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Oil Price at $68pb is a Game Changer for Nigeria

Brent crude has been one of the best performing commodities so far in 2018. It started the year at $66.57pb, reached an intraday high of $71pb before retreating to close the month of January at $68.68pb. Thanks to strong growth fundamentals, a tighter market and high compliance to the OPEC- Russia supply cuts, the black gold has averaged $69pb in the first month of 2018, 53-55% higher than the 2017 budget benchmark of $44.5pb and the proposed 2018 budget benchmark of $45pb (MTEF benchmark price was revised to $47pb). A year ago, the average price of Brent was $54pb and the preceding month (December 2017), was $64pb.

Many analysts are claiming that $60pb is the new low and have revised upwards their forecast for oil prices in 2018. The Economist Intelligence Unit (EIU) is projecting an average price of $59pb; the US Energy Information Administration (EIA) is projecting $59.74pb; JP Morgan: $70pb; BoAML: $64pb. Irrespective of how bullish or conservative these projections are, the fact is that we should expect higher oil prices in 2018, although not as high as in 2014 (above $100pb). However, rising US shale output will remain a limiting factor to how high oil prices can rise.

Nonetheless, a higher oil price is good news for Nigeria, which depends on oil for 83% of its export revenue and over 60% of its fiscal receipts. According to the EIU, Nigeria's trade balance in 2017 is estimated at a surplus of $7bn and this was with an average price level of $54pb in FY'17. At current levels, Nigeria should expect to record a boost in its trade balance and terms of trade as its export prices increase, all things being equal.

There has been a steady accretion in Nigeria's external reserves so far this year. Currently at a 3 and a half-year high of $40.63bn, the boost in the reserves level has been supported by Eurobond proceeds, increased foreign portfolio inflows and robust oil revenue. The higher the level of external reserves, the more the CBN can support the currency in the event of a shock.

On the fiscal front, Nigeria has a current fiscal deficit of 2.4% as a percentage of GDP, which is treading precariously close to the benchmark of 3%. The government is projecting an aggregate expenditure of N8.61trn in 2018 and plans to fund it with a revenue profile of N6.6trn; x% will be from oil proceeds. If oil prices remain at current levels,

it will improve the government's revenue profile and thereby reduce the amount of borrowing needed to fund the fiscal deficit. This will ultimately reduce the debt burden. In addition, state governments stand to benefit with increased statutory allocations, which if utilized efficiently, will clear outstanding debt obliga-

In a perfect world, it would be ideal for employee wages to be determined by market forces. However, there is no such thing as a perfect world and with a population of over 180 million people and a mono-cultural economy, it is not surprising that employers take advantage of the abundant and cheap labor Nigeria has to offer. A minimum wage helps mitigate the imbalance of power between employers and low-wage workers. With the absence of a wage floor, employers would exploit workers, thus hampering the purchasing power of low income earners. The first National Minimum Wage Act (1981) recommended a monthly minimum wage of N125. This was revised upwards in 1991 to N250 monthly, and again in 2000 to N5,500. In 2011, under the administration of President Goodluck Jonathan, it was raised to N18,000 per month.

The minimum wage has been a hotly contested issue between organized labor and the Federal Government (FG) in the last two years. The Nigerian Labour Congress (NLC) and other labor union factions have urged the FG to increase the minimum wage to N56,000 from the current N18,000 (the minimum wage applies to organisations which employ at least 50 workers). It appears the FG is beginning to yield to the demands of the labour unions as the President recently inaugurated a 30-member tripartite committee to negotiate the revision of the National Minimum Wage for workers in the country. The committee's members represent federal, state and private sector interests.

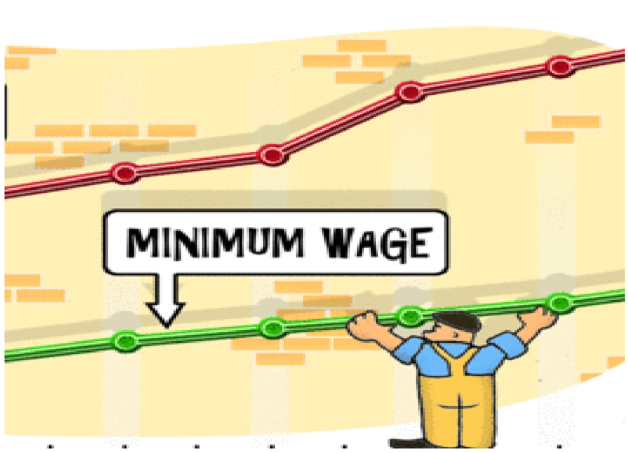
Justification for higher wages

The labor unions have cited deteriorating economic conditions as a major reason for the demand for higher wages. The last minimum wage review was in 2011 when the economic landscape was radically different from current economic realities. The law requires that the minimum wage be reviewed at least once every five years; this review is two years overdue[1]. The table below provides some context and summarizes some leading economic indicators

[1]Solomon Elusoji. December 3, 2017. "On the Road to New National Minimum Wage?" *This Day*. https://www.thisdaylive.com/index.php/2017/12/03/on-the-road-to-new-national-minimum-wage/

Indicator	2011	2017[2]
Average inflation (%)	10.85	16.65
Full year GDP growth (%)	7.32	0.43
MPR (%)	9.14	14
Global Oil Price $'pb	110.43	55.53
Nigerian oil production (mbpd)	2.11	1.62
Average exchange rate N/$	161.63	403.30
External reserves $'bn	32.79	31.45

The table above shows how the cost of living has spiked since 2011 while the standard of living has declined. It also shows the deterioration of the macroeconomic landscape. In 2011, the minimum wage was equivalent to $111 monthly and $3.71 per day, which was above the international poverty line of $1.9/day stipulated by the World Bank.[3] Today, the current minimum wage is approximately $45 monthly and $1.49 per day, leaving all minimum wage earners living in extreme poverty. To worsen the situation, some states still owe their workers' months (sometimes years) of salaries and pensions. In the same vein, the purchasing power of fixed income earners, particularly the minimum wage earners, has halved as the consumer price index (CPI) and, in essence, headline inflation has almost doubled. Average CPI in 2011 was 120.73; it jumped by 92.29 percentage points to average 232.15 in 2017. Similarly, headline inflation jumped by 53.5 percentage points to an average of 16.55% in 2017, compared to 10.9% in 2011. It is relatively more expensive to borrow from financial institutions today than it was in 2011. Additionally, the exchange rate which averaged N161.63/$ in 2011, depreciated to an average of N403.30/$ in 2017, which further eroded purchasing power. It is not coincidental that suicide rates have spiked in the last few years.[4]. Although we cannot establish causality at this time, anecdotal evidence suggests that there is a correlation between the deterioration in the macro economy and high suicide incidences. All these factors point to the fact that an upward wage review is not only justified, but should be done swiftly.



[2]Year to date figures (as at time of writing). **Sources:** OPEC, CBN, FDC Think-Tank, NBS, Bloomberg

[3]World Bank. September 16, 2008. "New Data Show 1.4 Billion Live On Less Than US$1.25 A Day, But Progress Against Poverty Remains Strong". http://www.worldbank.org/en/news/press-release/2008/09/16/new-data-show-14-billion-live-less-us125-day-progress-against-poverty-remains-strong

[4]Chiemelie Ezeobi. April 3, 2017. "Rising Cases of Suicide". *ThisDay*. https://www.thisdaylive.com/index.php/2017/04/03/rising-cases-of-suicide/

Impact of a higher minimum wage on the broader economy, debatable

There are strong arguments for and against increasing the minimum wage. Advocates for higher wages argue that the socio-economic situation in the country has changed drastically from what it was six years ago, and higher wages will help workers make ends meet and reduce inequality, improve child health and education outcomes, and stimulate the economy with more purchasing power for low-wage workers. Meanwhile, opponents argue that high minimum wages will reduce labor demand, hurt small businesses, reverse the positive inflation gains and create a huge budget deficit. This is particularly worrisome given the fact that some state governments are still struggling to pay salaries and pensions to their civil servants.

The picture is equally hazy when it comes to the impact on employment. Empirical evidence from the literature suggests that businesses tend

to respond to minimum wage increases by raising prices rather than reducing employment or production.[5] While some employers downsize in response to a minimum-wage increase, others discover that a higher wage floor reduces turnover and enables them to fill their vacancies, which increases employment. The net effect of all this, as seen in most studies on minimum wage, is that when it is set at a moderate level, the minimum wage has little or no effect on employment. In addition, a backward bending supply curve could be witnessed in the labour market. In this instance, higher wages lead to a decline in labour supply. Substitution of leisure for work becomes more favourable as labourers can work fewer hours for more pay.

