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FDC MONTHLY ECONOMIC UPDATE

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In This Issue ...

RECENT DEVELOPMENTS IN NIGERIA'S POWER SECTOR

Gas is one of the four sources of power. In Nigeria, it is a major source, accounting for 85% of electricity generated from the national power grid. However, sporadic power supply continues to persist due to constant gas constraints. So far in June, gas constraints accounted for over 73% (42,561MWh/h) of total constraints (58,202MWh/h) in spite of Nigeria's 192 trillion standard cubic feet of gas reserves (the largest gas reserves in Africa).

On June 16th, average on grid power generated was below 3,000MWh/h, the lowest since January 2018. This was as a result of the shutdown of 6 gas generating power plants due to a rupture of the Nigerian Gas Company (NGC) pipeline. In addition, the shutdown of Afam VI power station, on the back of technical issues 14 experienced by Shell at its gas well, contributed to the shortfall in power output.

The Moroccan and Nigerian governments on June 10th signed a joint declaration with details for the finalization of a gas pipeline project launched in 2016 in Rabat, Morocco's capital. The project involves extending an existing pipeline, the West African Gas Pipeline (WAGP), which is 5,660km long, to Morocco and Europe. The WAGP currently transports gas from Nigeria to countries in the West African sub-region. The construction of the proposed gas pipeline is expected to last for 25 years and would be both offshore and onshore. The project aims to improve economic relations in gas resource development, global investments and agricultural training and management.

Impact

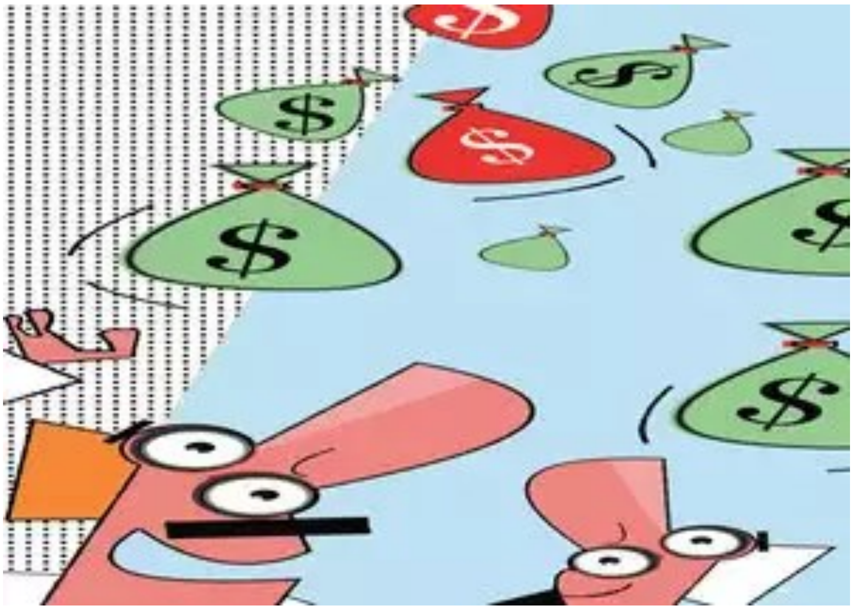
The project is advantageous for both countries as it will help improve economic ties. It is of great importance to Morocco as it will boost its influence in SSA through the linkage to Africa's largest economy through the pipeline. It will also lead to a decline in Morocco's import bill as the country will have greater access to Nigeria's gas.[1] Morocco only has 17trn standard cubic feet in gas reserves. For Nigeria, the project would increase gas export, reduce gas flaring, encourage diversification of energy resources and cut down poverty through the creation of job opportunities. Consecutively, this will increase fiscal and forex revenue thereby boosting industrialization which will drive economic activity and growth. Gas accounts for 9.6% of Nigeria's exports.

However, there are concerns surrounding the feasibility of the project. The possibility of complications in construction due to the passage through non-Moroccan territory will pose a significant threat. This will likely lead to a rise in finance costs and potential disruptions to the pipeline by locals. Furthermore, there have been oppositions from local and international non-government organizations as they believe the project is non-beneficial to the locals. For Nigeria, it could disrupt the county's relations with the self-declared authority, the Polisario Front in Morocco.

In addition, the persistent disruptions to pipelines in Nigeria could dampen the country's gas export quantities and forex earnings from Morocco.

[1] EIU. 2018. Morocco and Nigeria agree to go ahead with gas pipeline.

THE NIGERIA-CHINA TRADE RELATIONS TO BOOST FOREIGN DIRECT INVESTMENT (FDI) IN NIGERIA



According to the 2018 UNCTAD World investment report, Foreign Direct 14 Investment (FDI) into West Africa declined by 11% to $11.3bn in 2017. The decline was underpinned by a drop in FDI flows into Ghana and Africa's largest economy, Nigeria. FDI into Nigeria declined sharply by 21.3% to $3.5bn[2], due to the nation's tepid growth recovery. The country's fragile growth weighed on business and investor confidence. Thus, foreign investors were reluctant to invest in the country. On a positive note, Nigeria's economic growth is forecast to continue to grow (2.1%)[3] in 2018. Stronger and broad based economic growth is likely to drive an increase in FDI inflows.

More importantly, the government recently signed a $2.5bn currency swap with China. This is aimed at easing the pressure on the external reserves that is predominantly in dollars. The agreement will also help to improve the speed and ease of transaction between the two countries. The lower trade barriers would spur the free flow of capital, thereby increasing economic activities. The increased volume of economic activities will help to stimulate growth, strengthen investor confidence and boost investment.

China is Nigeria's largest supplier. It accounted for 19.8% of Nigeria's total import and 4.5% of total export in 2016[4]. Additionally, Nigeria's trade volume with China alone accounted for 18% of the total trade with Nigeria's major trading partners. The rapid growth in bilateral trade between Nigeria and China is expected to be strengthened further by the currency swap with a likely increase in FDI flows in 2018.

[2] http://unctad.org/en/PublicationsLibrary/wir2018_en.pdf
[3] EIU
[4] EIU

BUHARI AND THE NATIONAL ASSEMBLY OF KEYNESIANS

On June 20th, the President signed the 2018 budget (N9.1trn) into law, five weeks after it was approved by the Senate. Buhari expressed reservations concerning the 6% upward review of the budget to N9.1trn from N8.6trn and stated that he gave his assent so as not to interrupt the ongoing economic recovery. In dollar terms, the budget is now $29.8bn, higher than 2017's budget of $24.4bn.

According to reports, the President was of the opinion that the excess revenue received from higher crude prices should be used to finance the growing deficit (1.4% of GDP) and reduce borrowing, rather than increase spending. This view has underlying similarities with the monetarist school of thought. Monetarists advocate that, as much as possible, the government should run a balanced budget. However, while monetarists are focused on the implications of this on money supply, Buhari is more concerned about the implications for debt.

On the other hand, the National Assembly hold more of a Keynesian view. In Keynesian economics, expansionary fiscal policy is one of the vital ways to kick-start economic activity. Deficit spending occurs when the revenues fall short of expenditures. With the upward review of the budget, total expenditure is now N9.6trn, compared to expected revenue of N7.15trn. This leaves a deficit of N1.95trn, which is to be financed by borrowing.

However, this creates a future problem- debt, Buhari's biggest concern. Nigeria's total debt currently stands at N22.71trn ($74.28bn) (as at March 2018)[5]. Earlier in the year, the IMF expressed concern over rising debt levels and more importantly, debt servicing ratio, estimated at 63%.[6] Total debt to export revenue is also at an alarming high of 52.3%.[7]

While increasing spending today, at the expense of higher debt tomorrow might appear short-sighted, the FGN's options are few. The alternative would be to maintain a conservative budget, and watch unemployment skyrocket, income per capita plunge, and economic growth crawl.

A quick look at the sections of the budget which accounted for the upward review show that increased spending in these areas would have a positive multiplier effect on the economy. Capital expenditure was increased by 18.11% to N2.87trn, much higher than the 0.86% increase in recurrent expenditure to N3.52trn. The budgets for health, security, education and, power, housing and works were also adjusted upwards.

This boost in government spending will negate the effects of lower private consumption and keep aggregate demand at equilibrium. This will ultimately ensure that businesses stay afloat, and unemployment does not scale through the roof.

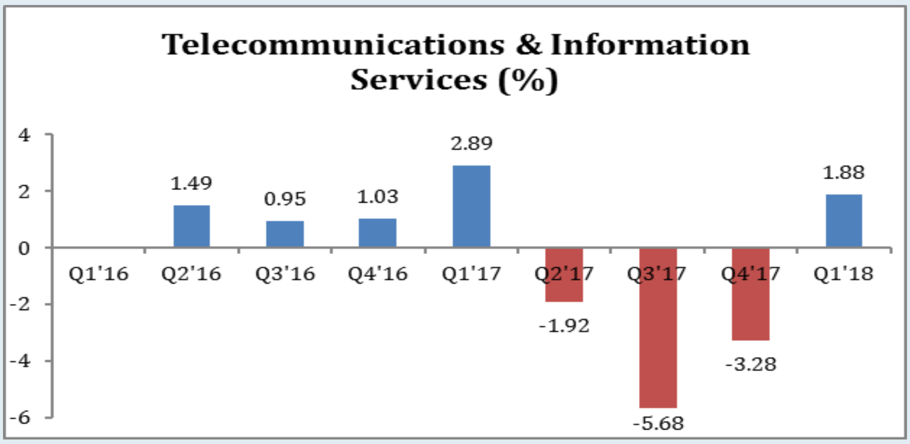
Furthermore, the spending will have a multiplier effect on GDP, and in return, this could lead to an uptick in government revenue (from taxes), and ultimately support FG's ability to service debt in the long-term. Thus, given the current economic situation, the focus of the government should, be on increasing revenue, rather than curtailing expenditure.

[5] DMO http://punchng.com/nigerias-debt-rises-to-n22-7tn-dmo/
[6] IMF https://www.vanguardngr.com/2018/04/imf-describes-nigerias-debt-servicing-ratio-extremely-high/
[7] EIU, June 2018, Country Forecast Report- Nigeria

THE TELECOM SPACE: SUBSCRIBERS ON THE INCREASE

The telecommunication sector plays a critical ingredient for pure competition and perfect markets in the development of any economy. It facilitates communication and dissemination of information which is needed to spur growth and development. According to the Nigerian Communications Commission (NCC) statistics, the total number of subscribers increased by 7.5% to 160.5mn in April from 149.3mn in March. Teledensity also increased to 114.66% in April from 106.64% in the previous month. In addition, the total number of internet subscribers increased by 0.6% to 101.2mn in April from 100.6mn in March.[8]

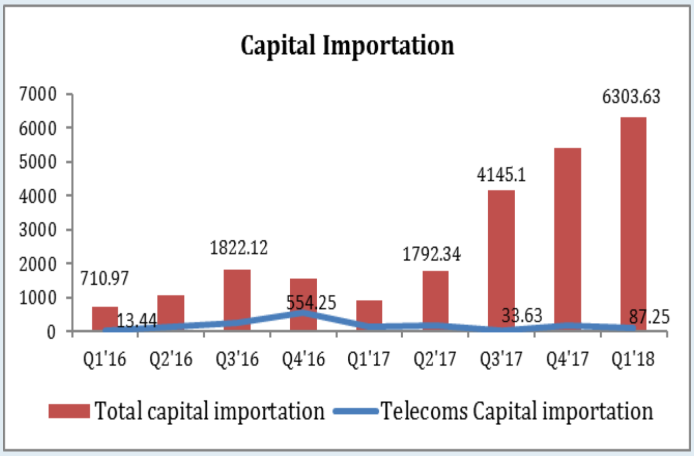
In the first quarter of the year, the telecoms sector staged a rebound after contracting for three consecutive quarters. The sector's growth advanced by 1.88%, which is 516bps higher compared to -3.28% in Q4'17. In addition, the sector's contribution to GDP increased by 54bps to 9.19% from 8.65% in Q4'17. The telecommunication sector emerged as the third largest contributor to GDP in Q1'18[9]. One of the contributory factors to the sector's improved performance was the $68bn[10] foreign investment in the sector and the increase in the number of internet and voice subscribers. This impressive growth could imply more revenue and profits for the telecoms operators. However, major threats to the sustainability of the sector's growth momentum are exchange rate volatility, inadequate funding and lack of technological advancement. The total bank credit to the telecoms sector was N870bn in Q1'18, 5.5% of the total bank credit to sectors (N15.6trn)[11].



