



*July* - a month of  
*Defections, Depletion & Deflection*

*Presented by Bismarck Rewane*

*CEO, Financial Derivatives  
Company Ltd*

*August 2<sup>nd</sup>, 2018*

# Outline

July



*Defections, Deflection & Depletion*

Stock Market Review



*Investor fatigue*

Global Picture

*Trump's geopolitical bullying*



Policy and Politics



*As slippery as they come*

Domestic Overview

*Economy on autopilot*



Outlook for August



*Give me a break*





**July Review**

# July Review

- IMF concludes article IV review
  - Maintains GDP growth forecast for 2018 at 2.1%
  - Increases forecast for 2019 to 2.3%
- GDP growth measured by expenditure for 2017=0.82%
- Average on-grid power up marginally to 3,609MW
- Oil production increased to 1.66mbpd (June)
- October Brent futures down 6.5% to \$75pb
  - Biggest monthly loss since 2016 after OPEC and Russia agreed to raise production
- Two months of FAAC disbursed totalling N1.5trn
  - After six weeks of delay and disruption to the interbank market



# July Review

- Average opening position of banks declined from N312.05bn to N235.85bn
- Interest rates also ranged from 5.67% pa to a high of 23.79% pa
- M2 growth was 5.58% (annualized) to N25.87trn
- Headline inflation dipped for 17th consecutive month to 11.23%
- Cumulative fall in inflation now 3.9%
- Month-on-month inflation diverged, rising to an annualized rate of 15.49%
- PMI shrank marginally to 48.9 on more destocking, lower employment & high interest rates



# July Review

- First train passes through Kogi, Kwara and Edo to Warri
  - Itakpe-Warri rail listed to be completed in 2019
  - Major accomplishment of the Buhari team
  - Mono-rail from Abuja CBD to airport commissioned
- Average price of diesel in Nigeria down to N204 per liter
- Kerosene price spiked to N350 per liter
- Cooking gas jumps to N4,000 for 12.5kg
- PMS petrol consumption up to 55mn liters per day
  - Unofficial figures put consumption at 33mn-35mn liters per day

# July Review



- New N2bn refinery to be built in Katsina
  - Part of the Niger Republic/Nigeria bilateral agreement
- Naira appreciated in the parallel market to N360
- CBN reduced its supply and intervention in the forex market by 30% to \$1.54bn
- External reserves dipped by 1.14% to \$47.2bn
- IE window turnover fell by 16.4% to \$3.66bn
- Increased traffic to supermarkets especially Thursday-Sunday
  - Supermarket inventory level higher in July than June by 8%

# July Review



- NCC shows increased subscribers of telco operators
  - MTN: 0.06%
  - Airtel: 0.5%
  - Glo: 0.55%
- Data usage also increased to 0.14% in July
- Nigeria announced the soft launch of a new national carrier: Nigeria Air
  - Inaugural flight scheduled for December 2018
- Apapa gridlock proves more intractable
  - Despite VP and Ambode's intervention

# July Review



- Closure and maintenance of Third Mainland Bridge postponed until August
- Nigeria imports from South Korea up from 2% to 7.5% of total
- Chinese share of imports also up 19% to 20.3%
- First tranche of yuan/naira transactions launched at N53.35/yuan
- Stock market slipped by 3.29% in July
- ADTV also fell sharper by 32% to N3.32bn
- Corporate earnings reportedly up by an average of 31%





# Global Picture

# US: GDP Growth



- Apple announces Q2 profits of \$11.5bn, now has a market cap of approx. \$1trn
- Google reported a 9% drop in quarterly profit to \$3.2bn
  - It booked a \$5bn EU fine for abusing dominance of its operating system
- General Motors reported increased commodity costs as partly responsible for lower profits
- Harley Davidson reported incremental costs due to tariffs up \$55mn in 2018



# US: GDP Growth



- Q2'18 GDP growth expanded at an annualized rate of 4.1%
  - Fastest pace in nearly four years in the second quarter
  - The gains were driven by strong consumer spending and a surge in exports as firms rushed to beat new trade tariffs
  - Many analysts are cautious, projecting the acceleration may cool off
  - Growth in H2'18 likely to slow to less than 2%
- Two major risks to the US economy: trade war with China and the end of Q-E
  - Trump has criticised US Fed interest rate hikes as the strengthening dollar is weighing on competitiveness of US exports

The IMF warns that US/ China tariffs could reduce global growth by 0.5%

# US/China Trade War- Who is Losing?

- China is feeling the pain from the escalating trade war with the US
  - Its economy is slowing (to 6.7%) while the US' is booming
  - Pundits believe it could fall as low as 5% once the full effects of a trade slowdown kicks in
- China's non-manufacturing PMI fell to 54 in July from 55 in June
  - The index measures activity level of the retail, aviation, real estate and construction sectors
  - The manufacturing PMI fell to 51.2, its weakest since February
- The Shanghai Composite stock index is down 12.6% YTD
- The yuan, has lost 8% in recent months, offsetting the impact of Trump's tariffs

# US & Other Economies



- US and EU have agreed to work towards zero tariffs on non-auto industrial goods
  - In addition to lowering non-tariff barriers and increasing trade in services, medical products and soybeans
  - Represents an incremental de-escalation of trade tensions between the 2 parties
  - Reduces the risk of new US tariffs on auto imports from the EU
- The lack of details in the agreement raises the possibility that negotiations could falter at a later stage – just as US-China negotiations did earlier this year