Also, in general, price increases are modest. For example, a paper from the University of Leicester found that a 10% increase in the minimum wage would increase food prices by no more than 4% and overall prices by no more than 0.4%, significantly less than the minimum-wage increase.[6]

[5]Alan Krueger. October 9, 2015. "The Minimum Wage: How Much is too Much?". *New York Times*. https://www.nytimes.com/2015/10/11/opinion/sunday/the-minimum-wage-how-much-is-too-much.html?mcubz=2

[6]Sara Lemos. 2004. "The Effect of the Minimum Wage of Prices". Institute for the study of Labour (IZA). http://ftp.iza.org/dp1072.pdf.

Beneficial to poverty and well-being

What is certain is that a higher minimum wage will boost the purchasing power for low income earners, which will in turn increase their demand for goods and services and engender economic growth. Furthermore, it will increase access to basic health care and primary education. In effect, higher minimum wages could lead to economic growth. If the FG agrees to increase the minimum wage to N56,000 a month (or more likely a lower amount following negotiations) this would be equivalent to $138, which translates to $4.63 per day and is above the international poverty line stipulated by the World Bank.

Essentially, increasing the minimum wage could reduce poverty on a macro and micro level. There is also a "ripple effect" of increasing the minimum wage: other workers, whose wages are near the minimum wage, will also demand higher wages or see an increase in their wages. This too will have an overall positive effect on the economy.

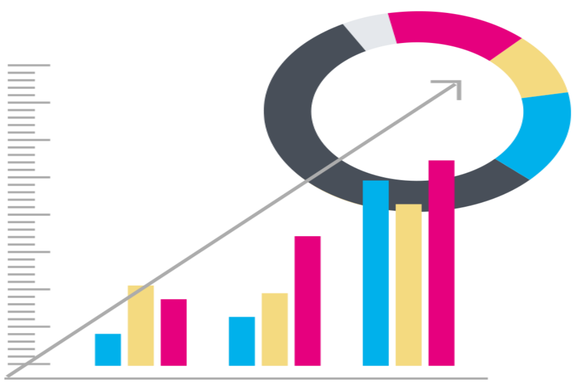
For the levels of government, which retain 75% of Nigeria's minimum wage workers, the budget implications are worrisome but there is a significant mitigation opportunity: increasing the tax net, as well as becoming more aggressive in ensuring compliance and improving collection. Furthermore, given the fact that the commodity price shock of 2014 and the ensuing recession was a major contributor to the salary and pension arrears, now that the recession is over and the country is on the path to growth and recovery together with oil prices recovering to pre-2015 levels, it is safe to assume that FAAC allocation to the states will also increase. The improvement in economic activity coupled with more aggressive tax collection should boost SGs internally generated revenue (IGR).

In conclusion, increasing the minimum wage in Nigeria is long overdue, although there are strong arguments in favour of and against it. We are of the view that the benefits outweigh the costs and the FG should speedily reach a consensus with the labor unions and increase the minimum wage.

Is Fintech a threat to Traditional Banks?

In the last couple of years, we have witnessed the rise of many fintech platforms; from payment solutions to online lending applications, while the older fintech players like Square, Ant Financial and Sofi continue to hold strong. Traditional banks have, so far, remained resilient to this disruption, mainly due to advantages built up through their branch networks and expertise in providing credit.

The resilience also comes from their consumer base, who have been slow to adopt fintech for their financial services partly due to a lack of urgency and a lack of awareness about the strategic benefits of the new tools, and partly due to concerns about privacy and security. Nonetheless, fintech presents a threat as such platforms tend to broaden the scope of available financing, offer customers bespoke services at a lower cost and reach previously unbanked populations. While banks will adapt in the short term, the greater risk is in the long term as the world becomes more automated. The future of traditional banking in Nigeria will depend on how banks can quickly utilize technology to their advantage.



Fintech refers to an evolving range of start-ups and companies leveraging technology to provide financial services. Fintech models provide consumers the convenience that banks cannot yet match. For example, you can request a loan from Paylater and receive a credit alert in two hours. One can also get a new dollar debit card from Get Barter and open a fixed deposit account with PiggyBank. In short, fintech platforms offer customers a superior service, at a lower cost, through the efficiencies of technology.

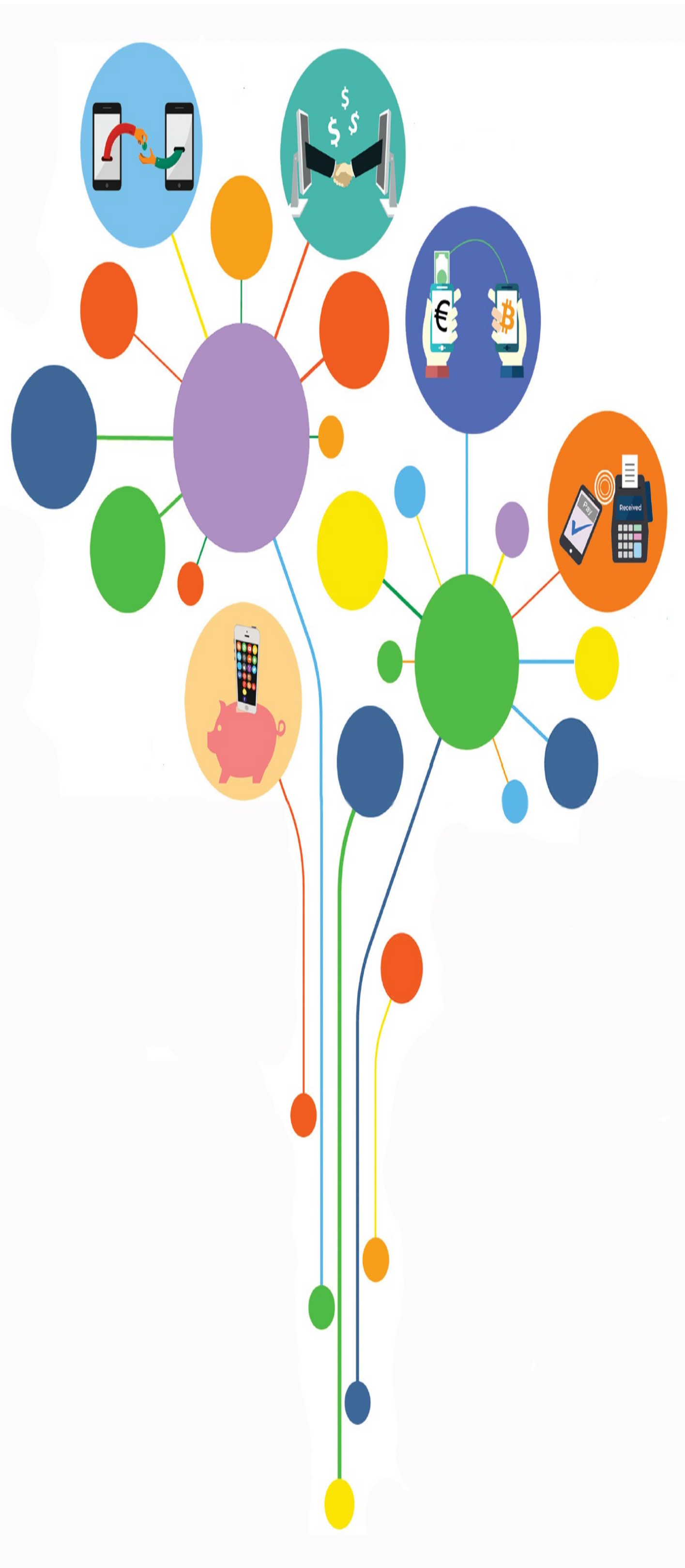
Indeed new solutions such as digital banking, online lending, payments and financial services, are making financial transactions easier than ever. Consumers are gradually forming the opinion that fintech tools will allow them to be better off financially and agree that it evens the playing field by providing access to services previously only available to the wealthy.

To ascertain the threat such platforms pose to banks, the role of banks in society and the sources of their revenue must be identified. Banks are financial intermediaries: they take money from people looking to save (deposits) and give to people looking to borrow (loans). They generate interest on loans, and they collect fees and commissions on numerous value added services to the depositors, for example: money transfers, foreign exchange transactions, and bill payments. A significant portion of bank revenues come from net interest income – the difference between interest accrued and interest paid out. Nigerian fintech platforms are yet to challenge this income stream. Nonetheless, banks have taken note. Wema Bank recently launched ALAT a digital-only bank with a distinct feature – the ability to create and fund a savings account on your mobile phone.