[12]

[8] https://www.ncc.gov.ng/stakeholder/statistics-reports/industry-overview#view-graphs-tables-5
[9] http://www.nigerianstat.gov.ng/elibrary
[10] https://www.nipc.gov.ng/telecoms-sector-fdi-hits-$68-billion/
[11] http://www.nigerianstat.gov.ng/elibrary?page=2&offset=10
[12] NBS, FDC Think Tank

In Q1'18, the capital importation to the telecoms sector was $87.25mn, 40% decline compared to $145.78mn recorded in the corresponding period in 2017 and 54.32% decline compared to $191.01mn recorded in Q4'17. As a percentage of the total capital importation to all sectors, the capital importation to the telecoms sector declined 2.1% to 1.4% from 3.5% in Q4'17[13]



[14]

Recent Developments in the Sector

Data rollover

The Nigeria Communications Communication (NCC) has directed the telecoms operators to begin data rollover from June 26th. This is to ensure that the unused data of customers in the previous month is added to subscription in the current month. The regulatory authority emphasized that the failure to adhere to this new development will attract a fine of N5mn on each subscriber which they have failed to roll over and N500,000 on each day that succeed the first default day

Implications

This new development will help to protect the interest of the internet subscribers, save cost and increase efficiency (get maximum returns from every subscription). This could also intensify the increased preference for internet services over voice calls. On the other hand, the new initiative could lead to a reduction in the amount and value of customer's subscription in subsequent months in order to utilize the unused data in the previous month. This is likely to pull down the revenue and profit of internet providers

MTN Ghana launched its initial public offer (IPO)

MTN Ghana has launched an Initial Public Offer (IPO) in an attempt to list on the Ghana stock exchange. This offer opened on May 29th and will run for nine weeks to close on July 31st. The corporation is offering up about 35% of its equity which will consist of both newly issued shares and a sale of existing shares held by MTN Group Limited. The listing will confer the firm the opportunity to meet with the localization conditions agreed in 2015 when the right for the 4G license was acquired. The condition required that the company offer Ghanaian investors the privilege to own up to 35% of its shares.

Implications

One of the benefits of going public is being able to raise capital. The acquisitions of additional capital will provide the company the opportunity for further expansion. Aside this, the corporation will have more financial resources to invest in infrastructures which could enhance the provision of more satisfactory services to its customers. However, the likely threats are intense scrutiny from regulatory bodies, pressures from shareholders and cumbersome decision making as the interest of all stakeholders needs to be factored in.

MTN Nigeria released its Q1'18 results

The telecoms giant, MTN Nigeria has released its first quarter 2018 financial results. According to the report, the firm recorded a strong and impressive growth. This was partly supported by the increase in the data and voice revenue. The data revenue which grew by 73.2% far outweighs the growth in voice revenue of 15.2%. During the quarter, the company reported a net addition of 2.3 million new subscribers to its subscribers' base due to increase in its SIM registration footprint across the country.

Implications

The increase in the data revenue far outweighs that of voice revenue. This implies that the preference of customers is more skewed towards internet services. This could be as a result of the relatively cheaper cost of data services compared to voice calls. The new data roll over policy could further intensify the increased usage of data over voice calls.

Telecoms operators deploy 52000km fibre optic cable to bridge access gap

In an attempt to improve infrastructural development in the telecommunication sector, the telecoms operators have deployed about 52,000km of fibre optic cable to bridge access gap in the country.

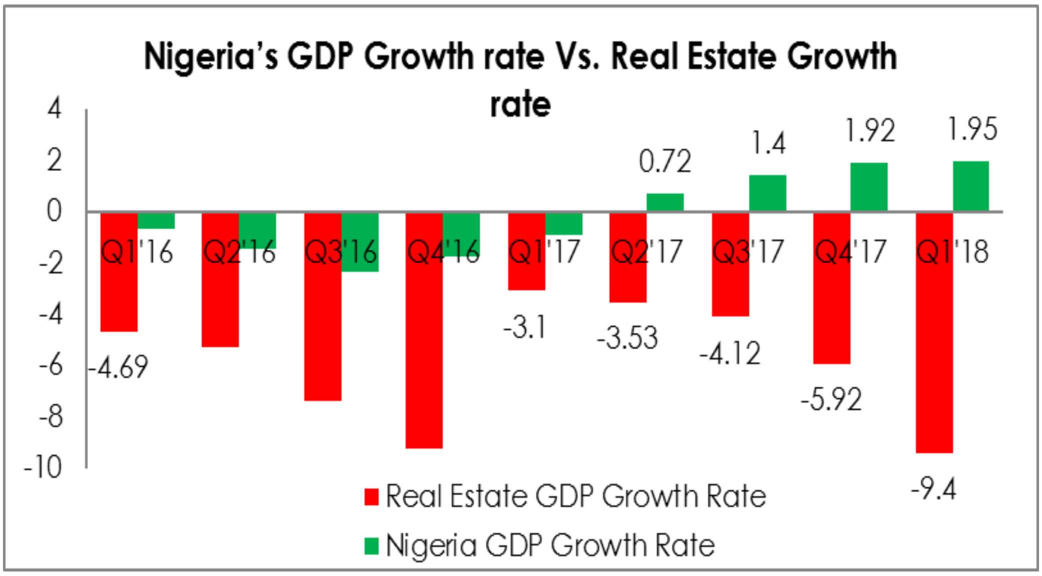
Implications

The newly deployed fibre optic cable will help to improve internet services rendered by the telecoms operators.

REAL ESTATE MARKET CONTINUES TO LAG ECONOMIC GROWTH

Real Estate Growth in Q1'18

The real estate sector recorded negative growth in tandem with the Nigerian economy during the 2016 recession. However, since Nigeria's recovery from the recession in Q2'17, the sector is still lagging behind general economic performance. According to the National Bureau of Statistics, the sector contracted further to –9.4% in Q1'18 from -5.92% in Q4'17 and -3.1% in Q1'17. High borrowing costs, low demand for properties, rent service charge defaults and low construction activities have slowed activities in the sector and hindered growth rate.



[15]

Property Trends[16]

Residential

In the residential market, developers have started reducing plot sizes, car parks in a bid to intensify land use. In addition, the recent trend of improved design and finishing features has increased the demand for luxury real estate in prime locations such as Lagos and Abuja.

Commercial

On the commercial front, the retail sub-category witnessed an increase in demand for high street malls within central locations such as Lekki, Ademola Adetokunbo way and Wuse. Entertainment and leisure features have become major demand pull factors for large malls while car park payments are a key income stream for the malls. Demand in the office sub-category remains driven to a large extent by co-working spaces as developers offer flexible prices and terms. Grade-A developments which slowed due to the recession marked significant progress and received interest from international and local occupiers. There has also been a strong demand for grade B and below spaces relative to their demand in 2017.

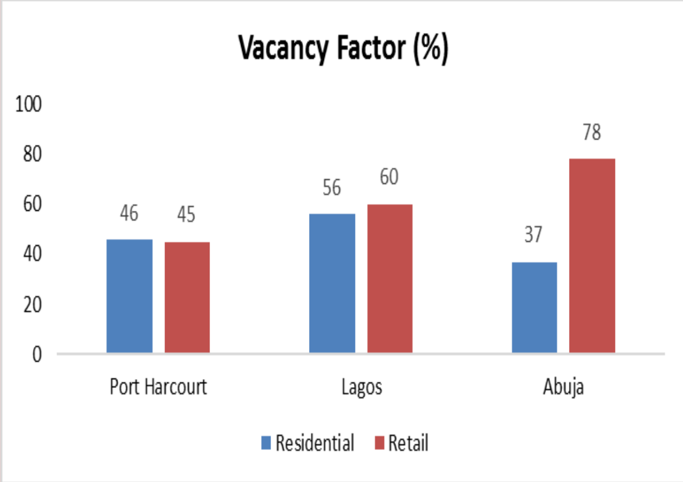
[15] NBS, FDC Think Tank
[16] Northcourt Real Estate

Industrial

The industrial market has shifted focus to locations with lower rents and taxes such as Ogun state. However, certain infrastructure developments need to be in place to fully maximize this demand.

Vacancy Factor

The lull in activities in the real estate sector has also reflected in vacancy rates across the country. Vacancy rates in three of the country's real estate hubs (Lagos, Abuja and Port Harcourt) in Q1'18 are as follows:



[17]

Other Recent Developments

Nigerian Army launches 'Apple Island'

The Nigerian Army has partnered with construction giants Julius Berger and Van Oord to build a mixed-use development for top military officers. The project is expected to be sited on a reclaimed parcel of land from the Lagos Lagoon and would cover a total of 45 hectares off the shoreline of Banana Island. It would consist of a shopping mall, guest house, police station, a mosque and clubhouse. The project is set to provide approximately 100 housing units for military officers.

Performance of real estate companies in Nigeria

Currently, there are 4 companies, UPDC, UAC Property, Union Homes and Skye Shelter Fund, listed on the Nigerian Stock Exchange. During the review period (April 30th -May 31st), the share prices of three of these companies remained flat while UAC Property share price declined 13.01%. This is partly due to the company's loss of N2.9bn recorded in 2017, its second consecutive loss.

Companies	*Price as at April 30, 2018*	*Price as at May 31, 2018*	*Change (%)*
UPDC	*N10*	*N10*	↔
UAC Property	*N2.46*	*N2.14*	↓
Union Homes	*N45.20*	*N45.20*	↔
Skye Shelter Fund	*N100*	*N100*	↔

[18]

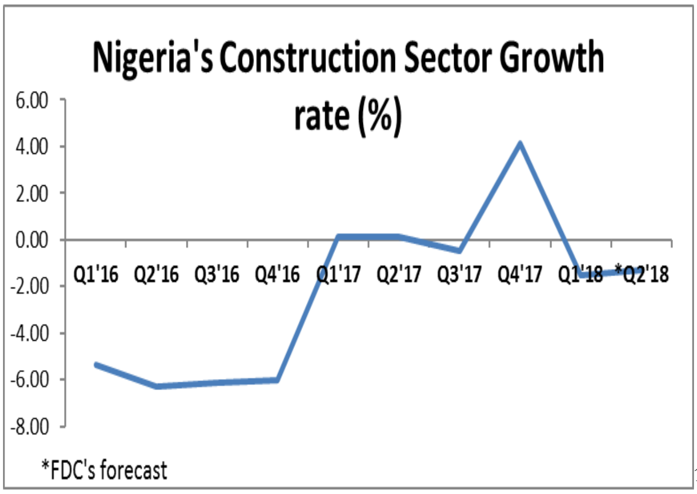
Outlook for real estate in June

The real estate sector is still feeling the pinch of high borrowing costs and dwindling consumer demand across board. With the 2019 general elections approaching and the impending assent of the 2018 budget by the President, we expect increased naira liquidity and consumer disposable income. Historically, election season is usually accompanied by increased infrastructural development as politicians aim to score political points and pump funds into the construction and real estate sectors alike. The sector is usually a popular option for politicians to channel excess funds and we expect this to reverse the 9 consecutive quarters of contraction witnessed in the sector.