- IMF cut its 2018 forecast to 1.4%, down 0.2% from its April projection
- Inflation remained flat at 2.4% in June against expectations of a higher rate, fuelled by rising oil prices
- Wage growth now at six-month low of 2.5% despite unemployment holding steady at 4.2% (43-year low)
- Falling wage growth dims chances of a Bank of England (BoE) interest rate hike in August
- Higher wage growth than inflation is typically a major boost to consumers'

# UK - Brexit



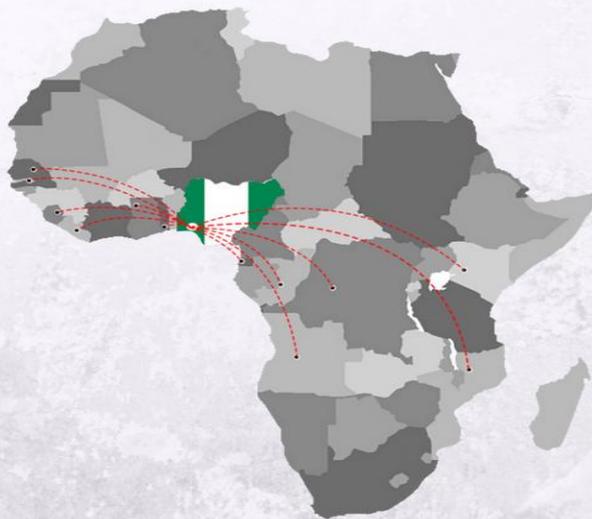
- British PM to hold Brexit talks with French president
  - To soften France's stance on Brexit or risk a chaotic UK departure from the EU
- No-deal Brexit to have “big economic consequences ”– BoE governor Mark Carney
  - Loss of jobs and capital flight from London to the EU
- A hard Brexit would trigger the fragmentation of the European financial system, which could push up costs for consumers
  - BoE to consider future path for interest rates in the event of Britain crashing out of the EU without a deal
  - Possibility of cutting borrowing costs to support jobs and the economy

# UK- Brexit- Uncertainty Looms

- As Britain prepares to leave the EU on 29 March 2019, there are more questions than answers:
  - *Will the fixed date be extended to allow for further negotiations?*
    - *What kind of deal will the UK leave with?*
    - *What scenarios will the UK face if there is no deal?*
  - *Will there be a second referendum, to give the people a final say?*



*...the next frontier,  
covering Africa from Nigeria*



Since 2005, Nextzon has been offering world-class advisory and consulting services to organizations, supporting them for phenomenal success.

\*\*\*\*\*

**STRATEGY. VENTURES. GOVERNANCE. E-BUSINESS.  
SME DEVELOPMENT. PUBLIC SECTOR CONSULTING. RECRUITMENT**

Website: [www.nextzon.com](http://www.nextzon.com) Email: [info@nextzon.com](mailto:info@nextzon.com)

Address: 1 Racheal Nwangwu Close, Lekki Phase 1, Lagos, Nigeria.



A satellite-style photograph of the African continent, focusing on the Sub-Saharan region. The image shows a mix of green vegetation, brown and tan arid/semi-arid land, and blue bodies of water. The Earth's curvature is visible at the top. A dark grey banner with a yellow and black geometric shape on the left side is positioned at the bottom of the image.

# Sub-Saharan Africa

# ECOWAS- ECCAS Summit



- Delegates from ECOWAS and ECCAS met for a two-day summit in Togo
  - A joint declaration for peace, and extremism eradication was adopted
  - African Union (AU) called upon to lift weapon embargo in the Central African Republic
  - President Buhari calls for inter-regional collaboration on maritime security fight against terrorism and other crimes through effective border control
- Nigeria shares boundaries with two ECCAS Members: Cameroon and Chad
  - Shares the same security threats: terrorism, illicit trafficking of light weapons, human and drug trafficking, smuggling, etc

# SSA Trade

- Regional trade represents 20% of total exports in 2016, up 1,400bps from 6% in 1980
- Remains low compared to trade with advanced economies
- Weak infrastructure and transport linkages
- Misaligned regulatory regimes
- Preponderance of informal trade
- Trade linkages are a primary source of intraregional growth spillovers
- A spillover of 0.11% to GDP growth was recorded for every % point change in the growth of trading partners

# SSA Trade



- 18% of Africa's total trade was conducted in 2016 with other SSA countries
- Driven by SADC and the EAC which accounted for 20% of total trade
- Trade in Africa dominated by manufactured goods, financial and retail services
- Tariffs and nontariff barriers remain high
- Maximum tariff rate close to 400%
- Average tariff across all products slightly less than 10% of all tariff lines
- Duty free items represented 28.3%



# SSA Trade



- Pan-African & sub regional banks are also an important spill over
- Banks highly concentrated
- Banking groups based in South Africa, Togo & Nigeria home to all Pan-African bank assets and 70% sub-regional bank assets
- Banks have expanded across SSA as subsidiaries primarily through acquisitions
- Remittances are gaining relative importance
- Remittance inflows have reached high levels in some countries e.g. Ivory Coast and Ghana