The greater threat from fintech on the banks' operations will come in the medium to long term. Traditional retail banks are facing structural vulnerability issues like declining deposits due to multiple alternative investment options and the lack of innovation around products and services. Some fintech firms have started targeting the deposit and loans segments. For example, PiggyBank, which uses recurring card payments to allow you to create and fund a savings account on your mobile phone, has proven popular among working class Nigerian youths. It offers an alternative to a traditional fixed deposit account which requires a number of visits to a physical branch to set up.

A logical next step for Piggybank would be to start offering loans. In the same vein, technology can prove an advantage, as algorithms have enabled start-ups to assess credit worthiness and deliver loans quicker than traditional banks. Even if fintech does not successfully disrupt the banking industry, it has created cost-effective models that also provide quality financial services.

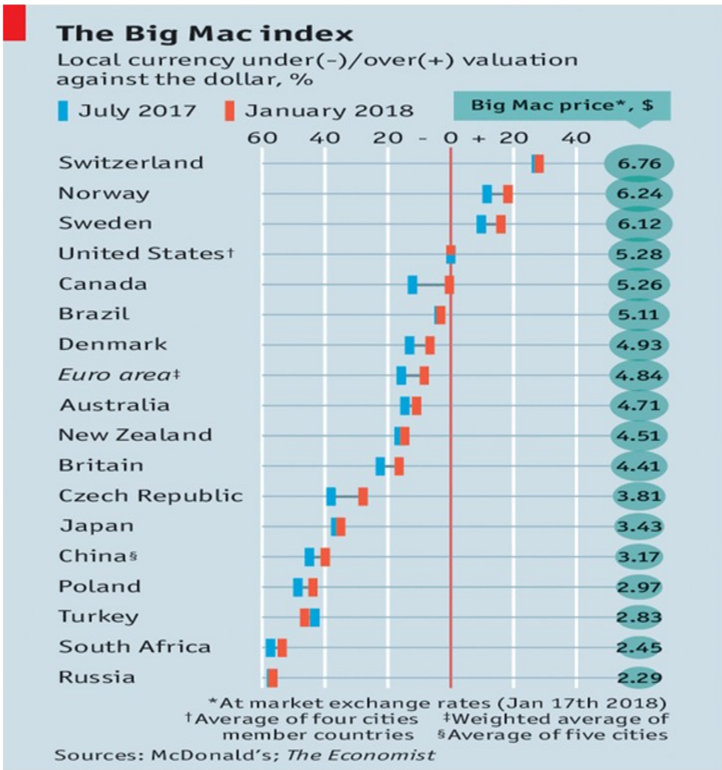
> The future of banking will depend on which banks can properly harness technology to improve services to their customers, from offering financial services to the previously unbanked to providing consumer loans based on internet browsing pattern or social networking behavior.



Another way banks can respond to this competitive threat is by learning from and adopting best practices from the same firms that are challenging their very existence. Time is running out for banks to start adapting. The new wave of digital banking is upon us and those that fail to embrace new technology and keep up with the pace of the new digital age will simply go out of business.

THE BIG MAC INDEX

* *Our Big Mac index shows fundamentals now matter more in currency markets*
* *Since last July, cheap currencies have narrowed the gap against the dollar*



Economist.com

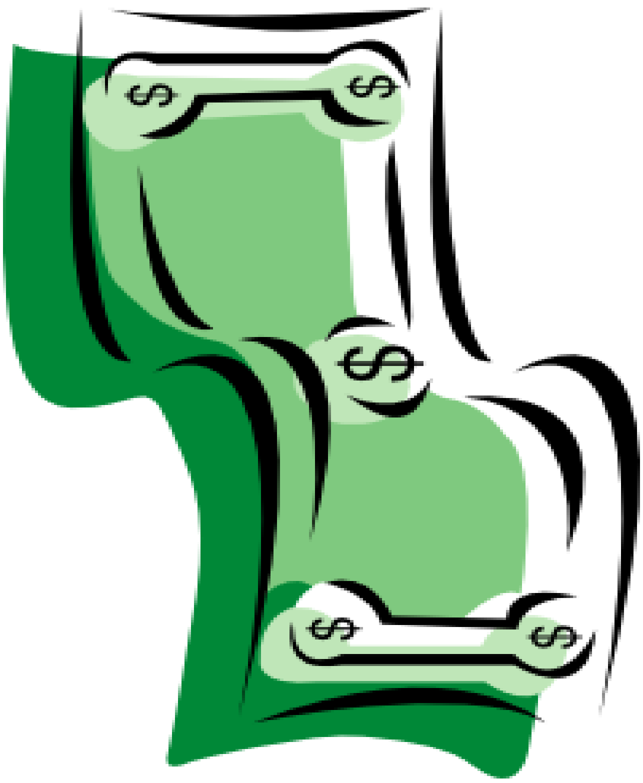
It is usually considered quaint to predict foreign-exchange movements by reference to whether currencies are dear or cheap. Metrics such as *The Economist*'s Big Mac index, a light-hearted guide to exchange rates, hint at how far currency values are out of whack. But they are often driven further out of kilter by capital flows, by fear and greed, by the interventions of policymakers, and so on.

Since our last look at the index in July, cheap currencies have narrowed the valuation gap against the dollar—almost completely in case of the Canadian dollar (see chart). Fundamentals, such as fair value, seem (at last) to have greater sway in the foreign-exchange market.

The index is based on the idea of purchasing-power parity, which says exchange rates should move towards the level that would make the price of a basket of goods the same in different countries. Our basket contains only one item, but it is found in around 120 countries: a Big Mac hamburger. If the local cost of a Big Mac converted into dollars is above $5.28, the average price in four American cities, a currency is dear; if it is below that yardstick, it is cheap.

The average cost of a Big Mac in the euro area (weighted by GDP) is €3.95, or $4.84 at the current exchange rate. That implies the euro is undervalued by 8.4% against the dollar, our benchmark. The last time we looked at burgernomics, it was almost 16% undervalued. The euro surged after Mario Draghi, boss of the European Central Bank, hinted at a conference in Sintra, Portugal, that the bank's bond purchases might soon be curtailed. It was as if the foreign-exchange market suddenly woke up to how cheap it was.

Measured against a basket of currencies, the dollar still looks dear. Only in three countries (Switzerland, Norway and Sweden) do burgers



cost more, based on current exchange rates. But that is not necessarily a sign that depreciation is overdue in these countries. The cost of a burger depends partly on untradeable inputs, such as rent and wages, which are higher in the rich countries on the fringes of the euro zone. So the price of a meal may not be a good guide to how competitive a country is in markets for tradable goods. The Swiss and Norwegian currencies look dear, for instance, but both countries have big trade surpluses.

Among rich countries, only Britain's and Japan's currencies stand out as bargains. The pound is cheap for a reason— Brexit. But it might be harder for the yen to stay so cheap. The euro has shown that the merest hint of an end to easy monetary policy can prompt a sharp rally. The yen may have a similar "Sintra moment", says Kit Juckes of Société Générale, a bank. For those who feel they have missed out on the euro at bargain-basement prices, there are other ways to bet on the burgeoning strength of the euro-zone economy. Poland and the Czech Republic have strong links to the euro area and robust GDP growth. The Polish zloty is undervalued by 44% against the dollar, and the Czech koruna by 28%.

The caveat that applies to Switzerland, Norway and Sweden applies in reverse to emerging markets, where rents and wages are lower than in the rich world. In general, currency gauges based on purchasing-power parity work best when comparing countries with similar income. That said, many emerging-market currencies do look cheap. The Russian rouble, for instance, is still 57% undervalued even after a big rally in the oil price. South Africa's rand is almost as cheap. Eat hamburgers with Johannesburgers.

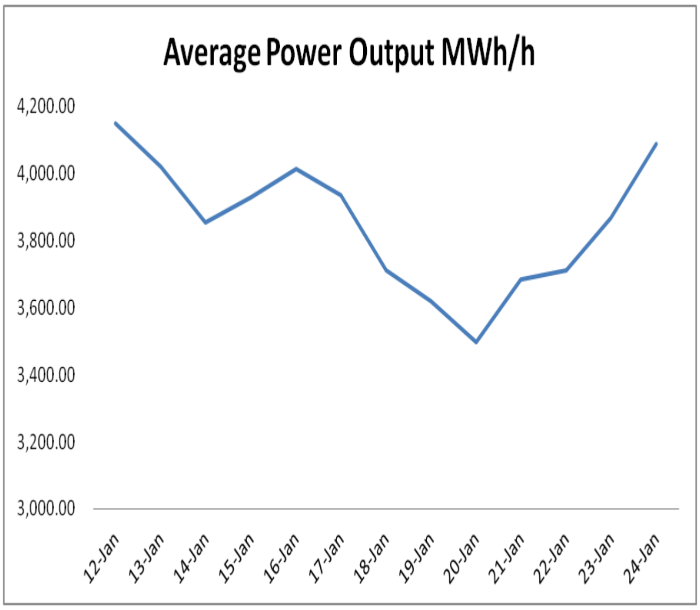
MACROECONOMIC INDICATORS

POWER SECTOR

Average power output from the national grid was 3,851MWh/h in the period January 12th-24th. This is 6.25% lower than the average of the corresponding period in December. Output is gradually returning to December levels, following a temporary collapse earlier in the month.