[17] Northcourt Real Estate
[18] Nigerian Stock Exchange

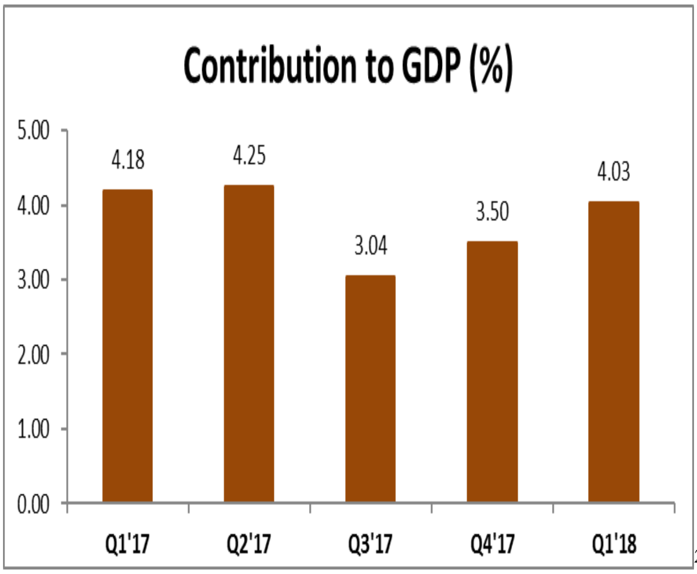
INCREASED CONSTRUCTION ACTIVITIES EXPECTED AS ELECTIONS DRAW CLOSER

Nigeria's GDP growth figures came in at 1.95% in the first quarter of 2018, slowing from 2.11% in Q4'17. Nigeria's construction sector also showed the same trend in the quarter. The sector's growth dipped into negative territory (-1.54%) in Q1'18, after a 4.14% growth in the fourth quarter of 2017. This is partly due to a slower aggregate spending in the first quarter of the year, compared to Q4 which witnesses widespread growth in consumer demand. The sector recorded a negative growth throughout 2016. A decline in global crude oil triggered a contraction in government revenues, disposable income and aggregate output. Virtually all the sectors of the economy dipped and construction was not isolated. The sector started recovering in Q1'2017, posting a 1% growth the year. The contraction streak has resumed in Q1'18 and this is expected to persist in Q2. The second quarter (April-June), which introduces the rainy season, usually witnesses less construction activities. We are forecasting a -1.2% growth for the sector in the quarter.



[19]

Meanwhile, the sector's contribution to GDP increased to 4.03% of GDP in Q1'18, from 3.5% in Q4'17.



[20]

Developments in the Construction Space

Domestic

FGN commits N300bn to road infrastructure in 3 years

The Federal government of Nigeria has committed N300bn to road infrastructure in the country since 2015 according to the Minister of Work, Power and Housing, Mr. Babatunde Fashola. The minister noted that the government has identified some priority areas of roads that need urgent attention. These include the roads with the heaviest traffic, such as Lagos-Shagamu, Ore-Benin and the Lagos-Ibadan expressway among others. The minister also disclosed that all the states had one form of road construction or rehabilitation going on; according to the minister, over 250 roads across the country are under construction.

[19] National Bureau of Statistics, 2018. "Nigerian Gross Domestic Product Report (Q1 2018)". Federal Government of Nigeria, http://nigerianstat.gov.ng/elibrary
[20] National Bureau of Statistics, Ibid. http://nigerianstat.gov.ng/elibrary

Implications

The amount disbursed for road projects since the current administration assumed office in 2015 represents an annual average of N100bn. This amount is significant as it translates to a 455.56% increase over N18bn inherited from the last administration for all the roads in 2015. Total road accidents in the country declined by 1.86% in 2015 from 2014. Between 2015 and 2017, this had declined sharply by approximately 62% to 9,400. However, poor road transportation infrastructure remains a major set-back to transportation and distribution activities in the country. As at 2017, the country has 195,000KM road network, with only 60,000 tarred[21]. This highlights an imperative for the government to further boost spending in this area.

United Nations pledges to attract Investment to Eko Atlantic City (E.A.C.)

The United Nations World Tourism Organization (UNWTO) has pledged to organize a forum for international investors in order to attract investment into the Eko Atlantic City in Lagos. The Eko Atlantic City is a city being constructed along the coast of Victoria Island in Lagos. It is designed to have a total of 10 districts, spread across a land area of approximately 10 sq. KM. According to the Secretary General of the UNWTO, Zurab Pololikashvili, the construction of the city is the largest ongoing project in Africa and it will be a potential site for tourist attraction.

Implications

The development of the E.A.C. is being carried out as a Public-Private-Partnership. Private companies and investors are providing the funding, while Lagos State Government is a strategic partner with the support of the FGN. The attraction of investors by the United Nations would expedite construction activities on this project site. At completion, the inflow of tourists would contribute to forex inflows into Nigeria and boost government revenues. Lagos State is the commercial hub of Nigeria, accounting for over 25% of total GDP. The downside is that tourists' inflow into Lagos would raise aggregate demand and cost of living in the economy. Lagos is currently one of the most expensive cities in Africa.

FEC approves $1.04bn for 2 major road projects

The Federal Executive council (FEC) has approved the rehabilitation of two major road projects in the country. These projects include the Abuja - Keffi - Akwanga - Lafia - Makurdi road and the Magama - Kwajani - Ningi road connecting Bauchi and Kano states. The Abuja - Keffi - Akwanga - Lafia - Makurdi road project would be financed through a $995mn loan obtained from the China-Exim Bank.

Implications

The rehabilitation of these roads would boost productivity due to the positive impact of better road infrastructure on output. Also, the construction activities will generate employment and spending in the FCT and other states affected. At completion, it is expected that the roads would ease transportation and overall distribution activities in the areas. The FCT is particularly likely to record less road accidents. The city recorded the highest number of road crashes in 2017, accounting for about 12% of the country's total.

[21] Media and Publicity Unit, 2017. "135,000km road network in Nigeria un-tarred- ICRC". Infrastructure Concession Regulatory Commission (ICRC), http://www.icrc.gov.ng/135000km-road-network-nigeria-un-tarred-icrc/

Sub-Saharan African (SSA) countries

Construction starts on Africa's tallest building in Kenya

Construction has commenced on the Pinnacle Towers in Kenya, Africa's tallest building. The building will also be one of the highest in the world. The 70-floor twin tower is located in Nairobi's Upperhill area and it is expected to cost $194mn to be financed through equity and debt. The building will encompass a 45-floor Hilton hotel, 200 residential houses and a helipad of about 800 feet. The developers have spent $14mn in the construction of the foundation and preparation phase. The project is scheduled for completion by December 2019.

Implications

Tourism constitutes approximately 10% of Kenya's GDP, while revenue from tourism increased by 20% to $1.2bn in 2017. This sharp increase came as a surprise due to a prolonged election period and the accompanying risk of violence. The completion of the Pinnacle Tower suggests that the tourism sector is poised for further growth as the building will attract tourists into Kenya and boost earnings. Ancillary services such as banking would benefit from this.

Construction Companies' Performance on the NSE in May

Three out of the 169 listed companies on the Nigerian Stock Exchange (Julius Berger Plc, Arbico Plc and Roads Nigeria Pl) are construction firms and they constitute 0.27% of total market capitalization Stock prices of these firms lost an average of 0.59% in May. Share prices of Arbico and Road Nigeria were flat in May. Julius Berger lost 1.78% in the last month.

Company	Share Price (April) (N)	Share Price (May) (N)	%Change	Directional Movement
Julius Berger Plc	28.05	27.55	-1.78	
Arbico Plc	4.79	4.79	0	
Roads Nigeria Plc	6.60	6.60	0	[22]

Outlook

We maintain the view that Nigeria's construction sector will slow in June and Q2'18 as rains widely constrain construction activities. The outlook for the rest of the year is however positive after the rainy season. The President's anticipated assent of the 2018 appropriation bill in June means more funds will be available for construction projects in subsequent months. We also expect to see the expedition of abandoned projects and new construction projects in the third and fourth quarters of the year as political office holders garner public support ahead of the 2019 polls.

[22] Nigerian Stock Exchange

galooli

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AN UPDATE ON THE RETAIL SECTOR

GLOBAL DEVELOPMENTS

Over the last quarter, the global retail market has seen increased consolidation, a shift away from the usual top destinations and greater innovation. This trend is primarily driven by tourism, technological advancements and a shift in suppliers' preference from price to market share.

Asda and Sainsbury's merger: The UK's Competition and Markets Authority has commenced consultation over the proposed merger between Sainsbury's and Asda, owned by American company Wal-Mart. Earlier in the year Tesco had acquired Booker, the UK's largest grocery wholesaler. According to data from Kantar, Tesco is the most dominant player in the grocery market with an estimated market share of 27.7%. Sales from Sainsbury's and Asda account for 15.7% and 15.4% respectively of the market[23]. Thus, a merger brings total sales to 31.1%, ending Tesco's monopoly. Once approved, Wal-Mart (the parent company of Asda) will receive approximately $4bn and 42% equity in the combined business. This is part of Wal-Mart's strategy to reduce activities in lower growth markets and invest in markets across Asia. The American retail giant has also sold 80% of its stake in its Brazilian business to private equity firm Advent International.

Starbucks and Nestle partnership: According to the $7.15bn agreement, Nestle now has the license to sell and distribute Starbucks coffee products. Nestle expects the deal to boosts its stock market cap and growth rate. The strategy might also help the coffee giant attract the upper class market which is dominated by rival coffee maker JAB.

Dubai Knocks London off the top spot: According to the report by global property advisor CBRE, Dubai is now the most important international shopping destination in the world.[24] 62% of global retailers are present in the city[25], the highest in the world. This was supported by the strong tourism growth of 6.2%. Shanghai came in 2nd with 55.3% of retailers doing business in the city. London and New York have the third and fourth spot with 51.7% and 46.3% respectively.

Mixed feelings about self check-out: Wal-Mart will discontinue the use of the scan & go option, which allowed customers to pay for items via an app. This service will be replaced by handheld scanners. Likewise Amazon and Scan bag are ditching the self checkout line for more innovative methods. Over the past decade self-scan has risen to prominence, as it provides an efficient payment system and helps to keep supermarket traffic moving. On the negative side, it takes jobs from cashiers, can be burdensome to customers, and makes it easier for customers to shoplift.

