (PMI)

The Central Bank's Purchasing Managers' Index (PMI) increased to 55.3 in September from 54.1 in August. According to the apex bank, this was driven by positive growth in 14 (out of 16) subsectors, including appliances & components, electrical equipments and chemical & pharmaceutical products. The CBN PMI has stayed above the 50 points threshold for the sixth consecutive month. On the other hand, FBN Quest's PMI report showed a marginal decline in September's reading to 58.1 from 58.5 in August. This is reflective of the threat the current high interest rate environment poses for inventory levels and carry-over costs. The FBN PMI has stayed above the expansion threshold of 50 for the seventh consecutive month.

Nevertheless, both FBN & CBN PMIs remain in the expansion territory, implying improvements in the overall health of the manufacturing sector. PMI is a coincidental indicator, thus a positive trend confirms that the economy is on a slow but steady recovery path.

Outlook



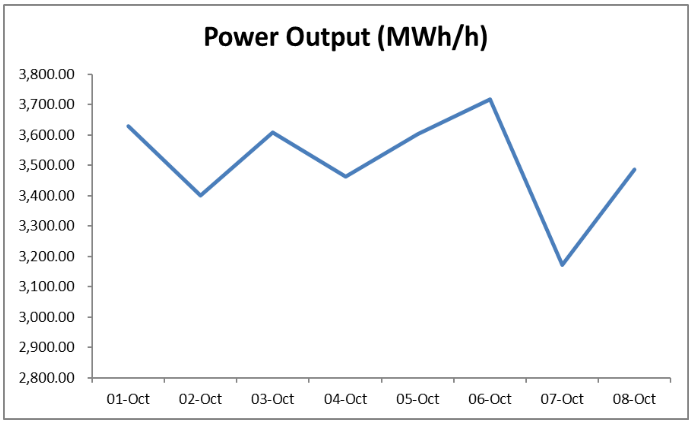
[10]

The PMI is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment. A reading above 50 is indicative of an expansion in the manufacturing sector, while a reading below 50 shows a contraction in activity. The manufacturing sector is expected to remain in positive territory as macro-economic fundamentals continue to improve. More specifically, expansion will be driven by stronger business confidence on the back of forex liquidity and stability.

Power Sector

Average power output from the national grid was 3,509.50MWh/h in the period 01 – 8th October. This is 1.39% lower than the average of the corresponding period in September. Key constraints to power output is the loss of Disco feeders i.e. the distribution line which transfers electricity to secondary capacity routes, or more remote areas. Although generation companies (GenCos) generated an average of 6,088.5MWh/h during the period, over 42% of this was lost in the distribution process. During the review period, the power sector lost approximately N9.9bn compared to N10.31bn in the corresponding period in September.

Outlook



[11]

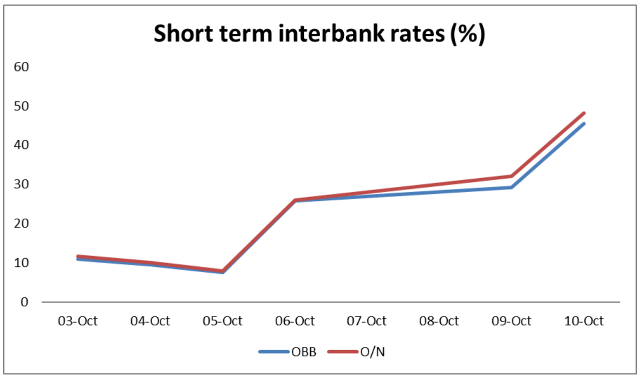
The high rainfall of the past months has led to elevated water levels at Shiroro, Kainji and Jebba, Nigeria's three hydroelectric sites. Additionally, there has been uninterrupted flow of gas to the 15 GenCos due to abated militant activities. These factors combined will cause the power output to remain above an average of 3,200MWh/h in the coming weeks. However, dilapidated and insufficient infrastructure at the Discos will continue to be a constraint.

[10] FBN, CBN, FDC Think Tank
[11] Nigerian Electricity Supply Industry

Money Market

The average opening position during the review period (Oct 4th to 11th) was negative at N70.98bn, compared to a negative position of N38.54bn in the corresponding period in September. This decline in market liquidity was as a result of increased CBN interventions in the form of OMO auctions, and funding for dollar positions.

Average NIBOR (OBB, O/N and 30-day) was 23.35% pa from 3rd – 11th October, relative to 18.1% in the corresponding period in September. The OBB and O/N rates reached a period-high of 45.50% pa and 48.25% pa respectively on 10th October. In the primary market, average yields on 91 day Treasury Bills remained flat at 13.25%, while 182 and 364 days lost an average of 2.56% to close at 15.5% and 15.73% respectively on 4th October.



[12]

Outlook

The liquidity market continues to face naira shortage issues. This is expected to be partially resolved as fiscal spending continues and government securities mature.