# SSA Economies in View



Countries	Inflation		1-year Change	Interest Rate		Real Return	GDP Growth Rate Q1'18	FDI inflow (2017)	
Ghana	9.8%	↑	-2.8%	17%	↓	7.2%	6.8%	\$3.3bn	↓
Kenya	4.3% (June)	↑	-4.9%	9.5%	↔	4.6%	5.8%	\$672mn	↑
Ivory Coast	-1%	↓	-0.6%	4.5%	↔	5.5%	7.6%	\$675mn	↑
South Africa	4.4%	↓	-1%	6.5%	↔	2.1%	0.8%	\$1.3bn	↓
Angola	19.8%	↓	-12.8%	18%	↔	-1.8%	0.94% (2017)	-\$2.3bn	↓
Nigeria	11.6%	↓	-4.7%	14%	↔	2.4%	1.9%	\$3.5mn	↓



The background of the slide features several stacks of gold-colored coins, likely Nigerian Naira, and a 50 Naira banknote. The coins are stacked in the foreground, with one coin prominently displayed in the center, showing the coat of arms of Nigeria and the year 2006. The banknote is partially visible on the right side, showing the number '50' and the text 'FIFTY NAIRA' and 'CENTRAL BANK OF NIGERIA'.

# Domestic Economic Performance

# Economic Indicators

Leading Economic Indicator	June	July	% Change	August*
GDP growth (%)	1.95 (Q1'18)	*1.95-2.00 (Q2'18)	0-0.05	1.95-2.00 (Q2'18)
Oil Price (\$pb; avg)	75.90	74.95	-1.25	70-75
Oil Production (mbpd)	1.63 (May)	1.66 (Jun)	1.84	1.65-1.71 (Jul)
Natural Gas (\$/MMBtu; end)	2.93	2.79	-4.78	2.70
Power (MW; avg)	3,588	3,609	0.59	3,500-3,700
Inflation (%)	11.23	11.00	-0.23	11.00 (Jul)
PMI	FBN: 49.8 CBN: 57	FBN: 48.9 CBN: 56.8	-1.81 -0.35	FBN: 49
FAAC (N'bn)	668.9	821.9	22.87	700-800

\*: FDC's Forecast

# Economic Indicators



Leading Economic Indicator	June	July	% Change	August*
T Bills (91 day) – Primary (%)	10	10	-	10
T Bills (91- day) – Secondary (%)	12.40	10.86	-1.54	10.75-11.50
Average NIBOR (%) (O/N, OBB)	11.94	11.15	-0.79	13-15
Average Lending Rate (% pa)	21.00	21.00	-	21.00
Average Opening Position (N'bn)	312.05	235.85	-24.42	250-300
Money Supply (N'trn)	24.52 (Apr)	25.17 (May)	2.65 (m-o-m)	25.5-26.0
External Reserves - \$'bn (end)	47.63	47.25	-0.80	46-48
Exchange rate (N/\$; month-end)	Parallel: 362 IFEM: 305.75 IEFX: 361.32	360 305.90 362.40	+0.56 -0.05 -0.30	Parallel: 360-362 IFEM: 305.95 IEFX: 360-362
Stock Market Cap (N'trn)	13.87	13.41	-3.32	13.40-14.0

\*: FDC's Forecast

# Leading Economic Indicators

- Mixed movement in leading economic indicators in July
  - six green, eight negative, three amber
- Naira appreciated to N360/\$
- FAAC allocation for July at a four-year high of N821.9bn
  - Total of N1.5trn (June + July) hits the market within two weeks
- Inflation declines further to 11.23% in June
  - 17<sup>th</sup> consecutive monthly decline
- Pressure on external reserves continues
  - Now at \$47.25bn

# GDP: Output Vs. Income/Expenditure Approach

GDP can be computed using three approaches

- **Output Approach:** Measures the total amount of goods and service produced in a year
- **Income Approach:** Measures the total income earned by the factors of production involved in the production of goods and services in a year
- **Expenditure Approach:** Measures the total amount of spending by consumers, firms, government and foreigners
- Theoretically,
  - **Output Approach = Income Approach = Expenditure Approach**

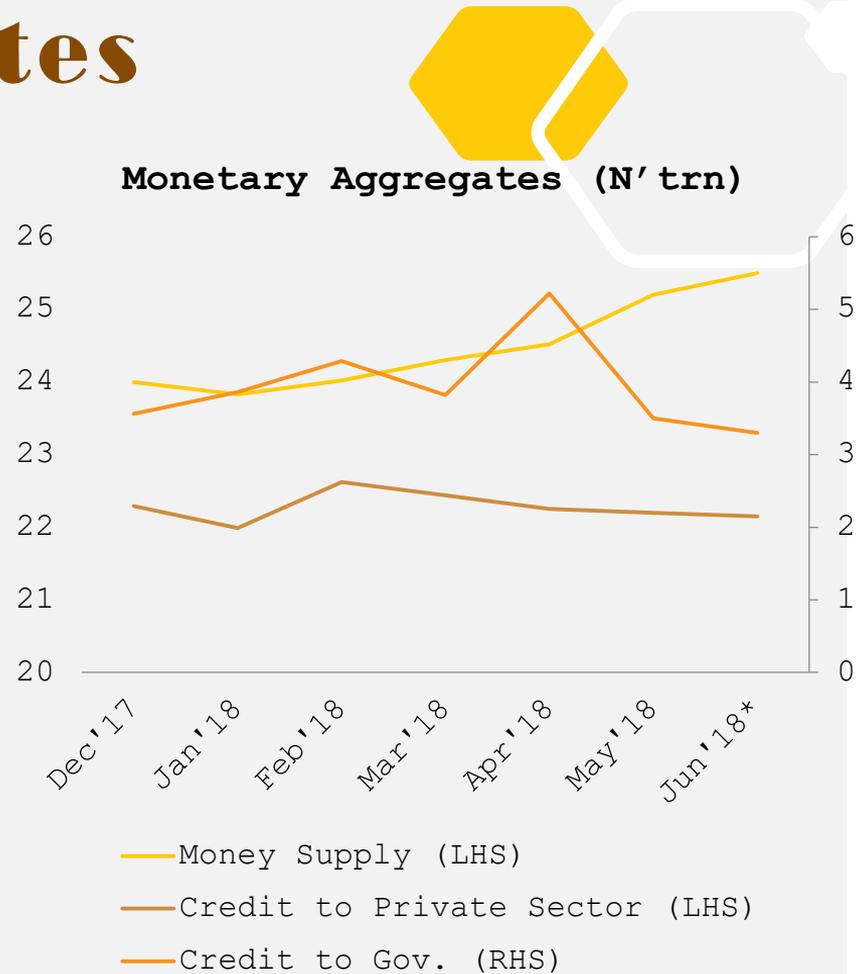
# GDP: Output Vs. Income/Expenditure Approach