[23] https://www.kantarworldpanel.com/en/grocery-market-share/great-britain
[24] https://www.cbre.co.uk/research-and-reports/how-global-is-the-business-of-retail
[25] As at December 2017

Global Retail Development Index 2017: There are SSA five countries in the Top 30 index, which measures the rate of retail expansion and potential. The report looks at market attractiveness, country risk, market saturation and time pressure. Africa's retail industry has become the new target market for global retail brands from Kellogg's to Gucci. When it comes to market attractiveness, South Africa tops the SSA list with 52.5 (out of 100), total. Nigeria has the highest retail sales per annum in SSA, yet, it is the least ranking country in the Top 30. The country continues to face heightened risks, due to lower oil prices and security threats. Long-term potential lies in the large population, booming middleclass and increased internet penetration. As at December 2017, there were 98.3 million internet subscriptions[26]. According to the report, e-commerce via mobile phones grew by 87% in Nigeria (2017)[27]. Research shows that 70% of Nigerians prefer to shop online with their smart phones. Additionally, there has been a slow shift to modern shopping experience as Grade-A malls pop up across the country. 2017 saw the opening of the Yantebura mall in Kano and a $50 million mega mall in Ikeja (still under construction). Large grocery stores such as Shoprite and Spar account for only 1% of the market share[28].

SSA Country	Global Rank	Market attractiveness (0= low, 100= high)	Market saturation (0= high 100= low)	Country risk (0= high; 100= low)	Total annual sales (2017)
Cote d'Ivoire	17th	12.2	98.6	9.6	$14bn
Tanzania	21st	0	100	25.5	$17bn
Kenya	25th	12.5	76.4	0.7	$28bn
South Africa	26th	52.5	6.0	71.1	$94bn
Nigeria	27th	15.7	91.6	0.7	$109bn

[29]

Outlook & Implications

Nigeria's retail sector would continue to be supported by the expected increase in private consumption. Private consumption is expected to grow by 13.59% in 2018 to $351bn[30]. Urbanization and the growing sophistication of consumers would boost demand for modern shopping platforms such as e-commerce and mega malls.

[26] NCC
[27] https://www.atkearney.com/global-retail-development-index/article?/a/the-age-of-focus-2017-full-study
[28] Ibid
[29] https://www.atkearney.com/global-retail-development-index/article?/a/the-age-of-focus-2017-full-study
[30] EIU; May 2018; Country Forecast- Nigeria

THE LONG WAIT FOR A PRODUCTIVITY RESURGENCE

Global Perspective: Culled from FT

Improvement in living standards depends almost entirely on rising output per worker.

"You can see the computer age everywhere but in the productivity statistics." Today, we could repeat this celebrated 1987 statement by Robert Solow, Nobel laureate founder of modern growth theory, with the substitution of "technology" for "computer".

We live in an age judged to be one of exciting technological change, but our national accounts tell us that productivity is almost stagnant. Is the slowdown or the innovation an illusion? If not, what might explain the puzzle?

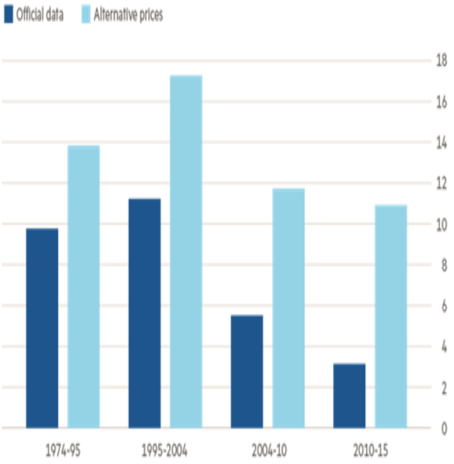
The slowdown, if true, matters. As Paul Krugman, also a Nobel laureate, argued, "Productivity isn't everything, but in the long run it is almost everything." Improvements in standards of living depend almost entirely on rising output per worker.

The productivity slowdown is a major explanation for the stagnation in real incomes and the pressure for fiscal austerity in high-income countries.

Gene Grossman of Princeton and three co-authors even argue that the marked slowdown in the growth of incomes per head also explains the decline in labour's share of national income in wealthy countries. No economist has done more to promote the revolutionary implications of information technology than MIT's Erik Brynjolfsson, above all in books co-authored with Andrew McAfee, also of MIT. But, in an interesting recent paper with two co-authors, he, too, recognizes the "productivity paradox". The paper does not resile from a belief in the transformative power of recent technological advances, particularly artificial intelligence. On the contrary, it emphasizes it, notably in image recognition and translation. Yet the productivity slowdown, the paper admits, is real.

Mis-measurement gives to the tech sector

Growth in US total factor productivity in the high-tech sector (% pa)



Source: D Byrne, D Sichel (CEPR, Aug 2017)

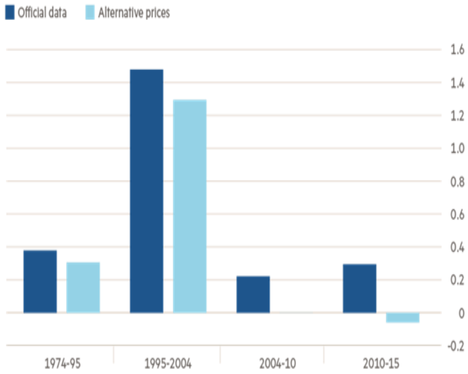
High-tech sectors include the production of computers, communications equipment, software and semiconductors

This seems to reflect weak investment and, above all, declining growth of "total factor productivity", a measure of output per input of capital and (quality-adjusted) labour. TFP is a measure of innovation, of the ability to produce more valuable output with given quantities of inputs. Without innovation, the rising prosperity of the past two centuries would have been impossible. In truth, innovation, not productivity, is almost everything.

We should also focus our attention on the US, since this large country has been driving the innovation frontier outwards since the late 19th century. A study by Nicholas Crafts of Warwick University and Terence Mills of Loughborough shows a decline in trend growth of TFP in the US from just above 1.5 per cent a year in the early 1970s to 0.9 per cent most recently. Others, notably Robert Gordon of Northwestern University, in his masterpiece The Rise and Fall of American Growth, come to similar conclusions about the recent slowdown, from analysis of longer time periods. (See charts.)

But takes away from the rest of the economy

Growth in US total factor productivity outside of the high-tech sector (% pa)



Source: D Byrne, D Sichel (CEPR, Aug 2017)

One possible explanation is mismeasurement. It is, and always has been, difficult to measure the impact of new technologies, particularly now when many services are free and many are provided, invisibly, from outside the US. Yet it is hard to accept that measurement suddenly became more difficult in 2005, when the US productivity slowdown began.

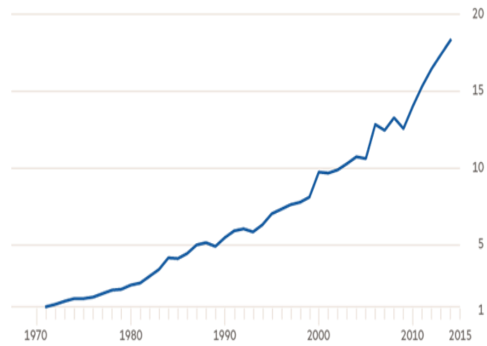
Moreover, even when account is taken of likely mis-measurement, in a study by David Byrne of the Federal Reserve and Dan Sichel of Wellesley College, the result is to raise TFP growth in the tech sector, but lower it elsewhere, with negligible effects on the whole economy. Mismeasurement then is not the explanation.

A second possibility is that diminished competition and expensive rent capture have dissipated the potential gains. So we have islands of innovation and huge wealth, but a weak economy. Several researchers do argue on these lines. This may even be a partial explanation. But it would be astonishing if monopoly alone prevented innovative technologies from bringing productivity benefits to today's open economies.

A third possibility is that the new technologies are simply not what they are claimed to be, particularly compared with the wide range of transformative ones from the late 19th and early 20th centuries: clean water, electricity, the internal combustion engine, powered flight, petroleum and chemicals.

Constant growth demands hugely increased resources

Effective number of researchers* (1971=1)



* R&D spending of key semiconductor firms divided by wage of high-skilled workers

Source: N Bloom, C Jones, J Van Reenen, M Webb (NBER, Sep 2017)

We take all those for granted, but they changed everything, as recent technologies may have not. Artificial intelligence may be a revolutionary general purpose technology but, a century ago, several technologies arrived at much the same time. A complementary view is that progress is harder now: it takes more researchers to advance technology than it used to do (though we can also employ more researchers today).

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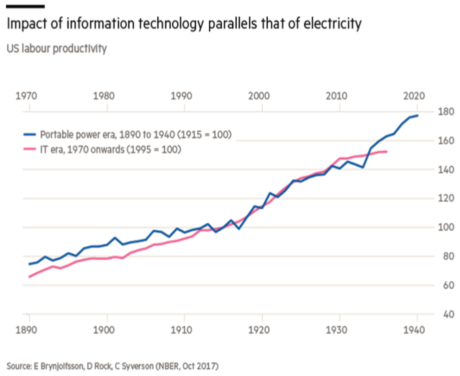
The final possibility — and the one that the paper by Mr Brynjolfsson and his co-authors unsurprisingly believes — is that this is the lull before a storm. It argues that the same productivity pause happened with electricity in the 1920s. It takes time for a new GPT to transform an economy.

Today, AI is in its earliest stages. Soon, they argue, it will change everything. This is consistent with the finding of Profs Crafts and Mills that past productivity performance is a poor forecaster of future performance.



When I look at the weighty presence in the modern economy of labour-intensive service sectors, such as health, education and care of children and the elderly, I conclude that the technological transformation will be slow. If I am wrong, it will be disruptive. At the moment, however, we have the worst of both worlds: significant disruption but near stagnation in average incomes.

What it will be in future — slow or disruptive — we do not yet know. But our societies are built on an implicit promise of growth. If the choice were between no progress and disruptive advance, we must hope for the latter — and do our best to manage the consequences.

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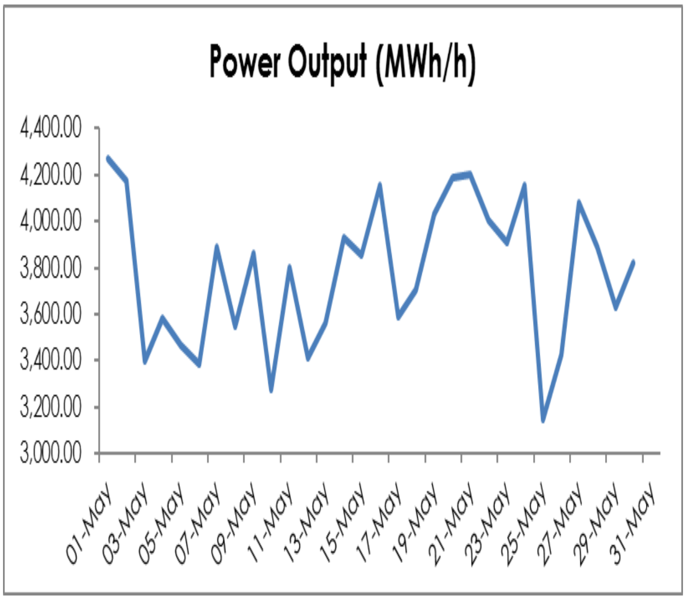
Macroeconomic Indicators

Power Sector

On the average, power output sent from the national grid was 3,780MWh/h in May, 5.14% lower compared to the average of 3,985MWh/h recorded in April. This declining trend persisted in spite of the commencement of the rains. The decline in the on-grid power output was primarily driven by the shortfalls in gas supplies. A total of 101,580MWh/h was lost in the month owing to the constraints. The sector lost approximately N48.8bn, annualized at N11.7trn in the month.