Forex Market

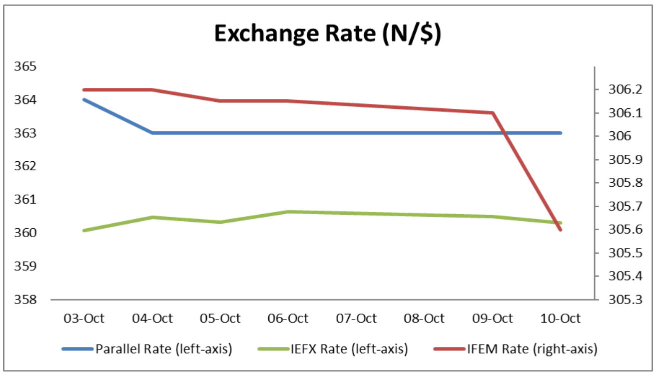
Exchange Rate

At the parallel market, the exchange rate appreciated by 0.27% to close at N363/$ on 10th October, compared to N364/$ on 3rd October. On average, the naira traded at N363.17/$ during the review period, 0.68% stronger than the average rate of N365.67 in the corresponding period in September. This uptick could be attributed to the reduced demand in the period, as October is considered an off-peak period for tourism. At the IEFX window, the naira remained relatively flat at N360.31/$ on 10th October from N360.07 on 3rd October. This brings the review period's average rate to N360.38/$, 0.23% less than the average of N359.55/$ in the corresponding period in September.

Total turnover during the period was $1.43bn, while average daily turnover was $238.9m. The IFEM rate gained 0.2% to close at N305.60/$ on 10th October, from N306.20/$ on 3rd October. During the period, the CBN intervened in the market with a total of $390m in direct sales to the interbank market.

Outlook

The naira appears to have found its equilibrium. In the past four months, the naira has traded within the band of N360-370/$ at the parallel market and N359-369/$ at the IEFX market. The release of funds for fiscal projects will heighten the demand for forex and could reverse recent gains earned.



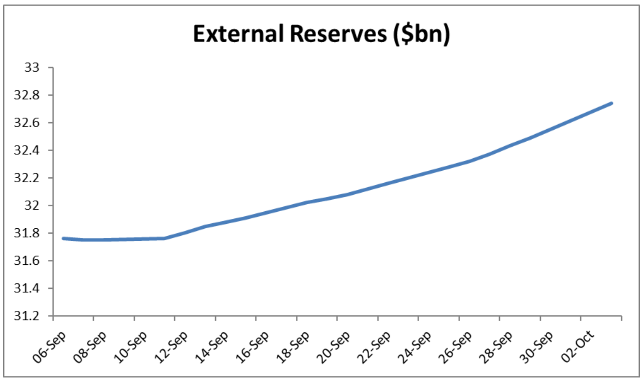
[13]

External Reserves

[12] CBN, FMDQ OTC, FDC Think Tank
[13] FDC Think Tank

EXTERNAL RESERVES

Nigeria's external reserves figures were last published on the 3rd of October, when it stood at $32.74bn. This represents a 3.1% accretion when compared to the opening figures of the previous month. This positive trend continues to be supported by strong oil prices and stable domestic oil production



[14]

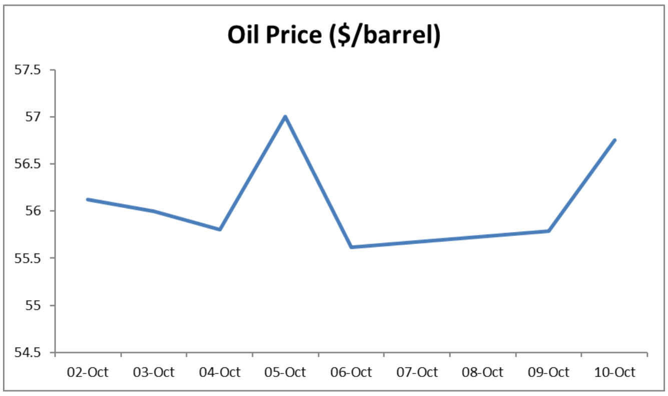
Outlook

Accretion in Nigeria's external reserves level is expected to continue based on stable oil proceeds. Downside risks to this projection include resurgence in militant activities in the Niger Delta and a fall in oil prices.

COMMODITIES MARKET - EXPORTS

Oil Prices

Brent crude has maintained its upbeat trend. After touching $57pb, the commodity closed at $56.61pb on 10th October, marginally higher than the price of $56.12pb on 2nd October. Oil price has traded above $55pb in the past 4 weeks. This bullish momentum has been supported by the drawdown in US Shale and lower-than-expected gains in rig counts. Additionally, comments from key OPEC personnel, suggest that the cartel is ready to take drastic measures to push prices even further up.



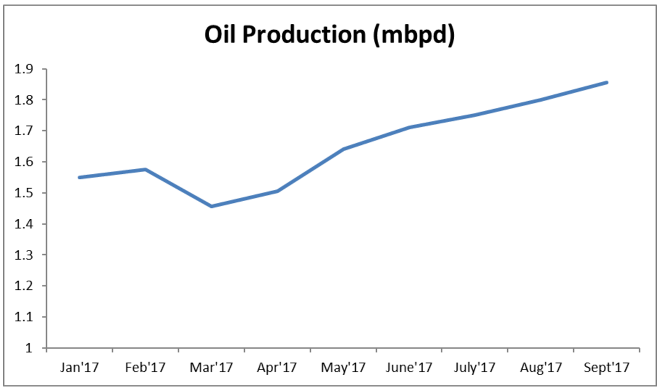
[15]

Outlook

Oil prices are likely to continue trading strong in the next weeks. However, a significant increase beyond the current price band of N55-57/$ is unlikely. This is because the market is building more resistance against aggressive attempts at price control by OPEC.