	Output Approach (Ntrn)	Expenditure = Income Approach (Ntrn)	Change (Ntrn)
Q1'16	22.44	22.44	-
Q2'16	23.74	23.74	-
Q3'16	26.87	26.87	-
Q4'16	29.53	29.53	-
Q1'17	26.23	26.23	-
Q2'17	27.27	27.27	-
Q3'17	29.83	29.76	0.07
Q4'17	31.58	31.65	0.07

- Discrepancy in output and expenditure figures in Q3'17 and Q4'17
  - A revision of the output figures in these quarters is likely

# Monetary Aggregates

- Money Supply (M2) grew by 4.88% to N25.17trn in May
  - CBN growth benchmark of 10.29%
- Money supply expected to increase further in H2'18
  - Increased election spending
  - 2018 budget implementation



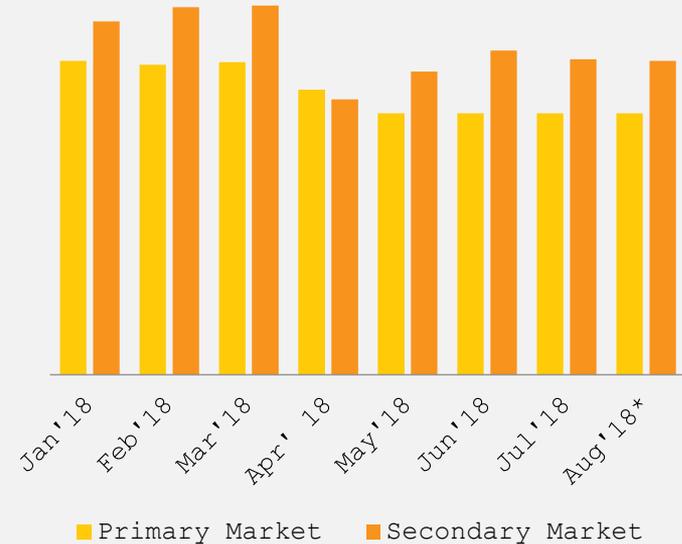
# T/Bills Rates



- Interest rates slowly maintain downward trend
- Likely to ease government debt burden

Tenor	Primary market rates (June 20 <sup>th</sup> ) (%)	Primary market rates (July 18 <sup>th</sup> ) (%)	Secondary market rates (June 29 <sup>th</sup> ) (%)	Secondary market rates (July 31 <sup>st</sup> ) (%)
91-day	10	10 	12.40	10.86 
182-day	10.3	10.5 	12.27	12.06 
364-day	11.5	11.49 	12.57	11.71 

91-Day T/Bills (%)

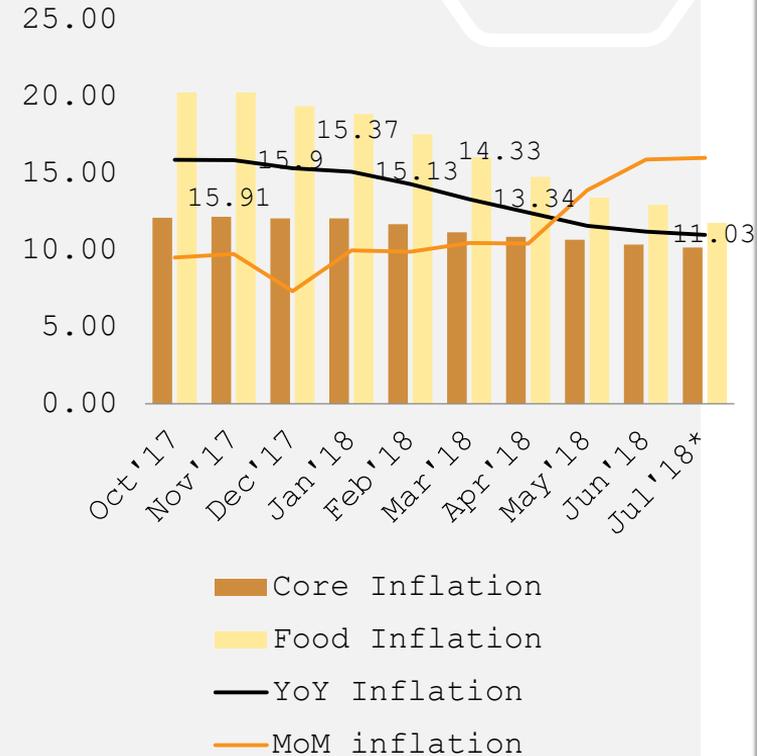


# Inflation Outlook

- Increasing trend of month-on-month inflation reflective of true picture of inflation
- Inflation in July to decline further to 11.03%
- Risks to inflation: increased naira liquidity, food shortage (herdsmen conflict)