Outlook

We expect power output to remain flat at current levels of 3,700-4,000MWh/h. However, a resurgence in pipeline vandalism could worsen the current gas constraints, leading to a dip in output.



[7]

MONEY MARKET

Average opening position of the interbank market was N229.14bn long between January 12th-25th, compared to N391.5bn long in the corresponding period in December. This is, however, 26.9% lower than the opening position of N313.59bn in the first half of the month (January 2nd-11th). During the period, there was a total of N160.5bn in OMO maturities, compared to OMO sales of N992.76bn

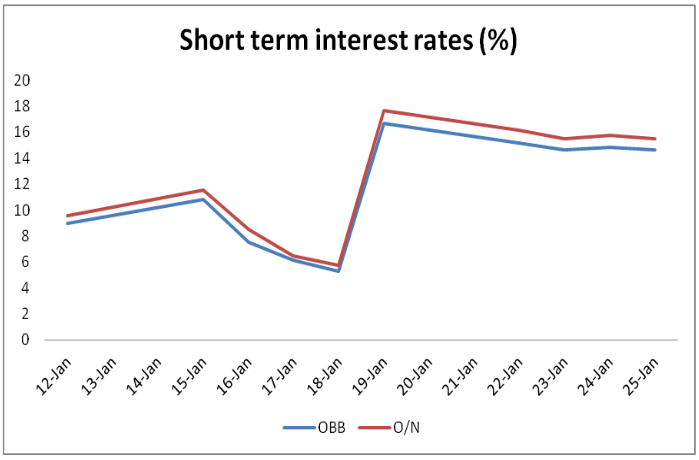
T/Bills yields maintained their downward trend, losing an average of 0.59% during the period. The 91, 182 and 364- day T/Bills closed at 12.1%, 13.75% and 13.79% respectively.

Tenor (Primary market auction)	Stop rates as at January 3rd 2018 (%)	Stop rates as at January 17th, 2018 (%)
91-day	12.55	12.1
182-day	13.92	13.75
364-day	14.3	13.79

[7]Source: FGN

In the secondary market, T/bills lost an average of 0.2% during the period January 12th-25th. 91-day bills rose to 14.52% while 182 days and 364 days fell to 13.95% and 13.67% respectively.

Average NIBOR (OBB, O/N) was 11.86% pa within the review period, compared to 6.74% pa in the corresponding period in December. The OBB and O/N rates reached a period-high of 16.67% pa and 17.67% pa respectively on January 19th.



[8]

Outlook

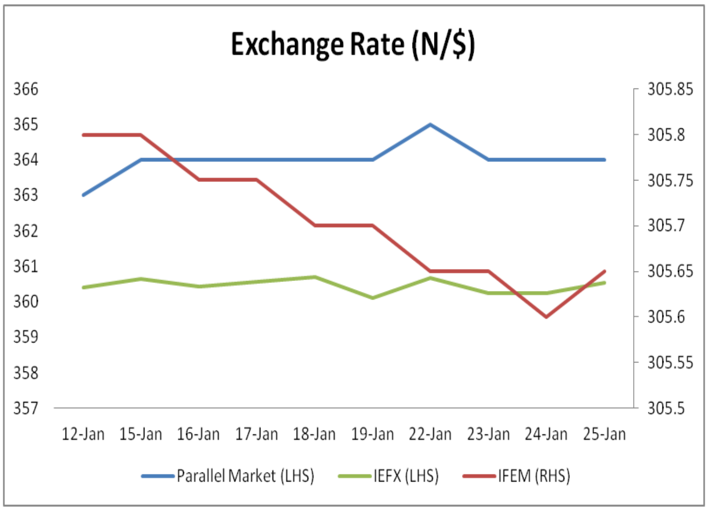
The disbursement of FAAC funds will depress interest rates. Nonetheless, we expect the CBN to issue OMO bills to mop up excess liquidity in the system.

FOREX MARKET

Exchange Rate

The naira depreciated marginally at the parallel market to close at N364/$ on January 25th, compared to N363/$ on January 12th. This was in spite of the $682m the CBN sold period.

The IEFX rate stayed relative flat within a tight range of N360.4/$ to N360.5/$. The IFEM rate also recorded marginal gains to close at N305.65/$ from N305.8/$ on January 2nd. The total turnover at this window YTD (January 2nd- 26th) is $5.24bn.



[9]

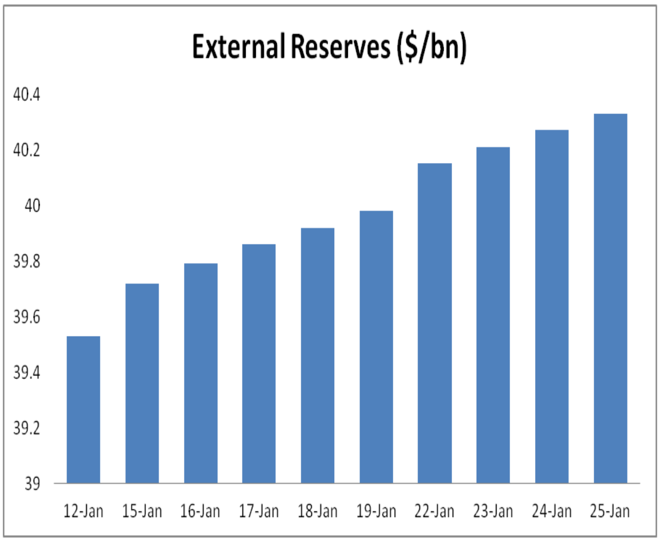
Outlook

We expect the naira to appreciate marginally to N363/$, as higher oil prices, and frequent CBN supply interventions provide support.

[8]Source: FMDQ
[9]Source: FMDQ, CBN, FDC Think Tank

EXTERNAL RESERVES

According to the Central Bank, Nigeria's gross external reserves were $40.33bn on January 25th. This is the highest level since February 2014 and represents a 4.5% accretion, when compared to the corresponding period in December. This positive trend continues to be primarily supported by strong oil proceeds.



[10]

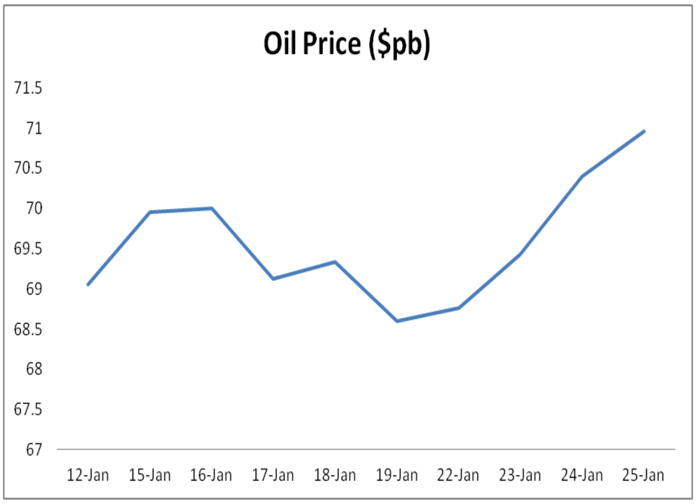
Outlook

Given the positive outlook for oil prices, the gross external reserves are expected to continue to record notable accretion in the coming weeks. However, any negative movement in oil price and domestic production will reverse the current trend.

COMMODITIES MARKET - EXPORTS

Oil Prices

During the period, oil prices rose by 0.78%, to $70.42pb on January 25th, compared to $69.87pb on January 12th. Prices touched $71pb in intraday trading. The average price for the period was $69.5pb, compared to $64.3pb in the corresponding period in December. This bullish momentum has been primarily supported by strong fundamentals- improving global growth prospects, weak dollar, tighter market and declining US crude inventory. Additionally, comments from Saudi Arabian oil minister, Khalid Al-Falih, regarding a possible extension of the declaration of cooperation, has raised market expectations for a further supply tightening.