Oil Production

According to OPEC, Nigeria's domestic production stood at 1.86mbpd in September, 3.3% higher than August's output of 1.8mbpd. The general improvement in security conditions in the oil producing regions are responsible for this uptick in output.



[16]

Outlook

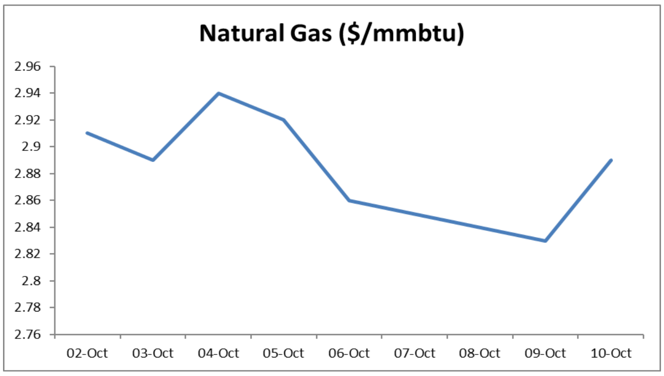
Domestic production is forecast to stabilize at current levels barring any resurgence in attacks. Nevertheless, we do not expect that future oil production will ex-

[14] CBN, FDC Think Tank
[15] Bloomberg, FDC Think Tank
[16] OPEC, FDC Think Tank

ceed 1.85mbpd, given Nigeria's agreement with OPEC to cap output. However, given OPEC's strong determination to subdue the global glut and allow even higher prices, this production cap could potentially be swapped for a production cut January 2018.

Natural Gas

From the 2nd to the 10th of October, Natural gas traded at an average of $2.89/mmbtu. This represents a 3% fall in prices compared to the corresponding period in September. This was primarily driven by higher global production and shipments.



[17]

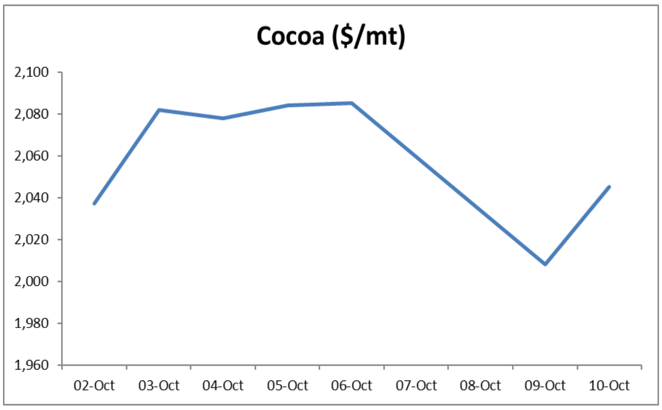
Furthermore, the delay in the commencement of the autumn season contributed to dampening demand and prices.

Outlook

Gas prices will post stronger gains in coming weeks as the temperature drops. This will raise the demand for gas for heating purposes.

Cocoa

Cocoa prices strengthened during the period to reach an average of $2,045/mt, 5.8% higher than the relative period in September. Prices touched a 3-month high of $2,085/mt on 6th October. Gains were driven by the threat of widespread disease in the producing belt of Ivory Coast. Crop pests and outbreaks, such as pod borers, caterpillars, black pod and fungal disease, have led to a slash in output by more than 30%. On the other hand, strong recovery in European processing volumes has pushed



[18]

up global futures demand estimates. These have led to a rise in the price of cocoa.

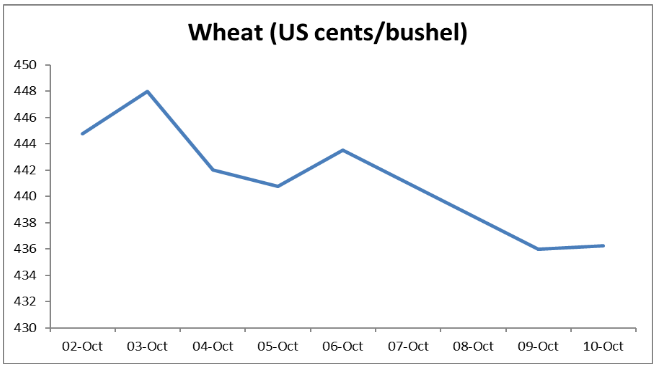
Outlook

Despite these gains, cocoa prices have lost almost 25% year-on-year. This fall in earnings means that cocoa farmers are unable to afford pesticides and fertilizers usually used to remedy disease or infestation outbreaks. We might see farmers forfeiting higher output for higher price. If this happens, cocoa price is likely to stay above $2,000/mt and supply will fall in the near term.