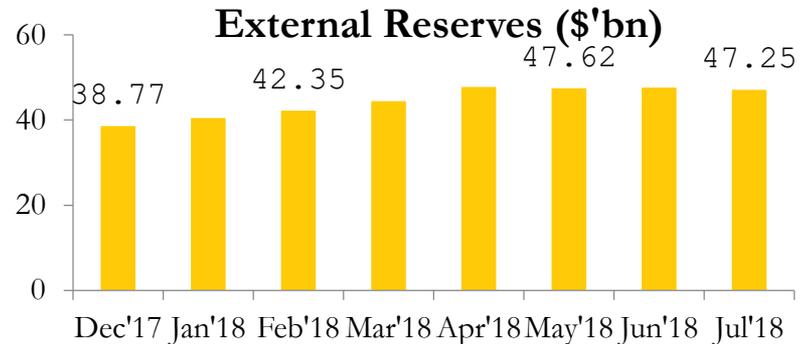
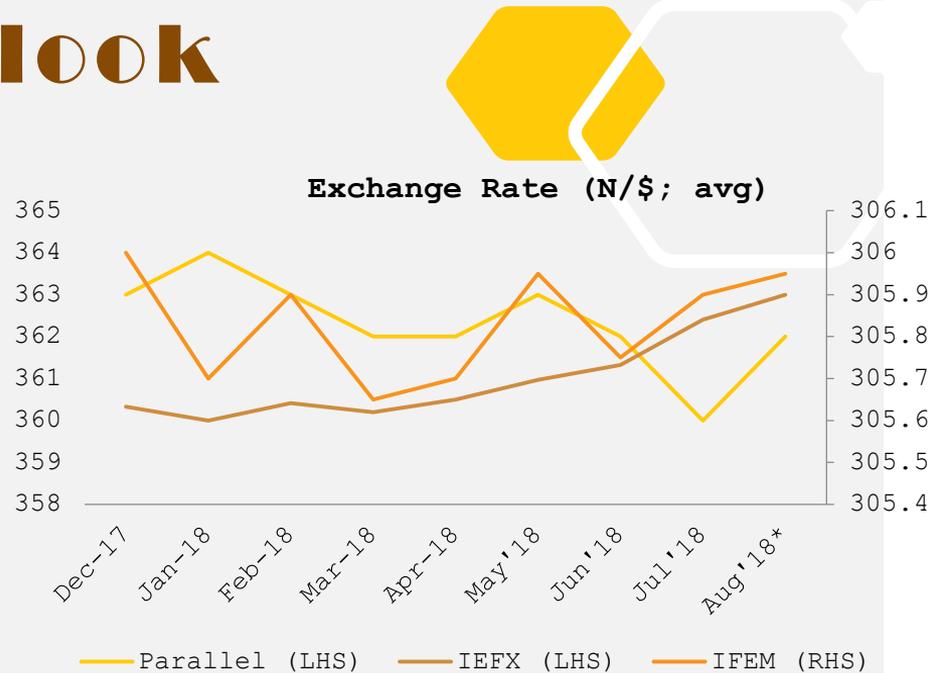


Inflation (%)



# Forex Market Outlook

- Increased forex demand pressure:
  - 2018 budget implementation
- CBN intervention likely to decline on depleting external reserves
- Strong oil proceeds to slow the pace of external reserves depletion



# External Reserves Outlook



## Stress testing the Reserves

Current level of Reserves = \$47bn

FPI Content = (\$17bn)

Swaps = (\$7bn)

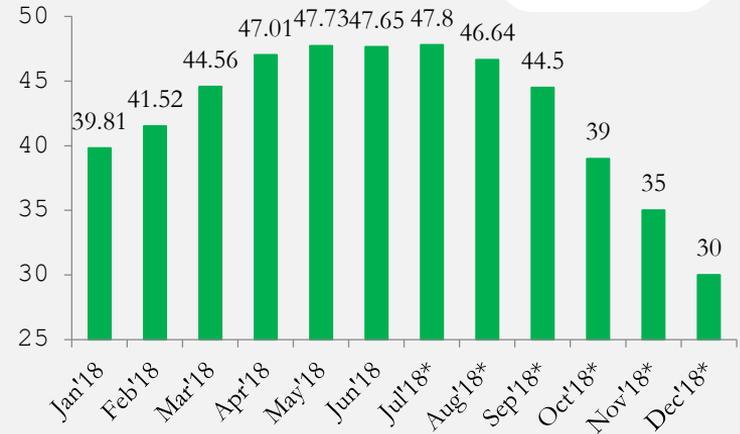
➤ 30% of CBN bills held by foreign investors

Other commitments = (\$3bn)