The Nigerian National Petroleum Corporation (NNPC) and its joint venture partner Nigeria Agip Oil Company Ltd have shown commitment in implementing the Okpai phase 2 project. The successful implementation of the project is expected to ramp up the country's power output by about 10%. However, the expected net addition from the project is still far below the shortfalls in the country's power supply. This shortfall in power output poses some threats to ease of doing business in the country especially for the SMEs as power constitute a larger proportion of the running cost of businesses.



[31]

Outlook

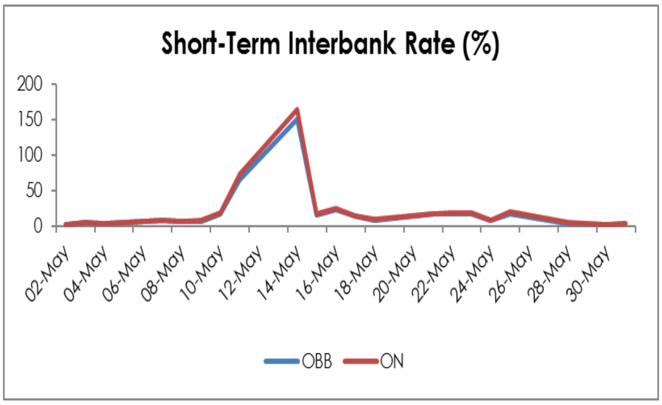
We expect increased rainfall to lead to an improvement in hydro generated power. This should mitigate the deficiency in gas supply, thereby improving power output in the coming period. In addition, the successful implementation of the Okpai project is expected to improve power generation in the long term. However, this is hinged on the ability to mitigate potential bottlenecks such as security challenges.

Money Market

In May, the average opening position of banks declined sharply by 68.91% to N168.40bn long from N541.62bn long in the previous month. This occurred in spite of a net inflow of N31bn during the month. The CBN issued less OMO bills in May (N1.25trn) relative to April (N1.86trn). However, more bills matured in the review month, a total of N1.56trn as against N1.07trn in April. The reduced liquidity position was also caused by funding for the CBN's forex interventions which increased by 75% in May.

Average NIBOR rate (OBB, ON) was 20.25% pa, 17.05% pa increase compared to the average of 3.20%pa recorded in April. During the review period, the Open Buy Back (OBB) and Overnight (ON) rates reached a high of 150% pa and 164.12% pa respectively (highest level YTD) on May 14th driven by lower market liquidity before declining to close the month at 2.83% pa and 3.67% pa respectively.

[31] FDC Think Tank



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Yields on the 182-day and 364-day T/bills maintained a downward trend to close at 10.5% pa and 11% pa respectively while yield on the 91-day tenor was flat at 10%. At the secondary market, yields on T/bills maintained an upward trend. In addition, lending rates declined marginally from 25% pa to 23% pa.

Primary Market

T/bills Tenor	Rate on May 2nd (% pa)	Rate on May 2nd (%)pa	Direction
91	10	10	↓
182	10.95	10.3	↓
364	11.15	11	↔

Secondary Market

T/bills Tenor	Rate on May 3rd (% pa)	Rate on May 31st (%)pa	Direc-tion
91	11.30	11.59	↑
182	10.37	11.43	↑
364	11.92	12.62	↑

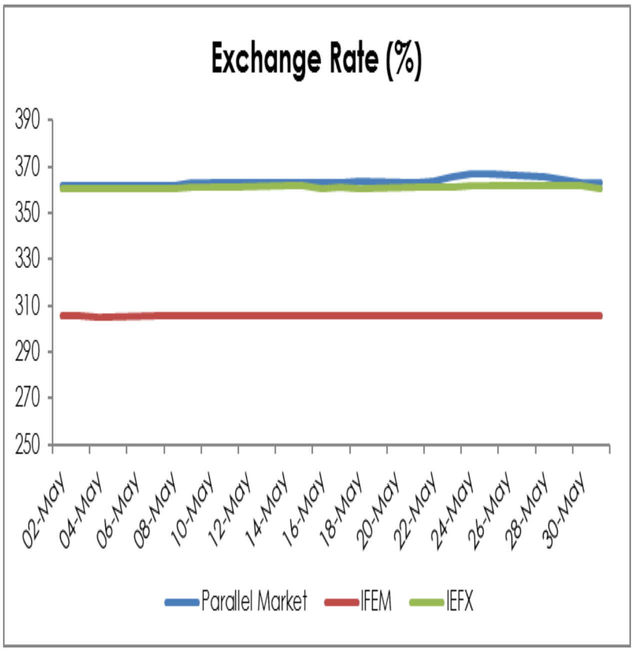
Outlook

We expect short term interest rates to move in line with market liquidity positions. The budget approval and implementation is expected to boost liquidity thereby keeping interest rates at low levels. Also, T/bill yields are expected to maintain their downward trend as the government continues to refinance domestic debts with foreign debt.

Forex Market

Exchange Rate

At the parallel market, the exchange rate depreciated sharply after 14 weeks of trading within a tight band of N362-N363 against the dollar. During the 4th week in May, the naira depreciated steadily to an 8-month low of N367/$ before appreciating to N363/$ at the end of the month. The unusual movement of the exchange rate was caused by rising demand pressures driven by speculative activities (anticipation of the release of budget funds, build up in tourist demand) The CBN in its bid to ensure currency stability increased its interventions in the month of May by 75% to $1.43bn. The total turnover at the IEFX window was also higher at $5.29bn compared to $5.14bn in April. The naira opened at the IEFX window at N360.67/$, depreciated by 0.37% to close the month at N362.02/$. The naira opened at the interbank market at N305.7/$ and appreciated marginally to N305.2/$ on May 4th before depreciating to close the month at N305.95/$.



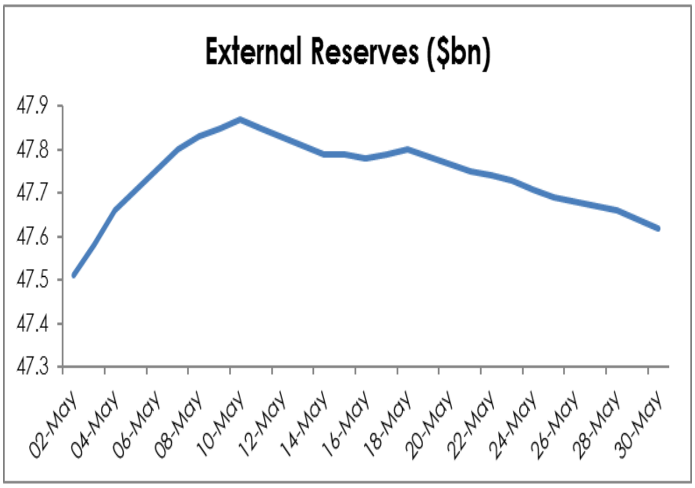
[33]

Outlook

The disbursement of funds following the signing of the budget is one of the factors that would heighten the forex demand pressure. Other factors such as demand for political use, summer trips and pilgrimage would also exacerbate currency pressures. The naira is expected to weaken into the month of June/July.

External Reserves

External reserves declined marginally after 18 months of consistent accretion to $47.85bn on May 11th from $47.85 on May 10th. As at May 30th, the external reserves levels had declined 10 times by a cumulative of $280mn to $47.62bn. This was partly due to the 75% increase in the CBN's intervention in order to support the naira. The gross reserves import and payment cover increased to 13.24 months from 13.31 months.



[34]

Outlook

We expect increased forex demand pressures following the presidential assent to the 2018 budget in June. However, the CBN is likely to increase its magnitude of interventions in order to mitigate the renewed pressures of the exchange rate. This will weigh on the level of external reserves. Thus, we expect the level of gross external reserves to decline slightly in June.

On the other hand, higher oil prices and improvement in domestic oil production could reverse the trend in the near term.

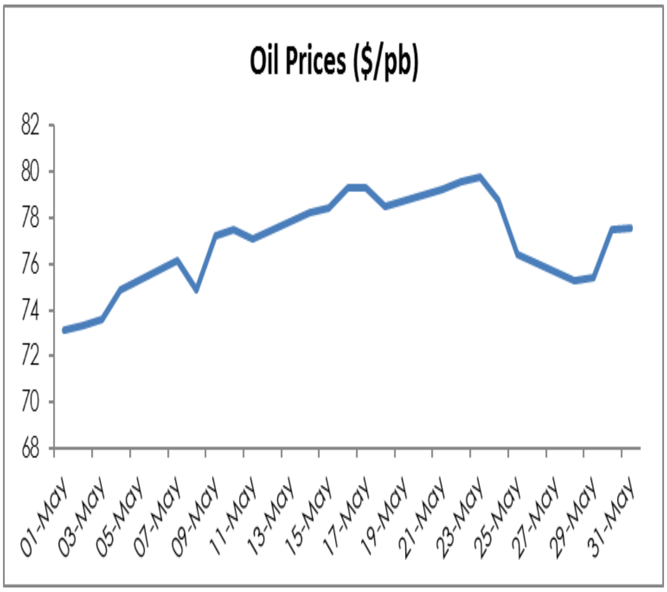
[33] CBN, FMDQOTC, FDC Think Tank
[34] CBN, FDC Think Tank

Commodities market - Exports

Oil prices

The average Brent price increased by 7.32% to $77.01pb from $71.76pb in April. During the month, crude futures rallied to a 42-month high of $80pb, due to supply constraints which resulted from the US' reinstatement of sanctions on Iran and Venezuela. However, oil prices were tempered by reports that OPEC could wind down on production deals because of output falls recorded by Venezuela and Iran.

In addition, a buildup of 5.8 million barrels of US crude oil inventories during the week of May 13th dampened the price rally.



[35]

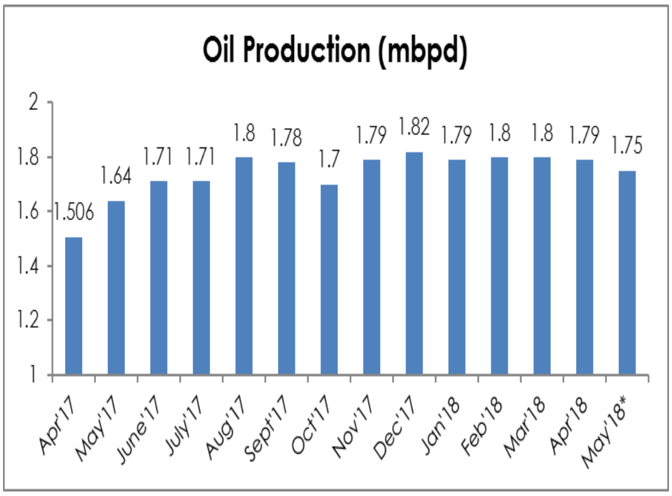
Outlook

The US president's efforts to restrict Venezuela's ability to liquidate state assets or access new debt from Russia and China could lead to a further decline in the country's crude output. This implies a further contraction in OPEC's crude output with the probability of pushing oil prices above $80pb. However, there is increased speculation that OPEC could be prompted to wind down its output cut at its next meeting (June 22) to cover any likely shortfalls from Venezuela and Iran.

Oil Production

In April, oil production decreased marginally by 0.55% to 1.79mbpd from 1.8mbpd in March. Oil production is 22.17% below the proposed benchmark of 2.3mbpd in the 2018 budget.

The Trans-Forcados pipeline has been shut down for repairs. This pipeline is the second largest network in the Niger Delta region and it transports about 200,000 - 240,000 barrels of crude oil per day.