IMPORTS

Wheat

Wheat prices averaged $4.41/bushel in the period 2nd – 10 October. This represents a marginal uptick of is 0.45%, when compared to the average of $4.39/bushel in the corresponding period in September. More notably, wheat price lost 2% during the period from $4.44/mt on 2nd October to $4.35/mt on 10th October. The larger-than-expected esti-



[19]

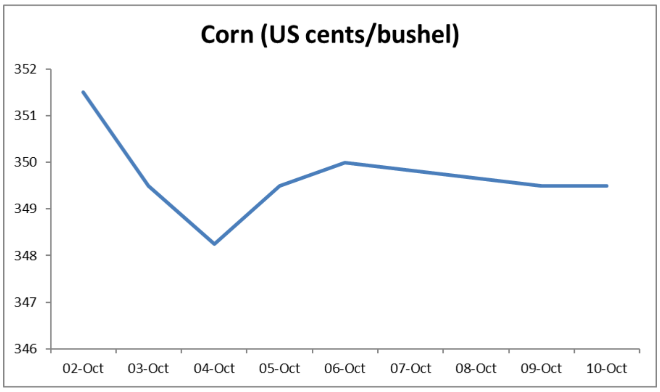
[17] Bloomberg, FDC Think Tank
[18] Bloomberg, FDC Think Tank
[19] Bloomberg, FDC Think Tank

Outlook

The decline in wheat prices is expected, as positive weather conditions in the US and Australia boosts crop harvest.

Corn

Corn prices averaged $3.49/bushel in the review period, 1.96% less than the average of $3.56/bushel in the corresponding period in September. Ample supply and slow demand for US corn exports continue to weigh on the market.



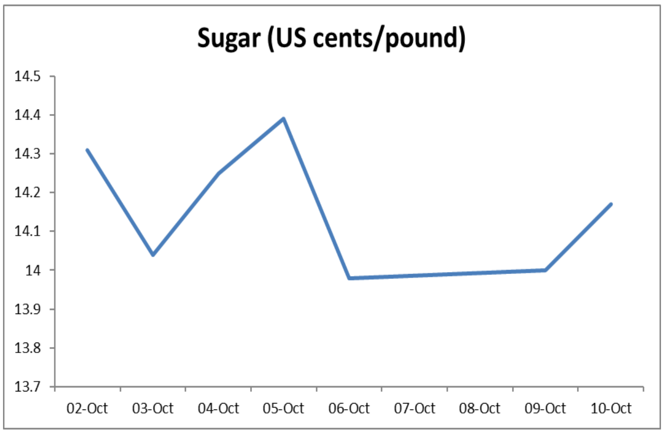
[20]

Outlook

It is anticipated that the bearish sentiment in the market for grains will persist in the short run

Sugar

Sugar prices averaged $0.1416/pound in the period 2nd-10th October, 0.42% lower than the average of $0.1422/pound in the relative period in September. This movement was in response to the anticipated increase in the EU's sugar output, as the commission removed its existing quotas on domestic production.



[21]

Outlook

Sugar prices are expected to rise in the future as Brazilian cane processors are increasingly switching to ethanol production. The market has already begun to respond to this, gaining 1.2% in the last trading day of the period (i.e. from 9th to 10th October).

[20] Bloomberg, FDC Think Tank
[21] 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.

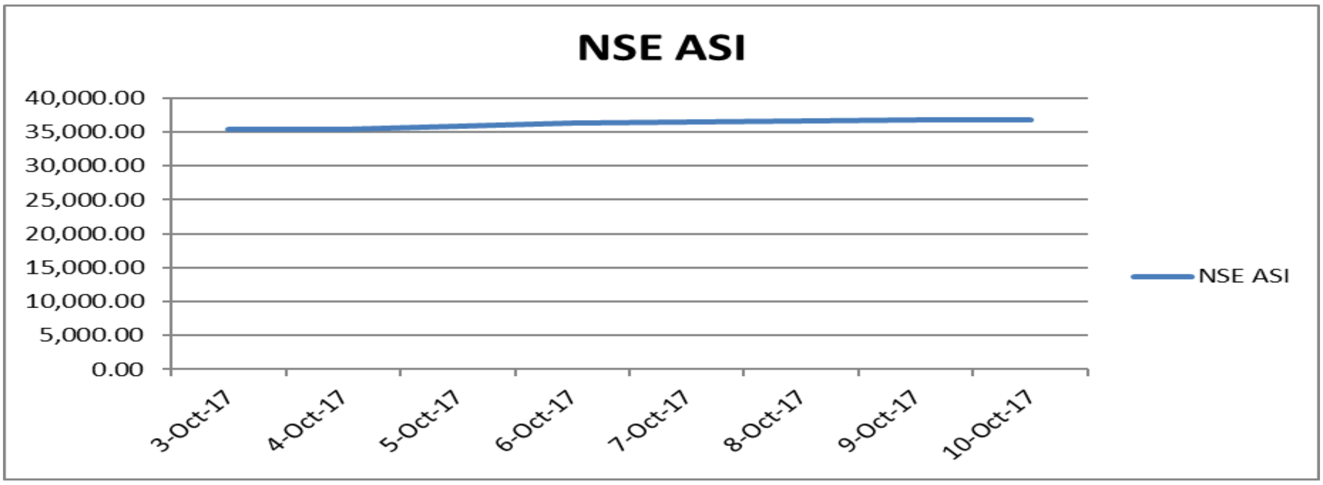
To attend one of our events, kindly contact or visit us at
9a Idejo Street, Victoria Island Lagos.

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

Bargain-hunting activities saw the NSEASI gain 4.16% to close at 36,776.60 points in the review period. The YTD return on the index increased to 36.88%, while market capitalization closed at N12.66trn. Market PE ratio stood at 13.64x.