Net External Reserves = \$20bn

➤ \$20bn can cover six months of imports & payments

### External reserves (\$bn)



Realistically expect reserves to drop to \$30bn under pressure

Index ▲ 1

# Market Proxies

# July PMI

- FBN PMI contracts further to an 18-month low of 48.9 in July from 49.8 in June
  - Three sub-indices in the negative territory
- Cash constraints hinder manufacturers from securing imported and local inputs
- PMI likely to remain constrained in the coming months



# Avg. Power Output down 0.59%



**5110 MW**

Peak Energy  
Generated



**3606 MWh/h**

Average Energy  
Generated



**699.9 MMSCF/D**

Average Gas  
Delivered to Plants



**0**

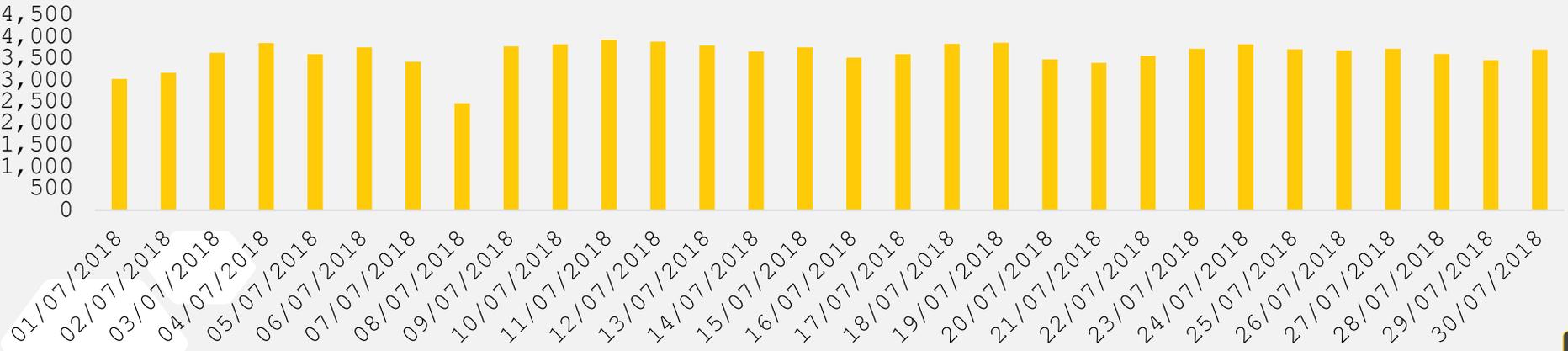
Total Grid  
Collapses



**3362 MW**

Average  
constrained  
energy

## Power Output MWh/h



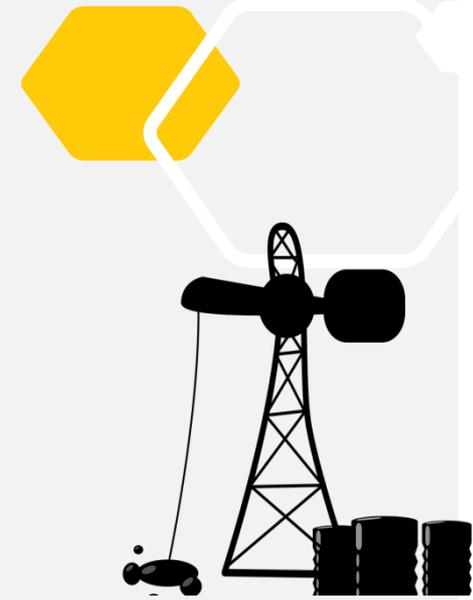
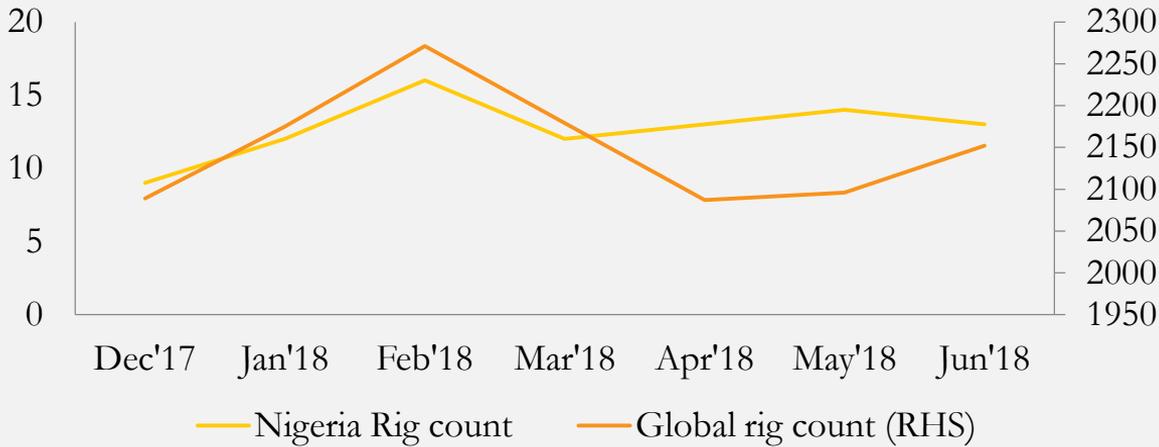
Source: Lavayo Advisors