[11]

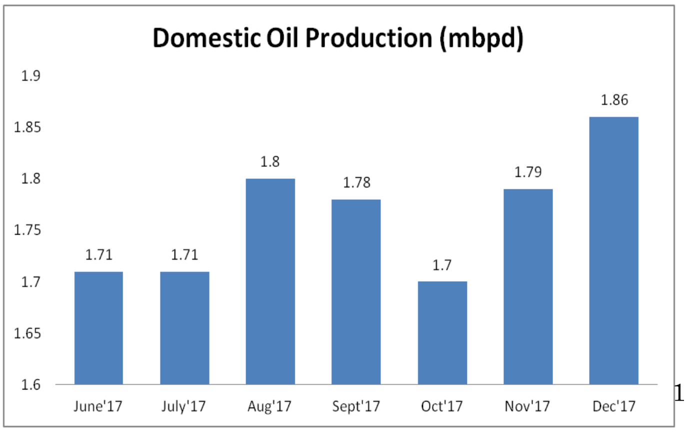
Outlook

The outlook for oil prices remains positive given the current market fundamentals. We project an average price range of $67-69pb in the next few weeks.

[10]Source: CBN
[11]Source: Bloomberg

Oil Production

In December, Nigeria's domestic oil production expanded by 3.91% to 1.86mbpd, from 1.79mbpd in November. Stability in the Niger Delta region, driven by government engagement initiatives, is the main reason for this uptick in output.



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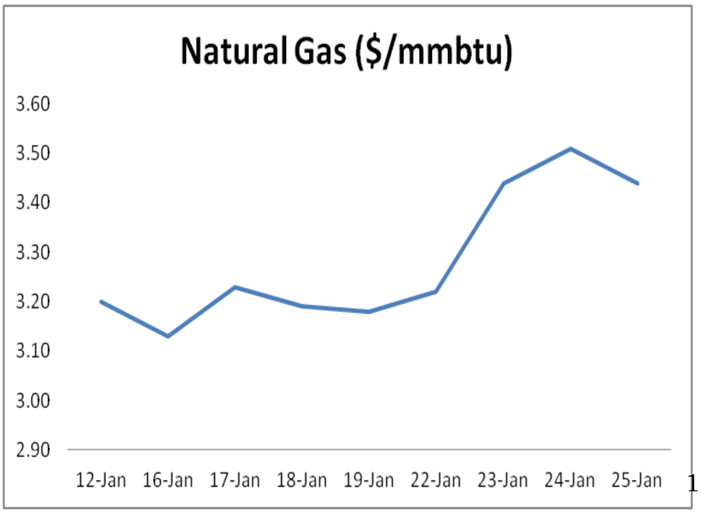
Outlook

The Niger Delta Avengers (NDA) recently issued a warning to the FG of an upcoming attack. Chevron, Exxon Mobil and Total pipelines are on the hit list. The group claims that the Federal Government has failed to meet its side of the bargain with regards to amnesty. In response, the Head of the Presidential Amnesty Programme (PAP), Brig-General Paul Brooh, and Niger Delta leaders, have pleaded with NDA to maintain cease fire.

If the government is able to avert the looming threat, we expect Nigeria's oil production to remain above 1.75- 1.85mbpd.

Natural Gas

Natural gas gained 7.5%, to close at \$3.44/mmbtu on January 25th, from \$3.20/mmbtu. Higher demand, due to colder weather is the major driver of the bullish trend in the gas market.



13

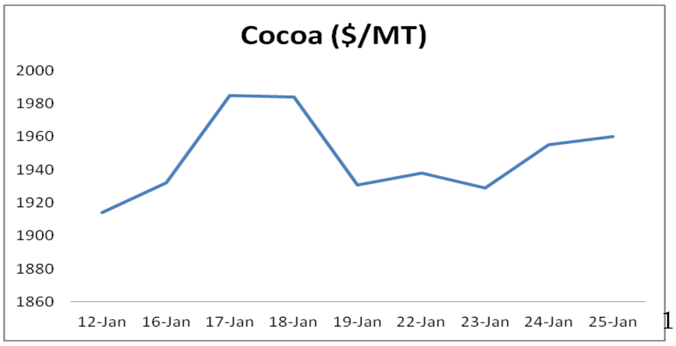
Outlook

Gas prices are expected to continue to post gains in coming weeks as colder weather drives up demand for heating. Weather forecasts show expectations of an arctic blast in the US.

[12]Source: OPEC
[13]Source: Bloomberg

Cocoa

Cocoa prices gained 2.4% to $1,960/mt on January 25th, from $1,914/mt on January 12th. The price rally was driven by increased demand from cocoa producers across Europe.



[14]

Outlook

The uptick in European demand is expected to continue as the Valentine season approaches. Prices are, thus expected to remain strong at $1,940-1,960/mt.

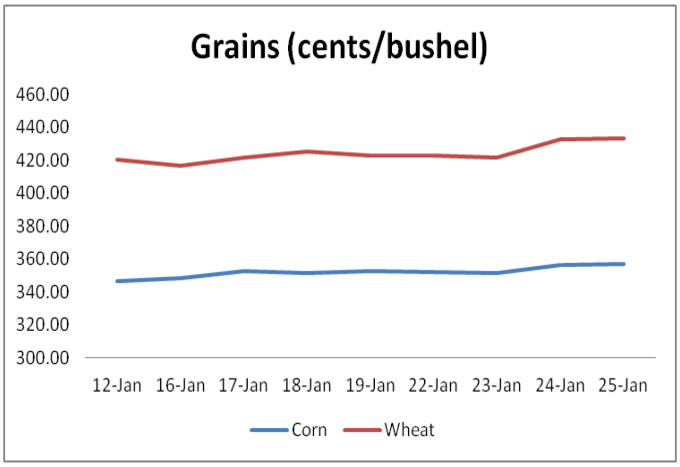
IMPORTS

Wheat

Wheat prices gained 3.3% to $4.34/bushel as extreme winter continues to threaten crop harvest.

Corn

Corn prices increased by 3.18% to $3.57/bushel from $3.46/bushel. This was driven by recent drought in Argentina and excessive rains in Brazil.



[15]

Grains- Outlook

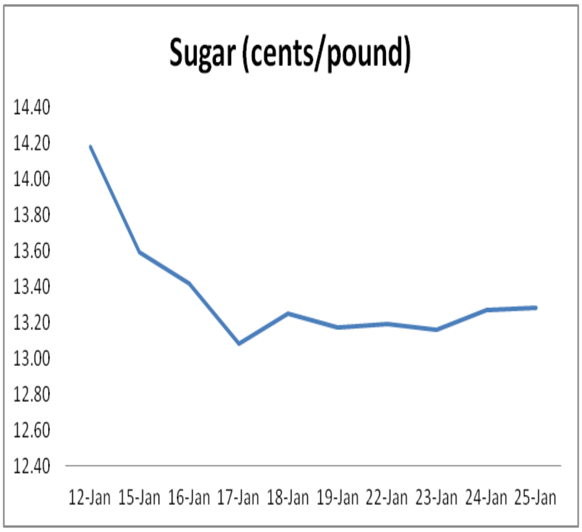
The grains market continues to be dampened by unfavourable weather conditions in producing regions. This is expected to persist throughout February. Global corn inventory is expected to decline by 9.7% in H1. Additionally, the recent depreciation in the dollar will push the prices of wheat and corn upwards in the short term.

Sugar

Sugar prices were down 6.3% to $0.1328/pound from $0.1418/pound, as market expectations for higher global surplus increased.

Outlook

Sugar production in Asia has reached a peak, driving prices down to a two-year low. The Sugar regulatory bodies of India and Pakistan, Asia's largest producers, are expected to intervene in the market to control the incessant fall in prices.