Bargain-hunting activities particularly on bellwether stocks saw the Nigerian equities market climb to a six-week high in the period under review. Foreign investors and pension funds have begun buying shares ahead of third quarter earnings season due to start later this month, driving the index higher.

The market increased by 4.16% during the first half of October to close at 36,776.60 from the 35,306.09 points recorded at end of September. The YTD return on the index declined to 36.85% while market capitalization closed at N12.66trn after it gained N490bn during the review period. The market is currently trading at a price to earnings ratio of 13.64x from 13.11x at the end of September, 2017. Daily changes, representing volatility on the ASI, ranged between -1.1% and 0.65% during the review period.



[22]

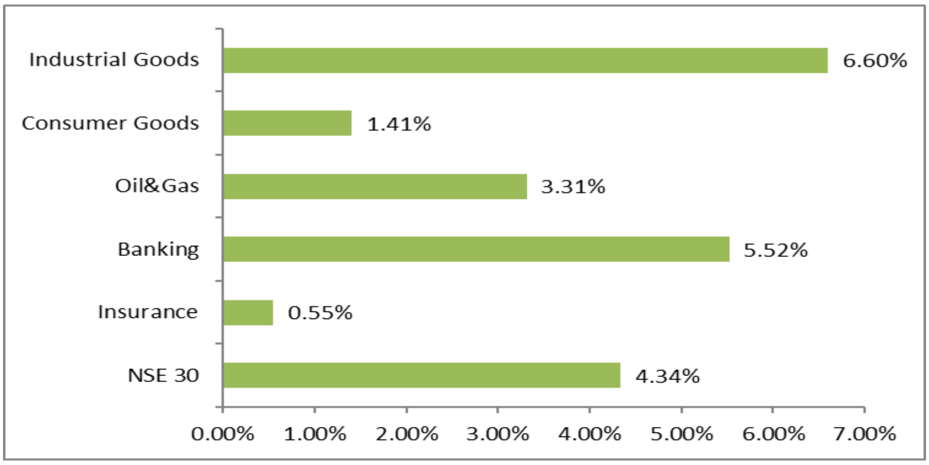
Source: NSE & FDC Think Tank

All the NSE sub-indices closed higher in the period under review reflecting increased bargain hunting activities. The industrial goods sector recorded the highest gains in the period, up 6.60% attributable to improved access to forex since the opening of the IEFX window, and easing constraints which have led to a moderate recovery in consumer confidence as well as balance sheet deleveraging.

The Banking sector also recorded a solid performance (up 5.52%) in the review period. Aside from JAIZ Bank Plc, all other banking stocks, closed positive. Gains in the sector can be attributable to the following stocks such as ACCESS 5.63%, ECOBANK 2.64%, ZENITH 2.61% and UNITY BANK 3.23% respectively. As the Q3'17 earnings season gains traction, the large cap bank stocks may witness increased activities due to investors taking positions in stocks with sound fundamentals.

[22] NSE, FDC Think Tank

SECTOR PERFORMANCE



[23]

The best performing stocks were CONTINENTAL REINSURANCE 17.65%, OANDO 15.07%, CUTIX 10% and REDSTAR EXPRESS 9.73%.

TOP 5 GAINERS (N)				
Company	**Oct 10'17**	**Sept 30'17**	**% Change**	**Absolute Change**
CONTINENTAL REINSURANCE PLC	1.40	1.19	17.65%	0.21
OANDO PLC	6.05	5.10	15.07%	1.10
CUTIX PLC.	2.20	2.00	10.00%	0.20
RED STAR EXPRESS PLC	5.30	4.83	9.73%	0.47

Top price losers were MAY & BAKER (-26.8%), CONOIL (-25.47%), NEIMETH (-18.6%) and CADBURY (-18.6%).

TOP 5 LOSERS (N)				
Company	**Oct 10'17**	**Sept 30'17**	**% Change**	**Absolute Change**
MAY & BAKER NIGERIA PLC.	2.84	3.88	-26.80%	-1.04
CONOIL PLC	33.21	44.56	-25.47%	-11.35
NEIMETH INTERNATIONAL PHARMACEUTICALS PLC	0.70	0.86	-18.60%	-0.16
CADBURY NIGERIA PLC.	11.40	14.00	-18.57%	-2.60

OUTLOOK

We expect the Nigerian equities market to remain relatively bullish driven by bargain hunting in stocks with sound fundamentals. Given recent positive macroeconomic indicators, the outlook for the economy and expectations of solid corporate earnings in Q3-17, the market is likely to sustain its positive performance.

[23] NSE, FDC Think Tank

ANALYST'S NOTE

The Nigerian oil and gas industry has been vibrant since the discovery of crude oil in 1956 by Shell-BP. However, global oil prices have fallen significantly since H2'14. This was due to the advancement in shale oil production techniques in the US, the strengthening of the US dollar and the inability of the Organization of the Petroleum Exporting Countries (OPEC) to agree on a production cut. These combined factors resulted in an ample global supply. The fall in global oil prices led to a demand pressure in the Nigerian foreign exchange (forex) market which adversely affected the corporate earnings. Moreover, the current currency movements in Nigeria and high inflation rates have not benefitted petroleum marketers. Forex challenges have resulted in higher financing costs and increased logistic bottlenecks.