# Power Sector News



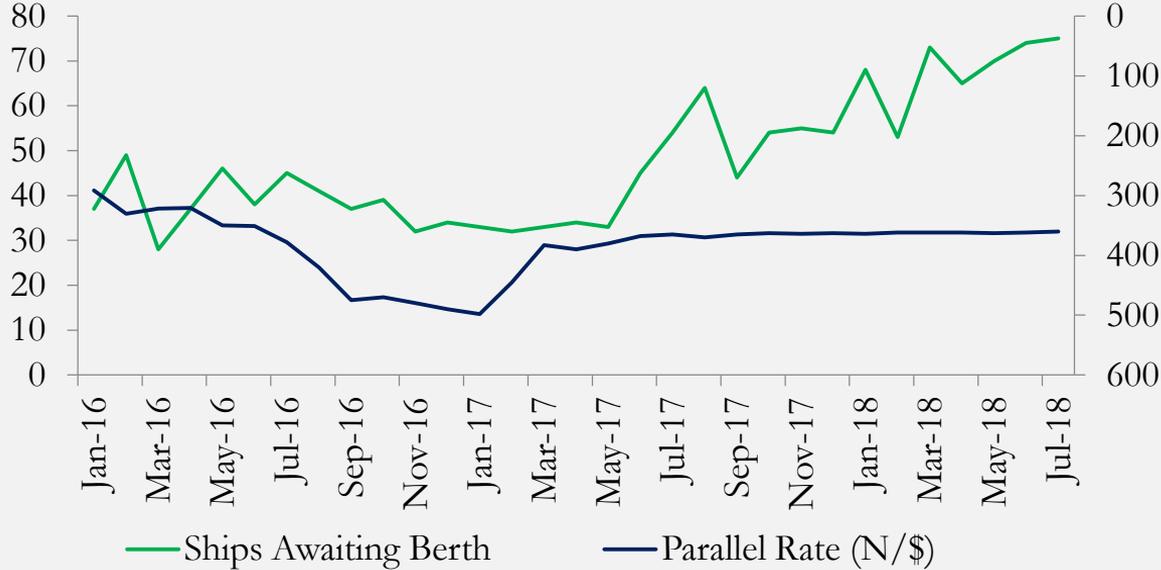
- Access to electricity is less than 40% in 13 States in Nigeria
- World Bank approves Partial Risk Guarantee (PRG) for new Qua Iboe Power plant in Akwa Ibom
- Bureau of Public Enterprises seeks expression of interest for the re-sale of Yola distribution company (disco) and Afam Fast Power project
- Discos decry CBN's intervention as adding more debt to their books and worsening their liquidity position
- MAN states that members generate over 13,000 MW through Independent Power Producers (IPPs), mini grids and various platforms
- Ibadan disco gets reprieve from courts over NERC's order to dissolve current board

# Nigeria's Rig Count



- The number of operational rigs declined by 7.14% to 13 in June from 14 in May
- In contrast with global trend
- Global rig count increased by 2.67% to 2,152 from 2,096

# Ships Awaiting Berth



- Ships awaiting berth increased by 5.71% to 74 in June from 70 in May
- Forex liquidity and availability has reduced need for inventory hoarding/build up

## *Africa... United by One Bank*



### *We know our way around finance in Africa*

United Bank for Africa Plc is one of Africa's leading financial Institutions, offering banking services to more than 11 million customers through diverse global channels. With presence in 19 African countries and 3 global financial centres; London, New York and Paris, UBA is connecting people and businesses through retail and corporate banking, innovative cross-border payments and trade finance.



# Commodities

# Commodity Outlook and Nigeria

Export Commodities	July	%Change (June-July)		Import Commodities	July	%Change (June-July)	
Oil (\$/b) 	74.95	-1.25%		Wheat (\$/bushel) 	5.08	-0.06%	
Liquefied Natural Gas (\$/mmbtu) 	2.79	-5.10%		Sugar (\$/pounds) 	11.16	-9.38%	
Cocoa (\$/mt) 	2,377	-2.67%		Rice (\$/cwt) 	11.92	7.05%	



# Export Commodities

# Export Commodities



## Oil

- Currently trading at \$74.80pb
- Imposition of sanctions on Iran by the US could trigger price volatility in 2018-19
- US and Saudi Arabia to work together to avoid a dip in prices
- Global consumption for oil in 2018 to increase by 1.8% to 99.56mbpd

## Natural gas

- Currently trading at \$2.80/MMBtu
- Global supply is expected to rise by an average of 3.2% per annum in 2018/19
- Pushed by a surge in US output
- Consumption to expand by 3.9% in 2018
  - Due to increased demand in China and US markets

# Export Commodities

## Cocoa

- Currently trading at \$2,243
- Output is expected to decrease by 2.5% in 2018/19
  - Due to lower output in Ivory Coast and Ghana, the world's top two producers
- Drop in output surplus from 612,000 tons in 2016/17 to 39,000 tons in 2018/19





# Import Commodities

# Import Commodities



## Sugar

- Prices have been pressured in the first half of 2018 to a low of \$0.11/lb
- Sugar output is expected to increase drastically in 2018 by 11.3% y-o-y
- Supported by an increase in Brazil's production
- African consumption will increase because of population growth

## Wheat

- Currently trading at \$350/ton
- Stockpiles in China are expected to increase by 9% to 136mn tons
  - Over 50% of the world's total
- Demand expected to rise by 1.3% to 746mn tons
- Nigeria's demand in excess of \$1.5bn