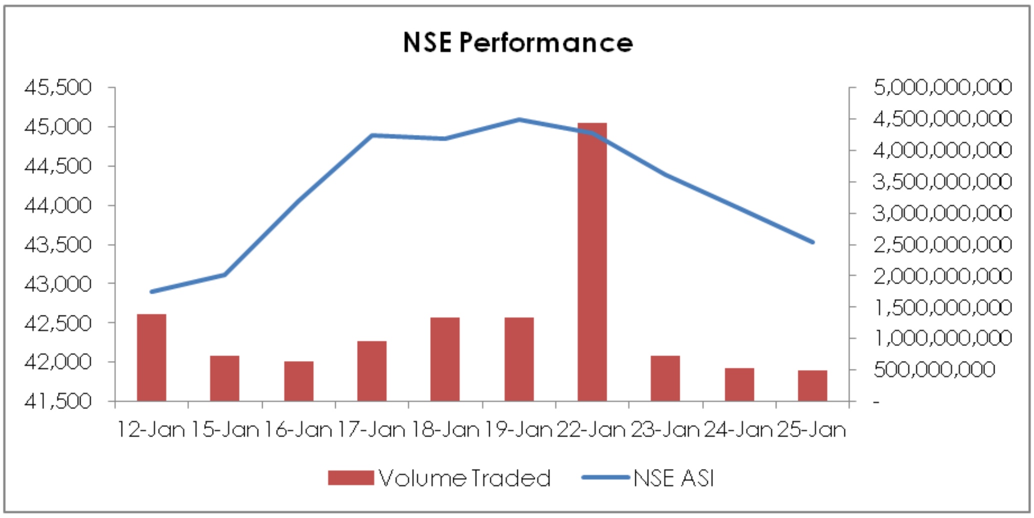
[16]

[14] Source: Bloomberg
[15] Source: Bloomberg
[16] Source: Bloomberg

STOCK MARKET UPDATE

The NSE-All Share Index (NSE ASI) remained bullish in the review period, as the market gained 4.10% to close at 43,529.06 from the 10th of January's close of 41,816.11. The YTD return on the index increased to 13.82%. Market capitalization advanced 4.84% to close at N15.60trn, gaining N720bn during the review period. The market is currently trading at a price to earnings (P/E) ratio of 14.03x, a 5.01% increase from the P/E ratio of 13.36x as at 10th of January. The performance of the bourse was broadly negative resulting in 4 days of gains against 6 days of losses.

The number of losers (39) outpaced the number of gainers (37) while 96 stocks remained unchanged. This resulted in a negative market breadth of 0.95x.



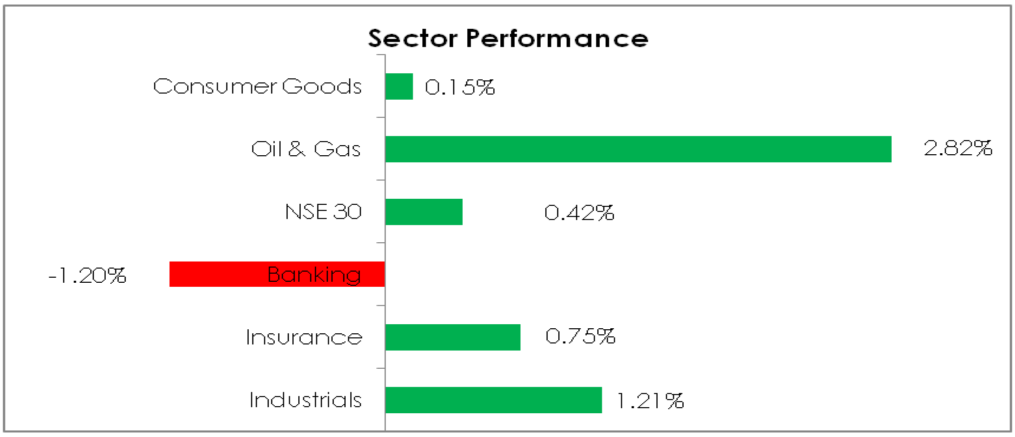
[17]

Market activity increased during the period, compared to the first seven trading days in the month. Average volume traded increased by 80.92% to 1.261 billion units. In addition, the average value of transactions during the period increased by 21.19% to N9.55bn compared to N7.88bn in the previous period.

SECTOR PERFORMANCE

In the review period, five out of six NSE sectorial indices closed positive, with the oil & gas sub-index performing the best, gaining 2.82%. The oil and gas index's boost was due to significant gains recorded by 11 plc (15.47%), Conoil plc (5.08%) and Seplat (2.60%). The bullish sentiment in the global oil market was sustained in the review period owing largely to a fall in US crude inventories and expectations of continued alliance between OPEC and Russia beyond 2018. The banking sub sector recorded a loss, declining by 1.20% during the review period. This was driven primarily by profit taking activities on high priced stocks in the sector.

[17]Source: NSE, FDC Think Tank



[18]

The best performing stocks were SKYE BANK PLC 66.23%, UNITY BANK PLC 55.84%, WEMA BANK PLC 49.32%, CEMENT CO. OF NORTH NIG. 48.79% and CAVERTON OFFSHORE 43.48%.

TOP 5 GAINERS (N)				
Company	**Jan 11'17**	**Jan 25'17**	**% Change**	**Absolute Change**
SKYE BANK PLC.	0.77	1.28	66.23%	0.51
UNITY BANK PLC.	0.77	1.20	55.84%	0.43
WEMA BANK PLC.	0.73	1.09	49.32%	0.36
CEMENT CO. OF NORTH.NIG. PLC	12.03	17.90	48.79%	5.87
CAVERTON OFFSHORE SUPPORT GROUP	1.61	2.31	43.48%	0.70

Top price losers were HONEYWELL FLOUR MILL (20.31%), NIGERIAN AVIATION HANDLING COMPANY (18.22%), A.G. LEVENTIS NIGERIA PLC. (17.81%), ETERNA PLC (17.72%) and UNIVERSITY PRESS PLC (17.49%).

TOP 5 LOSERS (N)				
Company	**Jan 11'17**	**Jan 25'17**	**% Change**	**Absolute Change**
HONEYWELL FLOUR MILL PLC	3.20	2.55	-20.31%	-0.65
NIGERIAN AVIATION HANDLING COMPANY PLC	4.72	3.86	-18.22%	-0.86
A.G. LEVENTIS NIGERIA PLC.	0.73	0.60	-17.81%	-0.13
ETERNA PLC.	6.32	5.20	-17.72%	-1.12
UNIVERSITY PRESS PLC.	2.63	2.17	-17.49%	-0.46

Outlook

The initial rally in the stock market which occurred in the first two weeks of the month is beginning to fizzle out, as investors take profits so as to lock in gains. We expect profit taking activities to persist in the short term weighing on the NSE-ASI performance.

[18]Source: NSE, FDC Think Tank

CORPORATE FOCUS - NIGERIAN BREWERIES

Analyst Recommendation: *SELL*

Market Capitalization: *N1.07trn*

Recommendation Period: *365 days*

Current Price: *N135.00*

Industry: *Food, beverage and tobacco*

Target Price: *N97.12*

ANALYST'S NOTE

The Nigerian food and beverage industry was one of the hardest hit during the recession. Even today it continues to face challenges due to increasing input costs and low consumer confidence despite an improving economy. Sales and profit margins have been dampened by accelerating input prices and high unemployment and underemployment. Weak macroeconomic factors, such as a high inflationary environment (food inflation at 20.31% in November 2017), foreign exchange (forex) shortages and high interest rates, continue to affect the industry negatively. During the collapse of global oil prices in 2014 and the disruption in production in the Niger Delta, consumers' purchasing power also declined. This resulted in a major shift from premium products to value-branded products. This change to value -brands remains even with an improving economy.

Nigerian Breweries has been hit badly by the down trading. It recorded a decline in revenue of 17.88% to N73.68 in Q3’17 from N89.72 in Q2’17. It is taking steps to manage costs by intensifying its local sourcing of raw materials. It is also focusing on improving its top-line earnings by introducing a new premium product, Stella Lager to the market. Nevertheless, our valuation is derived using intrinsic valuation and its share price is currently overvalued. Accordingly, we place a SELL rating on Nigerian Breweries Plc.

Fall in revenue driven by lower sales volume

Nigerian Breweries posted revenue of N73.68 billion in Q3’17 which represents a 17.88% decline of N89.72 billion compared to Q2’17. This decline was driven primarily by lower sales volume growth due to consumers down-trading from premium products to low priced products. In addition, seasonality trends affected growth in sales volume. Q3 is usually one of the weakest quarters for brewers.

Rising cost pressures dampen margins

Nigerian Breweries reported weak bottom-line earnings for Q3’17. Profit before tax (PBT) declined by 98% to N3.69mn while Profit after tax (PAT) also declined by 98% to N2.59 million from Q2’17. A higher per hectoliter cost of production, amidst pressure on the cost of major inputs such as sorghum, maize and sugar, resulted in a decrease in bottom-line earnings. Higher month-on-month sorghum prices were recorded in July and August. Furthermore, the company recorded operating expenses of N22.59 billion in Q3’17; a 1.4% increase compared to N22.27 billion in Q2’17. This further dampened margins.