Though the adverse Nigerian macro-environment and the price of oil have hurt Total Nigeria's performance in recent times, the company has returned to being a top performer judging by its financial year (FY) 2016 results. Total recorded a 40% increase in its top-line earnings and a 266% increase in its bottom-line earnings. Total's expansion plan into alternative energy will make the company grow further. Our Total Nigeria Plc valuation is derived using intrinsic valuation and its share price is currently undervalued. Accordingly, we place a BUY rating on Total Nigeria.

Industry: Petroleum Products Marketing

Recommendation Period: 365 days

Market Cap: N85.9bn

Analyst Recommendation: BUY

Current Price: N253.00

Target Price: N309.09

Earnings growth driven by impressive sales

Total Nigeria posted solid revenue of N290.95bn in FY'16 which represents a 39.86% increase of N208.03bn compared to the previous year. The significant growth in the sales of its petroleum and lubricant products by 38.02% and 53.04% respectively led to the rise in its revenue. This shows the company's resilience in a period of the general economy's slowing growth and weak economic fundamentals.

Effective cost management strategy

Total Nigeria has struggled over the last few years in managing its costs. It has had high overhead from delivering its products to all its retail outlets and high personnel costs to meet its expansion plans. However, its cost of sales as a percentage of revenue fell by 6% in FY'16 to 83% from 88% in the previous year. This was due to its investment in research and development, training of its employees on improved production and service delivery techniques, and its efficient operating structure. Total recorded a lower interest expense in FY'16 due to its ability to source dollars from international exploration and production oil companies primarily during H1'16. [The Central Bank of Nigeria (CBN) has since halted this practice].

INDUSTRY AND COMPANY OVERVIEW

The Nigerian oil and gas industry is the largest in Africa and contributed about 9% to GDP in 2016. The sector was largely dominated by multinational corporations until the early 1990s when Nigerian companies began to make a foray into the industry. The implementation of the Nigerian Content Directives issued by the Nigerian National Petroleum Corporation (NNPC) in 2004, and the promulgation of the Nigerian Oil and Gas Industry Content (NOGIC) Development Act in 2010, boosted local oil production. The Nigerian oil and gas sector is divided into the upstream, downstream and services sector. The downstream sector, which is the realm that Total participates in, deals mainly with the distribution and marketing of refined petroleum products from the refineries through channels such as pipelines, road trucks etc. The Petroleum Product Marketing Company (PPMC) supplies petroleum products in Nigeria to the oil marketers through a pipeline system that links the refineries to regional storage/sale depots.

The leading players in the petroleum products marketing business are mainly multinational oil firms and some indigenous oil enterprises. These include Total Nigeria Plc, Conoil, Forte Oil, Mobil Oil, MRS Oil and Oando. Despite the high competition in the downstream sector, Total Nigeria Plc has continued to show solid performance.

Total Nigeria was incorporated in June 1956 and listed on the Nigerian Stock Exchange (NSE) in March 2007. Total Nigeria is the marketing and services subsidiary of Total, a multinational energy company operating in over 130 countries. It changed its name from TotalFinaElf Nigeria Plc to Total Nigeria Plc in 2003, marking the completion of its corporate mergers. Total Societe Anonyme held 61.72% of Total's ordinary shares until 2013 when restructuring was concluded. Total Raffinage Marketing, France is currently the main shareholder of 61.72% of Total Nigeria Plc while the remaining 38.28% is held by members of the general public. In the Nigerian oil and gas industry, and Africa's at large, Total has remained the leading player in the downstream sector for over 50 years. It operates mainly in the petroleum marketing distribution business in Nigeria and deals primarily in the blending of lubricants (in conjunction with ELF, a leading motor oil and lubricant brand) and the marketing and distribution of refined petroleum products. Total's segment operations include Network, the sales and distribution of products to retail and industrial customers; General Trade, the sales to corporate consumers; and Aviation, the sales to consumers in the aviation industry. Its major products are Quartz lubricating oil and Awango solar lamps. Total has over 500 service stations, five liquefied petroleum gas bottling plants, three lubricants blending plants, five aviation storage facilities and eight solar-powered service stations across Nigeria.

Total's financial results reflect its growth performance. Non-current assets had a Compound Annual Growth Rate (CAGR) of 14% between 2012 and 2016 and its net assets had a CAGR of 20%. Between 2015 and 2016, its gross profit increased by 98% while its operating profit rose by 235%. Profit after tax (PAT) during FY'16 was up by a whopping 266% and the company experienced an overall revenue growth of circa 40% for FY'16. This was due to an increase in sales of petroleum and lubricants by 38% and 53% respectively, and government support in allocating petroleum prices that covered increasing foreign exchange risks. The cost of sales as a percentage of revenue declined by 6%, and administrative expenses as a percentage of revenue fell significantly by 25%. However, the selling and distribution expenses, as a percentage of revenue, remained unchanged during the period.