[36]

Outlook

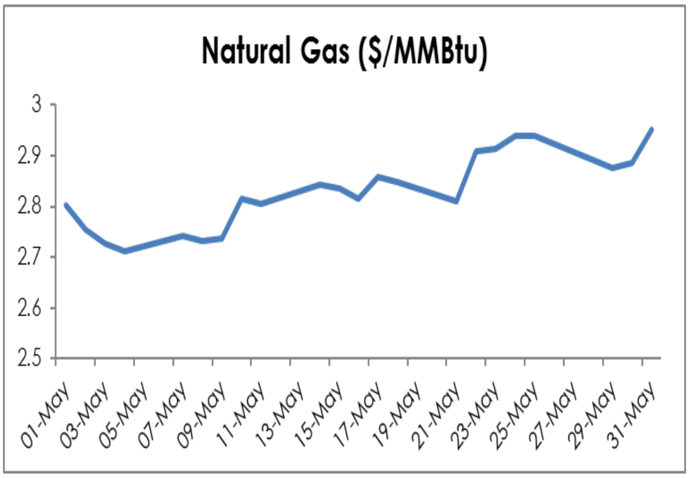
We project oil production to decline to 1.75mbpd in May owing to the shut down in the Trans Forcados pipeline.

[35] Source: Bloomberg, FDC Think Tank

[36] Source: OPEC, FDC Think Tank

Natural Gas

Natural gas prices inched up 5.35% to $2.952/ mmbtu on May 31st from $2.802/mmbtu on May 1st. During the month, natural gas price rose to a 4-month high of $2.952/mmbtu. The average price in the month was $2.829/mmbtu compared to April's average of $2.724/mmbtu. The increase in price was mainly due to the oil price rally and increased demand for gas.



[37]

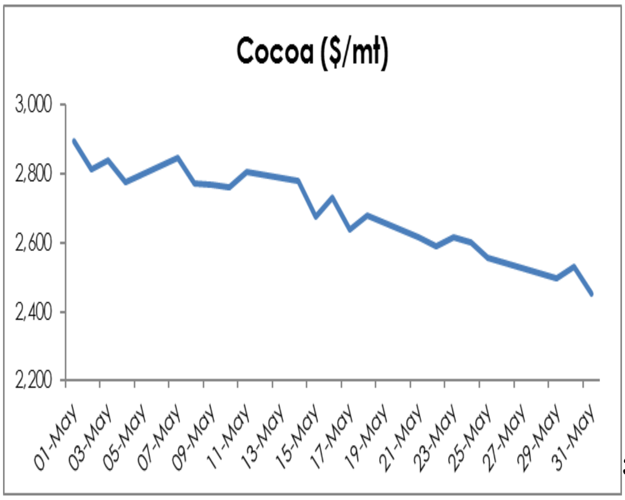
Outlook

The Indian government has declared its intention to transform the Indian economy into a gas-based economy. This decision will result to a further increase in demand for gas and its prices in the near term.

Cocoa

Cocoa prices declined by 15.20% to close the month at $2,454/mt (lowest level in 2 months) from $2,894/mt on May 1st.

The Solidarity West Africa and the European Union launched a 4-year Liberia cocoa sector improvement programme (LICSIP) in May. The programme targets about 5,000 smallholder cocoa farmers and supports the planting of about 3,800 acres of improved cocoa before 2021. It is intended to create a vibrant and profitable cocoa economy



[38]

Outlook

The continuous decline in cocoa prices amid poor weather conditions could pull down farmers' revenue, thereby constraining farmers' effort to productively invest in cocoa production. This is likely to create supply shortages and increase prices in the coming period.

However, we expect the LICSIP to enhance cocoa farmers' capacity and increase cocoa production in the long run, thereby forcing prices downwards.

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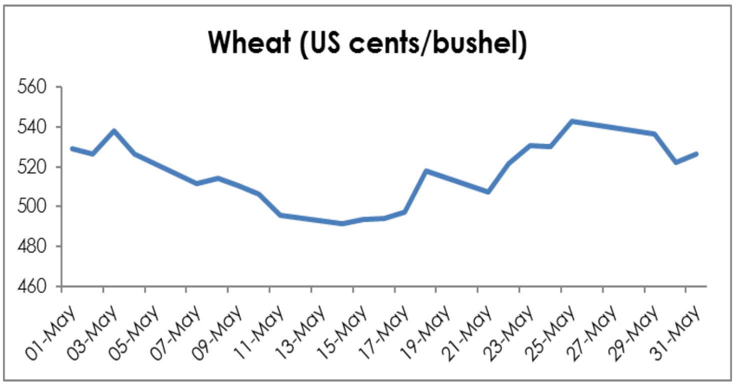
[37] Bloomberg, FDC Think Tank

[38] Source: Bloomberg, FDC Think Tank

Commodities market - Imports

Wheat

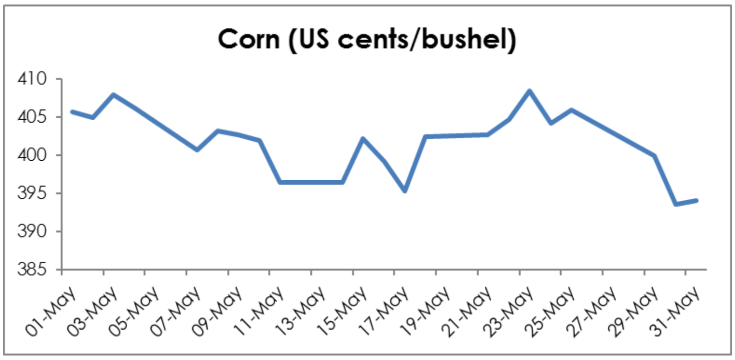
Wheat prices declined by 0.57% to $5.26/ bushel on May 31st from $5.29/bushel on May 1st. The average price of wheat in May was $5.17/bushel. This is still higher than April's average of $4.85/bushel. The decline recorded during the month was due to the improvement in US weather conditions.



[39]

Corn

Corn prices decreased 2.96% to $3.94/ bushel from $4.06/bushel on May 1st supported by favourable weather condition in the US.



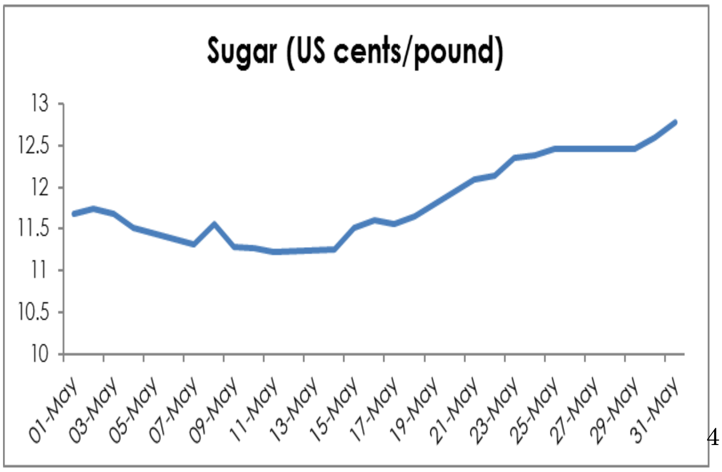
[40]

Outlook - Grains

In light of optimum weather conditions in major planting countries such as the US, we expect grain prices to trend downwards in June.

Sugar

The average price of sugar declined 1.17% to $0.1183/pound in May from $0.1197/pound in April. However, sugar prices increased 9.41% to $0.1279/pound from $0.1169/pound on May 1st.



[41]

Outlook

We expect sugar prices to increase in the near term as the world's second largest sugar producer, India, begins to tighten its sugar supply.

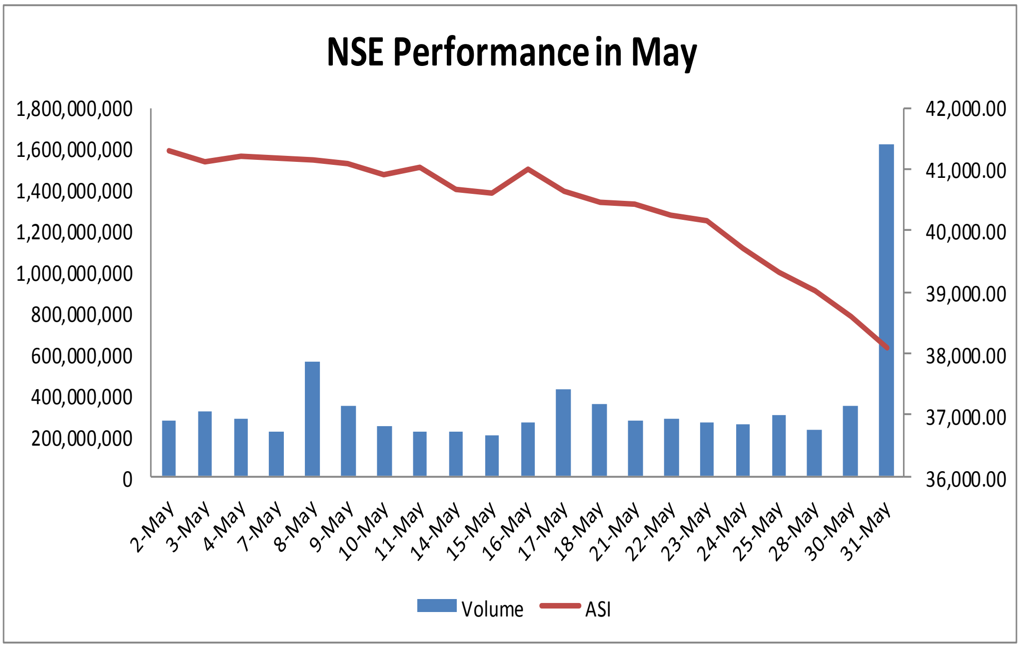
[39] Bloomberg, FDC Think Tank
[40] Bloomberg, FDC Think Tank
[41] Bloomberg, FDC Think Tank

STOCK MARKET

The NSE-All Share Index (NSE ASI) recorded a sharp decline of 7.67% to close at 38,104.54 on May 31 from the close of 41,268.01 on the last trading day of April. Consequently, the YTD return on the index dipped into negative territory (-0.36%). It is also noteworthy that the Nigerian bourse officially went into the correction territory, having lost 12.1% since February. The exaggerated bull run in January translated to the over-valuation of several stocks on the exchange, thereby necessitating a price correction. The market's bearish movement in May is also attributed to investor portfolio rebalancing owing to political risks.

The market capitalization moved in the same direction as it lost 7.67% (N1.15trn) to close the period at N13.80trn from N14.95trn recorded in April. The stock market is currently trading at a price to earnings (P/E) ratio of 10.89x (May 31st), a 7.63% decline compared to its close of 11.79x as at 30th of April 2018.

During the review period, the NSE recorded 4 days of gains and 17 days of losses. The market breadth remained negative at 0.28x, as 22 stocks gained, 79 stocks lost and 68 stocks remained unchanged in the review month.