INDUSTRY AND COMPANY OVERVIEW

The Nigerian brewery industry dates back to the pre-independence era when beer from different brands was imported into the country before World War II. Nigerians acquired a taste for continental European beer, leading to a great increase in the quantity of imported beer during and after the war. This created an opportunity for a brewery to be set up in Nigeria. The local brewery industry is the largest subsector of the food, beverage and tobacco sector in Nigeria, and the second largest beer market in Africa. It has evolved over the years from a duopoly, with two firms sharing the market, to an oligopolistic market structure[19] with a strong multinational presence. The Nigerian brewery sector has also evolved from solely bottling activities to a diversified industry involved in the production of canned drinks (non-glass bottled drinks). The government has put incentives in place to drive growth and attract investors. These include a ban on the importation of bottled/can beer for trade and a seven-year tax holiday for pioneer companies engaged in the brewing of hops.

Nigerian Breweries Plc was incorporated in November 1946 as Nigerian Breweries Ltd and was converted to a public limited company in 1990. It started trading on the Nigerian Stock Exchange (NSE) on September 5th, 1960 and is currently the second largest capitalized stock on the NSE. Heineken NV, one of the largest brewing companies in the world, currently owns a majority shareholding (55.19%) in Nigerian Breweries. Its primary business activities involve the brewing, marketing and selling of alcoholic and non-alcoholic beverages (lager, stout, non-alcoholic malt drinks and soft drinks).

Nigerian Breweries is Nigeria's pioneer and largest brewing company, accounting for over two-thirds of the brewery industry's market. The company pioneered brewing in Nigeria, starting with its first bottle of STAR lager brewed in June 1949 from its premier brewery, Lagos Brewery, in June 1949. Over the years, it has undergone several development processes to improve efficiency.

Nigerian Breweries has since evolved rapidly across the country through the construction of new breweries and acquisition of existing ones. Ever since its commissioning in 2003, the Ama Brewery (Enugu State) has maintained its position as the biggest and most modern brewery in Nigeria. The company also acquired majority shares in Sona Systems Associates Business Management Ltd and Life Breweries Company Ltd in 2011. Following its merger with Consolidated Breweries Plc in 2014, it acquired Imagbon (Ogun State), Awo-Omamma (Imo State) and Makurdi Breweries. Nigerian Breweries currently has an extensive facility of 11 breweries and two malting plants across Nigeria. *Table 1* below summarizes the company's facilities and the year they were commissioned or acquired.

[19]A state of limited completion in which a small number of brewing multinationals battle for position in the Nigerian beer market space

Table 1: List of Nigerian Breweries Plc's facilities in Nigeria

N	Brewery and Malting Plants	Year Commissioned/Acquired
1.	Lagos Brewery	1949
2.	Aba Brewery	1957
3.	Kudenda Brewery, Kaduna	1963
4.	Ibadan Brewery	1982
5.	Ama Brewery, Enugu	2003
6.	Aba Malting Plant	2008
7.	Ota Brewery (acquired from Sona Group)	2011
8.	Kakuri Brewery, Kaduna (acquired from Sona Group)	2011
9.	Onitsha Brewery (acquired from Sona Group)	2011
10.	Kaduna Malting Plant (acquired from Sona Group)	2012
11.	Imagbon Brewery, Ogun (merger with Consolidated Breweries)	2014
12.	Makurdi Brewery (merger with Consolidated Breweries)	2014
13.	Awo-Omamma Brewery, Imo (merger with Consolidated Breweries)	2014

[20]

Nigerian Breweries Plc has a rich portfolio of high quality alcoholic and non-alcoholic products, popular in Nigeria. The company has a wide range of brands that cater to the needs of different segments of the market. These include Heineken, Star, Gulder, "33" Export, Goldberg, Legend Extra Stout, Maltina, Amstel Malt, Hi-malt, Star Radler and Star Lite. Most of its brands are leaders in their segmented markets. Nigerian Breweries has a growing export business that dates back to 1986. It covers global sales and marketing of its brands. While the domestic market remains the dominant market for these brands, some of the products are exported to over 13 countries across the UK, South Africa, West Africa, Middle East, and the US.

In order to ensure efficient and seamless distribution of its products, Nigerian Breweries has 26 sales depots across the country. This is complemented by an extensive network of key distributors, wholesalers, bulk breakers and retail stores scattered nationwide.

The company's growth can be seen through increases of its total assets and revenue during the years. Between 2012 and 2016, revenue increased by 6% and total assets by 10%. A snapshot of Nigerian Breweries' latest annual financials is shown below.

[20]Source: Nigerian Breweries Plc Management Presentation

Income Statement for Nigerian Breweries Plc					
N'000	2012	2013	2014	2015	2016
Revenue	252,674,213	268,613,518	266,372,475	293,905,792	313,743,147
Cost of Sales	(127,222,069)	(132,136,476)	(130,788,296)	(149,736,072)	(178,218,528)
Gross Profit	**125,452,144**	**136,477,042**	**135,584,179**	**144,169,720**	**135,524,619**
Other Income	2,000,263	2,075,411	1,717,491	483,910	615,662
Marketing and Distribution Expenses	(39,450,652)	(42,949,612)	(42,200,086)	(58,454,978)	(61,312,319)
Administrative Expenses	(23,390,166)	(26,431,464)	(28,240,685)	(23,969,498)	(21,924,801)
Operating Profit/EBIT	**64,611,589**	**69,171,377**	**66,860,899**	**62,229,154**	**52,903,161**
Finance Income	559,842	551,250	697,320	503,607	416,503
Finance Cost	(9,547,065)	(7,482,310)	(6,096,398)	(8,217,788)	(13,645,146)
Profit Before Tax (PBT)	**55,624,366**	**62,240,317**	**61,461,821**	**54,514,973**	**39,674,518**
Income Tax Expense	(17,581,652)	(19,159,968)	(18,941,568)	(16,458,850)	(11,257,553)
Profit After Tax (PAT)	38,042,714	43,080,349	42,520,253	38,056,123	28,416,965

Balance Sheet for Nigerian Breweries Plc					
N'000	2012	2013	2014	2015	2016
Non-Current Assets					
Property, Plant and Equipment	142,348,420	153,366,133	193,800,450	197,298,847	191,181,700
Intangible Assets and Goodwill	53,987,573	53,563,357	97,969,253	100,612,728	99,477,826
Investment	150,000	150,000	150,000	150,000	150,000
Other Receivables	148,700	158,884	189,710	321,509	623,331
Prepayments	132,309	235,790	187,889	354,394	1,154,399
Total Non-Current Assets	**196,767,002**	**207,474,164**	**292,297,302**	**298,737,478**	**292,587,256**
Current Assets					
Inventories	24,652,723	20,643,153	28,478,459	28,409,703	31,244,703
Trade and Other Receivables	19,929,893	14,212,062	16,357,156	16,511,648	19,974,024
Prepayments	902,910	764,588	1,822,499	1,041,780	301,169
Deposit for Imports	1,866,896	136,818	364,674	2,233,797	8,429,048
Cash and Cash Equivalents	9,514,205	9,528,848	5,700,257	5,106,891	12,156,432
Assets Held For Sale	-	-	4,208,816	4,177,379	2,453,836
Total Current Assets	**56,866,627**	**45,285,469**	**56,931,861**	**57,481,198**	**74,559,212**
Total Assets	**253,633,629**	**252,759,633**	**349,229,163**	**356,218,676**	**367,146,468**
Equity					
Share Capital	3,781,353	3,781,353	3,781,353	3,964,551	3,964,551
Share Premium	4,567,967	4,567,967	4,567,967	64,950,103	64,950,103
Share Based Payment Reserve	152,536	50,114	241,676	365,702	571,106
Retained Earnings	84,946,036	103,959,751	102,726,500	102,959,007	96,343,708
Equity Contribution Reserve	-	-	60,565,334	-	-
Total Shareholders' Equity	93,447,892	112,359,185	171,882,830	172,239,363	165,829,468
Non-controlling Interest	-	-	81,433	82,140	84,300
Total Equity	**93,447,892**	**112,359,185**	**171,964,263**	**172,321,503**	**165,913,768**
Non-Current Liabilities					
Loans and Borrowings	45,000,000	9,000,000	24,670,000	-	17,000,000
Deferred Tax Liabilities	22,384,550	21,830,000	27,833,732	31,914,564	29,876,508
Employee Benefits	5,966,719	9,274,733	10,735,596	11,903,504	10,101,065
Total Non-Current Liabilities	**73,351,269**	**40,104,733**	**63,239,328**	**43,818,068**	**56,977,573**
Current Liabilities					
Loans and Borrowings	-	-	-	3,000,000	-
Trade and Other Payables	61,692,692	69,832,649	83,283,072	85,246,002	111,184,310
Bank Overdraft	-	-	230,380	19,214,988	870,611
Dividend Payable	5,648,226	6,376,528	7,563,291	12,399,599	12,676,038
Current Tax Liabilities	19,493,550	24,086,538	22,948,829	20,218,516	19,024,168
Provisions	-	-	-	-	500,000
Total Current Liabilities	**86,834,468**	**100,295,715**	**114,025,572**	**140,079,105**	**144,255,127**
Total Liabilities	**160,185,737**	**140,400,448**	**177,264,900**	**183,897,173**	**201,232,700**
Total Equities and Liabilities	**253,633,629**	**252,759,633**	**349,229,163**	**356,218,676**	**367,146,468**

[21]

Other leading players in the brewery industry include Guinness Nigeria (a subsidiary of Diageo) and International Breweries (a subsidiary of ABInBev). International Breweries recorded stronger operating margins of 25% in FY'17 compared to 17% for Nigerian Breweries and 8% for Guinness.