Income Statement for Total (FY Dec 2016)

N'000	2012	2013	2014	2015	2016
Revenue	217,843,731	238,163,160	240,618,693	208,027,688	290,952,520
Cost of Sales	(191,632,334)	(209,461,533)	(212,714,398)	(183,274,377)	(241,850,724)
Gross Profit	26,211,397	28,701,627	27,904,295	24,753,311	49,101,796
Other Income	932,705	2,015,257	1,171,824	1,204,459	1,449,363
Other Expenses	-	-	-	-	(9,056,460)
Selling and Distribution Expenses	(4,256,059)	(5,263,937)	(4,555,066)	(4,669,667)	(4,715,791)
Administrative Expenses	(14,307,772)	(15,785,934)	(15,409,839)	(15,033,096)	(15,847,522)
Operating Profit	8,580,271	9,667,013	9,111,214	6,255,007	20,931,386
Finance Income	90,339	434,390	342,919	2,030,983	273,551
Finance Costs	(1,572,437)	(1,981,385)	(2,621,211)	(1,790,600)	(851,861)
Profit Before Tax (PBT)	7,098,173	8,120,018	6,832,922	6,495,390	20,353,076
Taxation	(2,427,256)	(2,785,927)	(1,542,464)	(2,448,339)	(5,555,981)
Profit After Tax (PAT)	4,670,917	5,334,091	5,290,458	4,047,051	14,797,095

Statement of Financial Position for Total (FY Dec 2016)					
N'000	2012	2013	2014	2015	2016
Non-Current Assets					
Property, Plant and Equipment	18,864,302	20,852,161	21,921,619	23,091,142	25,228,049
Intangible Asset	17,176	138,486	171,907	132,610	73,970
Trade and Other Receivables	-	-	886,610	559,960	1,437,066
Prepayments - Non Current Portion	1,449,306	2,289,809	2,198,706	3,743,473	3,261,797
Deferred Tax Assets	-	-	-	143,297	3,897,239
Total Non-Current Assets	20,330,784	23,280,456	25,178,842	27,670,482	33,898,121
Current Assets					
Inventories	24,504,577	14,640,893	19,826,763	17,391,520	34,902,844
Trade and Other Receivables	26,244,489	31,118,583	35,789,392	24,630,820	48,497,566
Prepayments - Current Portion	1,639,280	919,012	248,986	601,653	1,527,811
Cash and Bank Balances	3,347,935	9,444,643	14,468,445	13,502,377	21,842,477
Total Current Assets	55,736,281	56,123,131	70,333,586	56,126,370	106,770,698
Total Assets	76,067,065	79,403,587	95,512,428	83,796,852	140,668,819
Equity					
Share Capital	169,761	169,761	169,761	169,761	169,761
Retained Earnings	11,132,153	13,071,024	15,760,409	16,072,720	23,400,336
Total Equity	11,301,914	13,240,785	15,930,170	16,242,481	23,570,097
Non-Current Liabilities					
Deferred Tax Liabilities	2,602,320	3,003,042	2,767,576	3,365,814	3,740,659
Deferred Income	-	-	-	18,000	21,410
Employee Benefits	211,456	-	211,087	220,618	223,792
Total Non-Current Liabilities	2,813,776	3,003,042	2,978,663	3,604,432	3,985,861
Current Liabilities					
Current Tax Liabilities	2,752,203	3,015,922	2,045,508	1,874,904	6,388,307
Trade and Other Payables	44,531,860	43,536,179	58,831,485	48,260,504	95,678,681
Borrowings	14,560,165	16,607,659	15,682,926	13,587,384	9,219,742
Obligation Under Finance Lease/Derivative Financial Liability	107,147	-	-	-	1,624,000
Deferred Income	-	-	43,676	227,147	202,131
Total Current Liabilities	61,951,375	63,159,760	76,603,595	63,949,939	113,112,861
Total Liabilities	64,765,151	66,162,802	79,582,258	67,554,371	117,098,722
Total Equities and Liabilities	76,067,065	79,403,587	95,512,428	83,796,852	140,668,819
Net Assets	11,301,914	13,240,785	15,930,170	16,242,481	23,570,097

Total Nigeria's growth over the years can be attributed to its management team with a wide range of experience, both locally and internationally, in the petroleum industry.

Mr. Stanislas Mittelman is the Chairman of the Board of Directors. He holds an MSc from EDHEC Lille Business School, France. He worked as a salesman in Network Stations in Paris before he transferred to Nigeria to head the project team that upgraded over 400 network stations in the country. He was appointed as Executive Vice-President for West Africa and Chairman of all subsidiaries in West Africa in 2007. In 2015, he was appointed Vice-President Total Marketing, France and in 2016 he was appointed Senior Vice-President Africa Middle/East and a director of Total Nigeria Plc.

Mr. Jean-Philippe Torres is the Managing Director/CEO effective 2016. He has a BSc from the University of Lille and an MSc in Finance from the Ecole Supérieure de Commerce de Tours, France. He has over 25 years of extensive experience in the oil and gas sector with Total in France, Senegal, Gambia, Togo, Benin, Congo, Germany, the US and Nigeria. Downstream companies in Nigeria have been largely affected by the significant fall in global oil prices since 2014, the advancement in shale oil production techniques and weak global economic growth. Integrated oil and gas companies have made decisions to withdraw from the Nigerian market. Total has decided that it will continue to invest in Nigeria and re-strategize operations as the market leader in Nigeria and the rest of Africa. Management, in a bid to take advantage of the evolving energy market and sustain growth, has expanded further into alternative energy-related businesses. It is currently developing solar businesses and plans to expand the value chain necessary for future growth of renewable energies. Total Nigeria has sold 2mn of Awango, its solar powered lamps, globally - 90% were sold in Africa alone. The lamps stem from the *Total Access to Energy* program built on the group's solar expertise and extensive presence in Africa through its wide range of over 4,000 service stations. Total plans to sell 5mn by 2020 to improve the lives of 25mn people by creating new last mile channels and retail models through partnerships with major development Non-Governmental Organizations (NGOs) and local partnerships to reach most remote areas. Management is also set to develop a Solar B2B business to help its industrial customers develop solar hybrid solutions alongside their existing power generation systems, which will increase Total's profit margins.