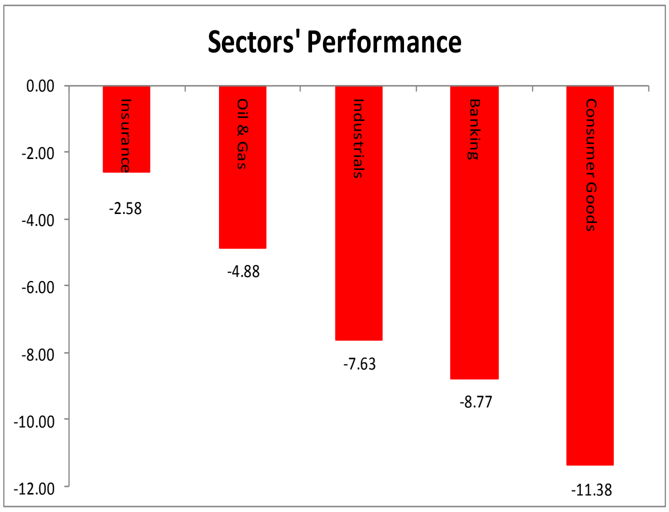
[42]

Trading activity on the bourse declined in May compared to the previous month. Average volume of stocks traded declined by 15.88% to 355.99mn compared to 423.17mn recorded in April. The average value of transactions however increased by 43.13% to N7.60bn in the review period. The surge in the average value of transaction was underpinned by the spike in daily turnover witnessed on the last trading day, as Standard Bank increased its shareholdings in Stanbic IBTC.

[42] *NSE, FDC Think Tank*

SECTOR PERFORMANCE

In the review period, all the NSE sub indices closed negative, with the consumer goods sub-index performing worst, losing 11.38%. As investors start to rebalance their portfolios due to political uncertainties, the consumer goods sector appears to have taken the greatest hit. Heavily capitalized stocks in the sector such as Nigerian Breweries (-17%), International Breweries (-14%) and Nestle Nigeria (-8%) weighed on the industry's sub-index.



[43]

The best performing stocks were MUTUAL BENEFITS ASSURANCE PLC (54%), IKEJA HOTEL PLC (41%), CEMENT COMPANY OF NORTHERN NIGERIA PLC (30%), MRS OIL NIGERIA PLC (21%) and LAW UNION AND ROCK INSURANCE PLC (21%).

TOP 5 GAINERS (N)				
Company	May 31'18	Apr 30'18	% Change	Absolute Change
MUTUAL BENEFITS ASSURANCE PLC.	0.37	0.24	54%	0.13
IKEJA HOTEL PLC	2.51	1.78	41%	0.73
CEMENT COMPANY OF NORTHERN NIGERIA PLC	26.65	20.45	30%	6.20
MRS OIL NIGERIA PLC.	34.25	28.35	21%	5.90
LAW UNION AND ROCK INSURANCE PLC.	0.94	0.78	21%	0.16

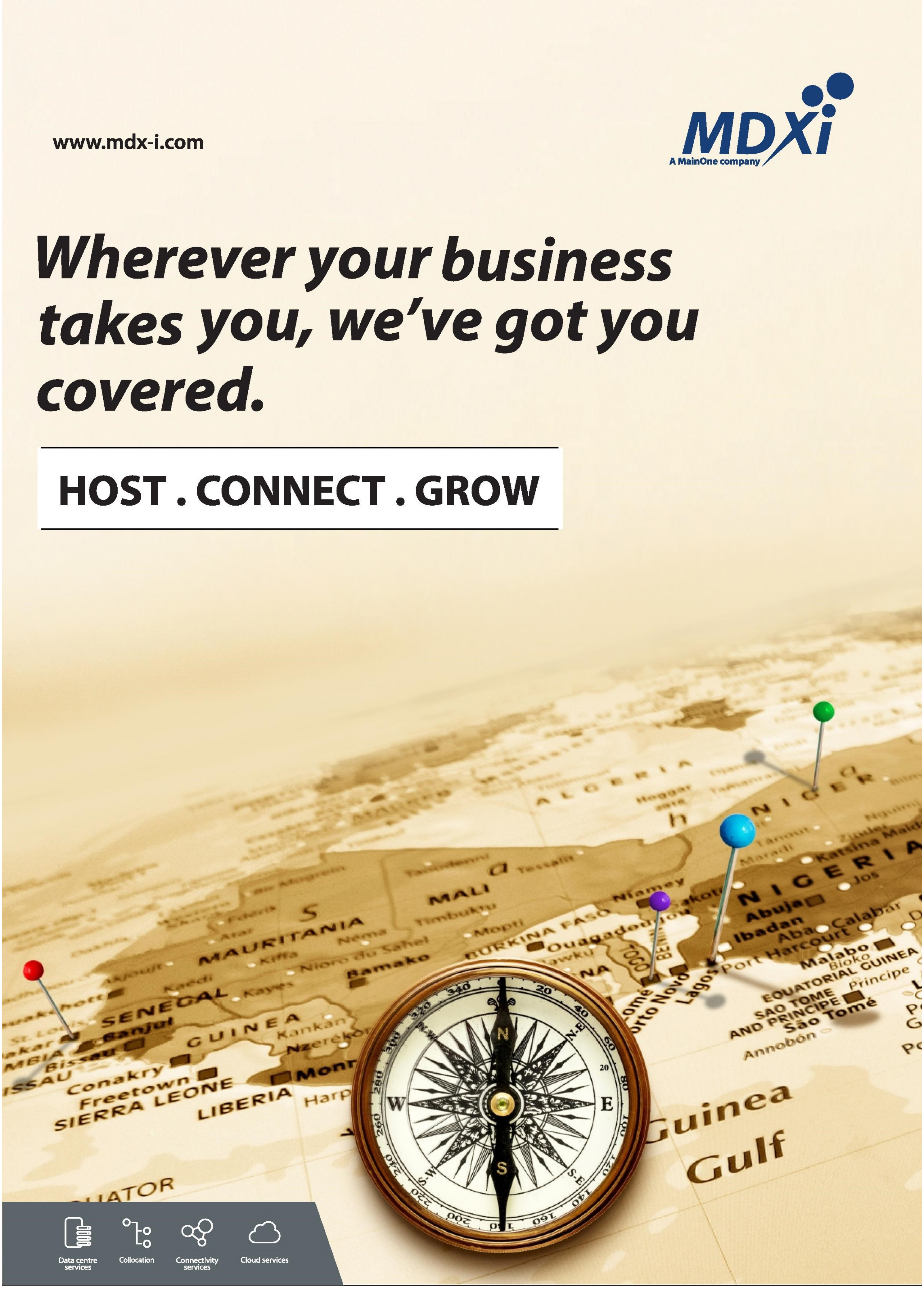
The least performing stocks were JAPAUL OIL & MARITIME SERVICES PLC (-56%), DIAMOND BANK PLC (-34%), EQUITY ASSURANCE PLC (-31%), DANGOTE FLOUR MILLS PLC (-30%) and TRANSNATIONAL CORPORATION OF NIGERIA PLC (-26%).

TOP 5 LOSERS (N)				
Company	May 31'18	Apr 30'18	% Change	Absolute Change
JAPAUL OIL & MARITIME SERVICES PLC	0.21	0.48	-56%	-0.27
DIAMOND BANK PLC	1.33	2.02	-34%	-0.69
EQUITY ASSURANCE PLC.	0.20	0.29	-31%	-0.09
DANGOTE FLOUR MILLS PLC	9.25	13.30	-30%	-4.05
TRANSNATIONAL CORPORATION OF NIGERIA PLC	1.26	1.70	-26%	-0.44

OUTLOOK

The sell sentiment on the Nigerian Stock Exchange in May was largely driven by political risks and the relatively high interest rates on fixed income securities. We expect this bearish run to persist in June as investors develop a herd instinct to minimize their stock holding. The month might however witness some volatility within as few investors take positions in growth stocks.

[43] *NSE, FDC Think Tank*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Equity Report :
LAFARGE AFRICA PLC

Analyst Recommendation: HOLD

Market Capitalization: N329.59bn

Recommendation Period: 365 days

Current Price: N39.8

Industry: Industrial Goods

Target Price: N33.6

Analyst's note

STRONG REVENUE BUOYED BY PRICE INCREASE

Despite the tepid economic recovery, Lafarge Africa Plc (Lafarge)'s revenue grew by 36.2% to N299.15bn in its full year 2017 results (FY2017). The cement giant's remarkable growth can be attributed to a combination of a price increase and capacity optimization. Lafarge incorporated the operations of Ashaka cement and UNICEM, taking full control of the cement companies.

Revenue growth improved to 36.2% in FY2017 from a contraction of 17.8% in FY2016, implying an improvement in the company's earning capacity. Cement continued to dominate the company's revenue mix (80%), with aggregate, concrete and other admixtures accounting for the rest (20%). Additionally, Lafarge's Nigerian operations account for 68% of the group's revenue, pointing to the importance of the Nigerian economy to Lafarge.

OPERATING COSTS GROWS FASTER

The impressive performance in top line growth was undermined by increasing costs. Production costs increased by 38.73% to N248.39bn. This was compounded by a 51.91% surge in operating expenses to N42.87bn, owing to expenses incurred on the consolidation of UNICEM and Ashaka Cement operations with the group, and to a lesser extent the rights issue exercise in Q4'17.

COMPETITIVE INTENSITY AND ECONOMIC WOES NARROWS MARGINS

Lafarge's margins have continued to decline over the last four years. Gross profit margin declined from a high of 31.8% in 2014, to 17% in the most recent financial information (2017). The increase in the cost of integral production inputs, such as energy and an unfavorable exchange rate, weighed on the profitability of Lafarge. As a result, profit after tax continued to narrow and entered negative territory in 2017.

NIGERIAN OPERATIONS CUSHION LOSSES

Although Lafarge recorded a substantial loss during the year, its Nigerian operations remain highly profitable. Nigeria did not only account for a substantial portion of revenues, but also aided the company to maintain a positive operating profit. The South African operations posted an operating loss of N22.27bn, but the N30.16bn operating profit from Nigeria helped maintain a positive operating profit. The slowdown in the South African economy weighed on Lafarge’s performance during the year.

HIGH FINANCE COST WEIGHS ON LAFARGE’S ATTRACTIVENESS

With operating costs sticky downwards, the company’s net finance cost of N41.78bn ultimately led to a loss after tax of N34.6bn. Unlike FY2016, where a tax credit of N39.99bn reversed the loss position into a profit of N16.9bn, FY2017 remained in the negative territory.

To this end, Lafarge raised N132bn in a rights issue in Q4'17. There is the possibility of reduced pressure on the company in the medium term, despite the fact that the company's borrowings exceed the amount raised in rights issue. This will ease the restructuring of existing loans and place the company at an advantage in negotiating better terms on loans. However, the spiraling cost remains a key concern and management needs to tighten its administrative expenses, as well as its interest expenses.

Based on the above, we recommend a **HOLD** on Lafarge’s stock. This is driven by the medium term efficiencies that could arise from improved working capital management, as well as the synergies of the consolidation, which may turn around losses in the medium term.

Industry and Company Overview

The government's focus on local content has rubbed off positively on the cement industry. As a result, Nigeria moved from a major importer of cement in 2007 to a net-exporter in 2016, thereby improving its current account balance and foreign exchange position.

The increased investment has also seen productivity and resource utilization improve over time. However, the wide infrastructure gap remains a double edge sword. Cement producers looking to fill the demand-supply gap have had to invest extensively in equipment, transportation, and power, to facilitate the production process.

This has put considerable pressure on margins, extending the breakeven period of most cement manufacturers. To a lesser extent, competition from unbranded imports has also threatened margins, limiting the likelihood of a price increase. However, cement prices increased from a low of N1,400/bag to as high as N2,500/bag in 2017, owing to the gas constraints, a major input in the production of cement. Cement prices have remained sticky downwards so far in 2018, despite the improvement in constraints, hovering around N2,550/bag.