[21]Source: Nigerian Breweries Plc Annual Reports

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

Capable of capitalizing on potential growth opportunities in the food industry

Nigerian Breweries management's ability to sustain returns, drive growth and remain a major player in the brewery industry in a period of fragile economic growth can be attributed to its series of acquisitions and capacity enhancement projects. Its management team has a wide range of experience in finance, consumer goods, agriculture and government.

To further drive growth and improve earnings, management intends to consolidate its earnings and profitability through market penetration with innovative products. The team launched the brand - Stella Lager Beer - into the market on December 7th, 2017 targeted at young Nigerians. For now, the product is just gaining market acceptance and is expected to have a positive impact on the company's 2018 sales.

Management plans to mitigate forex challenges by intensifying its local sourcing of raw materials. Nigerian Breweries' current sourcing level of local materials is at 50% and the company is optimistic about achieving its 60% target before 2020 through aggressive investments in the cassava and sorghum value chain. The company also plans to deploy a new hybrid of sorghum varieties and make significant progress with its partners - International Fertilizer Development Centre (IFDC) and Psaltry International (local processing company) - on the extraction of maltose syrup derived from cassava for the company's production. In a bid to further manage its costs efficiently, management continues to assess its price adjustment strategy to ensure a balance in minimizing input costs and the price consumers are willing to pay.

Mr. Jordi Borrut Bel

Managing Director (MD) and Chief Executive Officer (CEO)

Mr. Jordi Borrut Bel is the new Managing Director (MD) and Chief Executive Officer (CEO) which took effect January, 22nd 2018. His career started with Heineken, Spain, in 1997 as a Sales representative/ Wholesale Manager; he has since gained over 20 years of extensive experience in the brewing industry across France, Slovakia and the Netherlands. He is currently the MD of Brarudi S, a subsidiary of Heineken in Burundi. He successfully led the company through turbulent periods by strengthening the company's route-to-market and launching successful innovations. He is also a board member of Bralirwa Ltd, a subsidiary of Heineken in Rwanda.

Chief Kolawole B. Jamodu

Chairman

Chief Kolawole B. Jamodu has been the Chairman of the Board of Directors, since January 1st, 2008. He was appointed to the board as a Non-Executive Director in 2006. Chief Kolawole is a chartered accountant, an industrialist and a former Minister of Industry of the Federal Government of Nigeria. He previously worked as the Chairman and Group Chief Executive of the PZ Group. He has also led organizations such as Universal Trust Bank Plc, Manufacturers' Association of Nigeria (MAN), and United Bank for Africa Plc. He has also served as part of the National Economic Management team under former president, Goodluck Jonathan.

THE BULLS SAY

* Leading player in the Nigerian brewery industry
* Rich product portfolio for both alcoholic and non-alcoholic drinks
* Renowned brand value
* Strong parent company
* Robust and effective distribution channels
* Proposed upward review of minimum wage could bolster consumer spending
* Qualified talented and experienced management team
* Favorable government policies

THE BEARS SAY

* Intense competition from other leading players such as Guinness, ABInBev as well as smaller local brewers
* Rising raw material costs could threaten earnings growth
* Persistent forex challenges could lead to higher finance costs affecting earnings negatively
* Persistent macroeconomic headwinds have dampened consumer demand
* Shift of market preference to low-priced products

Risks and Outlook

Weak macroeconomic fundamentals pressure growth potential

The major risks that could prevent Nigerian Breweries from achieving its goals of boosting earnings, increasing sales and managing costs include persistent macroeconomic challenges, credit risk liquidity risk, market risk (currency and interest rate), and capital risk amid security challenges in the country. The board established the Risk Management Committee to develop and monitor the company's risk management policies in co-operation with its internal audit.

The shift of consumers to value products instead of premium brand products poses a threat to Nigerian Breweries' sales prospects. While the company's effective sales team is ensuring that its products are available at every location possible, consumers view alcoholic and soft drinks as luxury goods and may significantly cutback spending on such items.

Market risk (currency and interest rates) remains daunting. The company is exposed to currency volatility on sale, purchases and borrowings denominated primarily in Euros, US dollars, and pounds sterling. Further pressure on the naira could increase its finance costs (operating costs and interest expense) thereby dampening its earnings. Although there have been recent improvements in the availability of forex in the country through the introduction of the Investor's and Exporter's Foreign Exchange window (IEFX), the company mitigates forex risk by participating in financial instruments provided by the Central Bank of Nigeria (forward and future contracts) and its involvement in the BIP of agro-allied products, which encourages the use of local raw materials. In addition, the company opts for a mix of fixed and floating interest rates to control interest rate risks.

Nigerian Breweries addresses credit risk by reviewing customers that require credit over a certain amount and analyzing new customers individually to ascertain their credit worth. Credit limits are established for qualifying customers and the limits are reviewed regularly by the Credit Committee. In terms of credit risk exposure of its bank balances, the company selects reputable banks with good credit ratings and a history of strong financial performance. The company manages its liquidity risks by having sufficient funds to meet its liabilities when due, under normal and stressed conditions.

The security challenges in the northern part of the country that have affected the company's sales so far may continue to have a negative impact on growth projections and market penetration. The company mitigates capital risks by maintaining an efficient capital structure by adjusting its debt to equity ratio.

In addition, the merger of ABInBev subsidiaries (International Breweries, Intafact Beverages Limited and Pabod Breweries Limited) will give the newly constituted company an opportunity to provide quality beer at competitive prices and pose a threat to Nigerian Breweries. The merger has the potential to attract greater volumes and reduce Nigerian Breweries market share through a wider portfolio of franchise brands.

The risks facing Nigerian Breweries could limit the achievement of its long term objectives. Even though the management has put structures in place to ensure sales growth and cost efficiency, the macroeconomic headwinds facing the company may be beyond the control of its competent management.

Backward Integration Plan (BIP) is a government incentive put in place to promote the sourcing of raw materials in-house and stop the importation of raw materials by 2020

APPENDIX - Valuation

We derived our valuation for Nigerian Breweries Plc by using the Discounted Cash Flow (DCF) methodology. Our fair value estimate for Nigerian Breweries stood at **N97.12**, which is a 28.06% downside on its current share price of N135 as at January 4, 2018. The discount rate [weighted average cost of capital (WACC)] of 15.78% is derived using a 16.2% risk free rate [the yield for a 10-year Federal Government of Nigeria (FGN) bond maturing in March 2027], a beta of 1.0498, an after-tax cost of debt of 8.60%, and a market risk premium of 6.4%. The calculated long-term cash flow growth rate to perpetuity is 7.0%.

DCF Valuation			
N'000	**2017E**	**2018E**	**2019E**
EBIT	79,975,948	80,443,709	79,652,801
Less: Taxes	(22,692,991)	(22,825,717)	(22,601,299)
EBIAT	57,282,957	57,617,992	57,051,503
Plus: Depreciation & Amortization Expense	29,032,615	27,957,212	26,740,948
Less: CAPEX	(16,571,909)	(17,478,875)	(18,450,078)
Less: Change in working capital	18,082,545	13,284,833	(2,579,520)
Free Cash Flow (FCF)	87,826,208	81,381,163	62,762,852
WACC	15.78%	15.78%	15.78%
Present Value (PV) of FCF	87,826,208	70,291,380	46,822,978
Terminal Value @ Perpetual Growth Rate (2020)	2017	2018	2019
Terminal value as of 2019			765,150,020
Present value of terminal value	570,824,962		

DCF Calculation	
PV of explicit period	204,940,566
PV of terminal value	570,824,962
Enterprise Value	775,765,528
+ Cash	11,285,821
- Borrowings	17,000,000
Equity Value	770,051,349
Share price	97.12
Shares outstanding ('000)	7,929,101