Total's ability to make substantial profit in the midst of economic turmoil has made management comfortable enough to invest and grow its network of stations. Last year, Total Nigeria added 25 stations to its network bringing the aggregate to 544 nationwide. In 2017, management plans to increase the number of its stations by a further 25. It also plans to invest in its lubricant facilities and depot services and improve its logistics and distribution channels to deliver value to its shareholders.

THE BULL SAYS

- ◊ Reputable brand in the Nigerian downstream sector
- ◊ Talented and well experienced management
- ◊ Investments in alternative energy could enhance sales & profit margins
- ◊ Wide range of top quality products and services
- ◊ Extensive distribution network

THE BEAR SAYS

- ◊ Intense competition from other leading petroleum marketers such as 11 Plc, Oando, Conoil and Forte Oil Plc
- ◊ Persistent foreign exchange challenges
- ◊ Lower consumer spending has reduced demand for petroleum products
- ◊ Volatility in the price of petroleum products can threaten its revenue stream

Risks and Outlook:

Great opportunities with probable macroeconomic pitfalls

Total Nigeria Plc is exposed to financial risks such as market (currency and interest rates), credit and liquidity risks amid persistent macroeconomic challenges. These risks could impede Total from achieving its plans for expansion including the alternative energy business, growing its network of stations, investing in lubricant facilities and depot services, and improving its logistics and distribution channels to maintain market leadership. However, the company, through its treasury department, monitors and implements policies to mitigate risks.

Total undertakes its foreign transactions in USD and euro and also borrows funds at multiple interest rates. The company is at risk of exposure to high interest bearing debts and current currency movements. The low crude oil price environment poses a serious challenge for marketers of petroleum products to secure forex. As the country's forex supply dwindles, its scarcity affects product supply. Increased pressure on the naira could lead to a further increase in finance costs hence a fall in sales and its bottom-line earnings. Total currently holds derivative financial instruments to hedge against foreign currency exposures and constantly negotiates with the banks to ensure interest rates are consistent with the CBN monetary policy rates.

The removal of fuel subsidies in 2016 is a major reform that positively impacts sales and earnings. However, it also adds pressure to consumer costs. This is in addition to the weak labor dynamics plaguing the Nigerian economy. The current shift in the market to value products could lead to a reduced demand for fuel products as an increasing number of people use public transportation. In addition, the company faces a liquidity risk, which means that suitable sources of funding for business activities may not be available. The company manages this risk by maintaining reserves and banking facilities, by monitoring forecasts and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

Other downstream companies in Nigeria are actively seeking alternative ways of increasing revenue. Forte Oil, one of Total's competitors, plans to start the sale of its solar energy solutions and expects to make revenue from it by Q4'17. This poses a threat to Total as Forte Oil has the potential to successfully expand into the alternative energy market and decrease Total Nigeria's market share.

APPENDIX - Valuation

We derived our valuation for Total Nigeria Plc by using the Discounted Cash Flow (DCF) methodology. Our fair value estimate for Total stood at **N309.09**, which is a 22.1% upside on its current share price of N253.00 as at October 10, 2017. The discount rate [weighted average cost of capital (WACC)] of 15.84% is derived using a 16.24% risk free rate [the yield for a 10-year Federal Government of Nigeria (FGN) bond maturing in March 2027], a beta of 0.5124,[24] an after-tax cost of debt of 6.42%, and a market risk premium of 6.4%. The calculated long-term cash flow growth rate to perpetuity is 5%.

Considering Total's latest financial results, expansion plans and prevailing macroeconomic conditions, we foresee a three-year revenue compound annual growth rate of 10%.

DCF Valuation			
N'000	**2017**	**2018**	**2019**
EBIT	21,766,903	24,463,492	27,772,352
Less: Taxes	(6,835,782)	(7,771,838)	(9,118,542)
EBIAT	14,931,122	16,691,654	18,653,810
Plus: Depreciation	3,981,006	4,301,646	4,667,489
Plus: Amortization Expense	58,495	52,077	51,212
Less: CAPEX	(6,093,570)	(6,503,727)	(7,180,011)
Less: Change in Working Capital	279,582	(1,112,371)	(5,874,328)
Free Cash Flow (FCF)	13,156,635	13,429,279	10,318,173
WACC	15.84%	15.84%	15.84%
Present Value (PV) of FCF	11,357,852	10,008,188	6,638,301
Terminal Value @ Perpetual Growth Rate (2019)	**2017**	**2018**	**2019**
Terminal Value as of 2019	-	-	99,969,828
Present Value of Terminal Value	64,316,602		

DCF Calculation	**Valuation**
PV of Explicit Period	28,004,341
PV of Terminal Value	64,316,602
Enterprise Value	92,320,943
+ Cash	21,842,477
- Borrowings	(9,219,742)
Equity Value	104,943,678
Share Price	***309.09***
Shares Outstanding ('000)	339,520

[24] Financial Times Data

Important Notice