The cement industry remains a highly capital intensive investment, but the business opportunity from government's attempts to narrow the infrastructure gap ($300bn) has been a key motivator for the continuous capacity expansion of dominant players[44]. The top three players, Dangote Cement, Lafarge Africa and Cement Company of Northern Nigeria (CCNN) account for over 90% of the industry's capacity.

Cement manufacturing accounted for 0.91% of GDP in Q1'18, a marginal improvement over Q1'17 (0.89%) and Q4'17 (0.78%). Sector's growth also moved from a contraction of 1.92% in Q4'17 to positive growth of 5.28% in Q1'18[45]. The government's proposed capital expenditure in 2018 increased by 12.29% to N2.65trn in the 2018 budget[46]. This was subsequently reviewed upward by the National Assembly to N2.87trn.

Lafarge (formerly Lafarge Cement WAPCO Nigeria Plc) is a subsidiary of LafageHolcim, the largest cement company in the world. Lafarge leveraged extensively on the expertise and resources of its parent company to penetrate the Nigerian market. The company has grown to be one of the leading cement companies in Nigeria with a diverse product mix to cater for the needs of customers across different construction and building activities.

The company's operating segment comprises of cement, aggregates and other construction materials like ready-mix concrete and asphalt. Lafarge's aggressive acquisition strategy has facilitated its impressive growth of late. These acquisitions have helped improve its competitiveness in the industry dominated by Dangote Cement. Other players in the industry include Cement Company of Northern Nigeria (CCNN), and Ibeto Cement.

[44]African Development Bank (AfDB).
[45]NBS Q1 2018 GDP Report
[46]Budget Office of the Federation : 2018 Budget Proposal

Income statement for Lafarge Africa Plc					
N'000	**2013**	**2014**	**2015**	**2016**	**2017**
Revenue	206,072,691	260,810,463	267,234,239	219,714,112	299,153,305
Cost of sales	(138,754,043)	(177,782,717)	(184,703,341)	(179,052,422)	(248,393,638)
Gross Profit	**67,318,648**	**83,027,746**	**82,530,898**	**40,661,690**	**50,759,667**
Selling and distribution expenses		(3,915,635)	(4,482,752)	(3,355,737)	(3,685,666)
Administration expenses	(21,775,279)	(25,145,779)	(26,402,625)	(23,737,111)	(41,594,520)
Net other operating income	20,833,128	(2,618,057)	(11,159,543)	(1,128,928)	2,406,025
Operating Profit	**66,376,497**	**51,348,275**	**40,485,978**	**12,439,914**	**7,885,506**
Ne finance cost	(2,748,490)	(11,265,533)	(11,211,109)	(35,246,106)	(41,777,520)
Share of loss fom JV using equity method	-	-	-	(12,526)	(140,263)
Finance income					
Profit Before Minimum Tax	**63,628,007**	**40,082,742**	**29,274,869**	**(22,818,718)**	**(34,032,277)**
Minimum tax	-	-	-	(271,163)	(287,672)
Profit After Minimum Tax	**63,628,007**	**40,082,742**	**29,274,869**	**(23,089,881)**	**(34,319,949)**
Tax credit/(Tax expense)	(3,308,304)	(6,537,761)	(2,276,596)	39,988,662	(281,460)
Profit After Tax	**60,319,703**	**33,544,981**	**26,998,273**	**16,898,781**	**(34,601,409)**

Balance sheet for Lafarge Africa Plc					
N'000	**2013**	**2014**	**2015**	**2016**	**2017**
Property, plant and equipment	213,276,396	331,257,236	364,397,315	390,240,816	393,651,934
Intangible assets	2,360,869	2,196,926	1,548,927	1,563,499	2,634,326
Investment in subsidiary	-	-	-	-	-
Investment in JV/associate	-	43,208	27,409	89,551	-
Other financial assets	6,321,989	7,606	5,526	423,921	1,582,622
Other assets	7,258,556	1,587,096	545,542	9,790,605	20,803,113
Deferred tax assets	96,571	294,629	447,942	7,641,003	7,951,595
Restrictedcash	-	2,097,687	2,188,089	-	-
Long term receivables	-	6,247,999	9,975,000	-	-
Non-Current Assets	**229,314,381**	**343,732,387**	**379,135,750**	**409,749,395**	**426,623,590**
Inventories	21,566,292	31,545,060	33,027,315	44,980,525	58,266,466
Trade and other receivables	12,768,386	19,830,192	23,474,461	9,765,950	25,110,116
Current tax assets	580,970	508,745	881,662	487,279	917,797
Other assets				12,458,086	15,162,092
Other financial assets				911,118	592,538
Derivative assets				3,580,378	640,091
Cash and bank balances	33,896,064	20,330,118	16,493,209	19,440,966	50,414,757
Current Assets	**68,811,712**	**72,214,115**	**73,876,647**	**91,624,302**	**151,103,857**
Total Assets	**298,126,093**	**415,946,502**	**453,012,397**	**501,373,697**	**577,727,447**
Ordinary share capital		2,202,088	2,277,451	2,740,367	2,787,888
Share premium		173,997,568	186,419,988	217,528,456	222,272,108
Retained earnings		87,206,392	100,992,758	102,842,886	160,257,556
Deposit for shares				-	130,416,872
Foreign currency translatio reserve		(1,341,036)	(10,156,642)	(8,660,486)	9,935,643
Other reserves arising on business combination and reorgainzation		(161,689,548)	(162,185,111)	(256,899,951)	(368,683,312)
Available for sale reserve					
Equity Attributable to Owners of the Company	**151,504,707**	**100,375,464**	**117,348,444**	**57,551,272**	**156,986,755**
Non-Controlling Interest	19,520,368	75,204,485	58,803,285	191,401,276	-
Total Equity	**171,025,075**	**175,579,949**	**176,151,729**	**248,952,548**	**156,986,755**
Loans and borrowings	11,973,147	116,001,594	142,942,656	68,221,773	68,715,378
Deferred tax liability	30,885,433	34,172,979	33,385,265	-	1,463,106
Provisions	11,332,330	3,124,736	3,160,336	2,200,640	3,472,388
Deferred revenue		2,368,466	2,133,748	1,554,673	1,518,467
Employee benefit obligation		8,978,941	1,496,257	3,780,162	4,916,931
Other long-term liabilities		-	4,354,991		
Non-Current Liabilites	**54,190,910**	**164,646,716**	**187,473,253**	**75,757,248**	**80,086,270**
Trade and other payables	45,166,210	67,463,165	76,846,591	114,457,059	113,000,180
Loans and borrowings	17,147,574	2,263,675	2,011,056	36,487,846	187,831,582
Current tax iabilities	1,093,101	1,553,878	1,268,688	1,311,906	3,251,525
Provisions	1,559,504	1,333,773	1,864,197	1,176,910	1,166,217
Derivative liability		-	-	-	4,212,406
Deferred revenue		234,718	234,718	234,718	110,732
Bank overdraft		2,870,628	3,334,239	22,995,462	31,081,780
Other liabilities	7,943,719				
Dividends		-	3,828,017		
Current Liabilites	**72,910,108**	**75,719,837**	**89,387,506**	**176,663,901**	**340,654,422**
Total Liabilites	**127,101,018**	**240,366,553**	**276,860,759**	**252,421,149**	**420,740,692**
Total Equity and Liabilites	**298,126,093**	**415,946,502**	**453,012,488**	**501,373,697**	**577,727,447**

MANAGEMENT

Owing to the merger between Lafarge and its subsidiaries, Lafarge's Board of Directors is comprised of seasoned professionals with diverse competences and affiliations. The strategy of the team is to maintain a diverse spread of manufacturing plants across Northern and Southern Nigeria with focus on nearness to raw materials. This helps the company to maintain its local appeal as well as reduce inbound logistics to the cement plant. The synergies of the merger with Ashaka and UNICEM are yet to materialize, as the management has struggled to keep cost down. However, the consolidation and fund raising expenses are considered one-off costs.

Lafarge's management team is currently led by Michel Puchercos, who started with Lafarge in 1982. He has a proven record of dramatically improving business results through implementation of change management and standardization of processes. His stewardship is particularly important now when the management would be required to consolidate all stakeholders' interests and return the company back to its winning ways, after the consolidation of its subsidiaries.

Mobolaji Balogun, Lafarge's Chairman, has been on the board of Lafarge since 2005. He is an astute executive with over 28 years of experience in investment banking and mobile telecommunications. Having served on numerous boards and in various capacities, Mr. Balogun has leveraged on his domestic network and parent company to ensure Lafarge remains a dominant player in the cement industry.

Going forward, the ability of the management to contain cost will tremendously affect the intrinsic value of Lafarge and rekindle investor interest in the stock.

Chairman

Mr. Mobolaji Balogun

GMD/CEO

Mr. Michel Puchercos

THE BULL AND THE BEAR SAYS:

- Affiliation with the largest building and concrete corporation in the world (LafargeHolcim)
- Multiple product offerings with strong brand equity
- Growing demand for cement concrete for road construction
- Product portfolio remains a pivotal input to narrowing infrastructural gap
- Diversification across the African space
- Capacity expansion for economies of scale
- Alignment between parent and subsidiary's strategic expansion plans
- Positive but slow economic recovery in Nigeria
- Good spread across geopolitical zones in Nigeria – facilitating distribution and lowering costs
- Impending increase in Nigeria's infrastructural spend – roads and railway network
- Versatile loyalty program for distributors and wholesalers

- Product of multiple mergers and acquisitions – increasing synchronization cost
- Tepid economic recovery in its key host economies (Nigeria and South Africa)
- High operating cost environment squeezing profit margins
- Drop in volume sales across business units coupled with aggressive competition to gain market share
- Price taker due to the dominance of the industry leader in Nigeria

RISK AND OUTLOOK

Lafarge is exposed to multiple cross border risks from its operations across Africa, especially Nigeria and South Africa, its major footholds. Any threat to the economic viability of these countries largely affects the enterprise value of Lafarge. The management of Lafarge has been widely optimistic about the full economic restoration of these two economies. They have continued capacity expansion initiatives to take advantage of the boost in demand in anticipation of full recovery.

In addition, another factor outside the control of Lafarge's management is currency fluctuations. Most analysts remain bearish on the sustainability of the stability of the naira; particularly given the recent pressure on the currency due to increased capital flight. Adverse movement of the naira will worsen the economic woes of Lafarge, as the company is yet to fully offset all its foreign currency loans and constrain current capacity expansions.

Another cause of concern is the cost of synchronizing multiple stakeholders' interest. Being a product of mergers and acquisition, the new management will be saddled with the responsibility of aligning stakeholders with diverse culture and backgrounds. As a result, there might be a delay in the fruition of a synergy in the short-term.

OUR VALUATION

Using the Discounted Cash Flow (DCF) methodology, we estimated a stock price of N33.6, which is a 15.58% downside on the current price of N39.8 as at June 7, 2018. The discount rate (Weighted Average Cost of Capital (WACC)) of 17.4% was derived using a 13.5% risk free rate (FGN 5-year Bond as at May 2018), a Beta of 0.9328, an after tax cost of debt of 16.2%, and a market risk premium of 6.34%. The long-term cash flow growth rate to perpetuity calculated is 4%.

Based on our analysis above, we place a HOLD rating on the stock.