# Import Commodities



## Rice

- Rice consumption will grow by 1.6% in 2018 with a record of 492m tons
  - Due to population growth in Asia
- Rice production to remain unchanged at 492mn tons
- Rice stocks will remain the same y-o-y in 20118 at 110mn tons
- With a year on year increase of 8.3%
- Asian markets for exports of rice were weaker during May and early June
  - Strong interest from consumers earlier in the year have prevented steeper price falls



# Commodity in Focus - ONIONS

# Facts About Onions

○ Total global production (2016): 93.2mn tons (\$23.3bn)

○ Up 2.2% from 2015

○ World's top producers:



China,



India,



Egypt

○ World's top consumers:

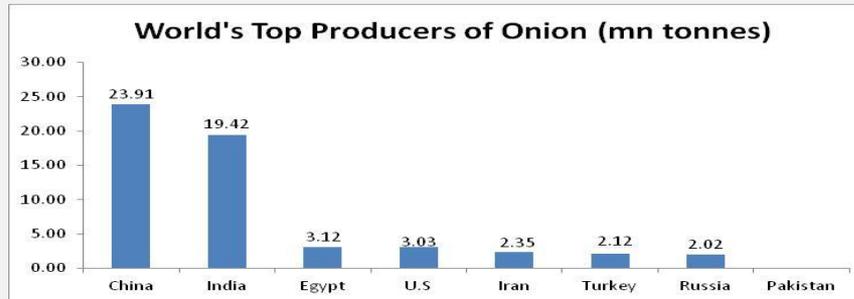


China,



India

○ Uses: cooking ingredients, salads, deodorizer, seasoning, pharmaceuticals, indomie

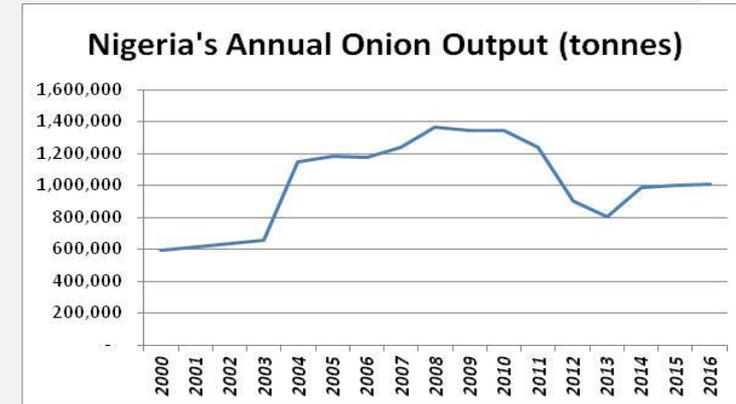


Source: FAOSTAT FDC Think Tank



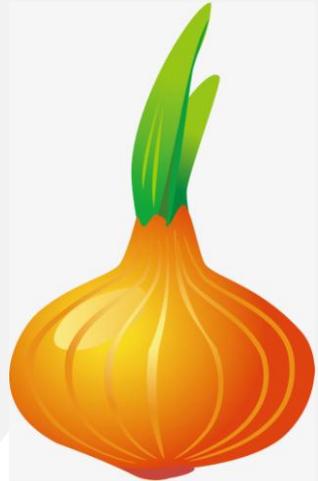
# Onion Production In Nigeria

- **Output (2016):** 1mn tons (\$250mn)-1.07% of global
- **Rank:** Global- 23<sup>rd</sup>, SSA – 1<sup>st</sup>
- **Major producing states:** Kano, Kaduna, Sokoto, Plateau, Bauchi
- **Demand:** Estimated at 2.5mn tons
- **Demand gap:** Estimated at 1.5mn tons
- **Users:** Nestle (Maggi), Dufil (Indomie)
- A sack of onions costs N30,000
- Up 66.7% year to date



Source: FAOSTAT, FDC Think Tank

# Nestle's Financial Performance In H1'18



○ **Products with onion content:** MAGGI Onion Epice, MAGGI

Safsafal

○ H1'18 revenue up 10.97% to N135.3bn

○ Annualized at N270.6bn

○ Profit after Tax (PAT) up 29.67% to N21.46bn in H1

○ Share price: N1,502

○ Dividend yield: 2.7%



# Stock Market Review and Sectoral Performance

# Capital Market

- Listed companies
- Unlisted companies
- Government
- Statutory authorities

- HNIs
- Corporates
- PFAs
- Banks & Financial institutions

Issuers

Investors

Capital Market

Intermediaries

Regulators

- Brokers
- Issuing houses
- NSE
- CSCS
- Registrars

- SEC

# Nigeria Stock Market in July

- Short term investors remain bearish
- As market dipped again in July
  - Fifth monthly loss in 2018 (of seven months)
- Mass exit from the stocks on profit-taking
  - Portfolio investors increase weightings in fixed-income securities
  - Especially longer tenure maturities
- H1'18 results swimming against the tide
  - Unable to overturn negative sentiments

# Nigeria Stock Market in July

- Bargain hunting on undervalue stocks drove volumes
- Providing some liquidity to the bourse
- Debt Management Office (DMO) moves to lists N10.69bn FGN Green Bond 2022
- To diversify the Nigerian capital market
- Attract more investors

# NSE – Sitting Duck or Sitting Pretty?

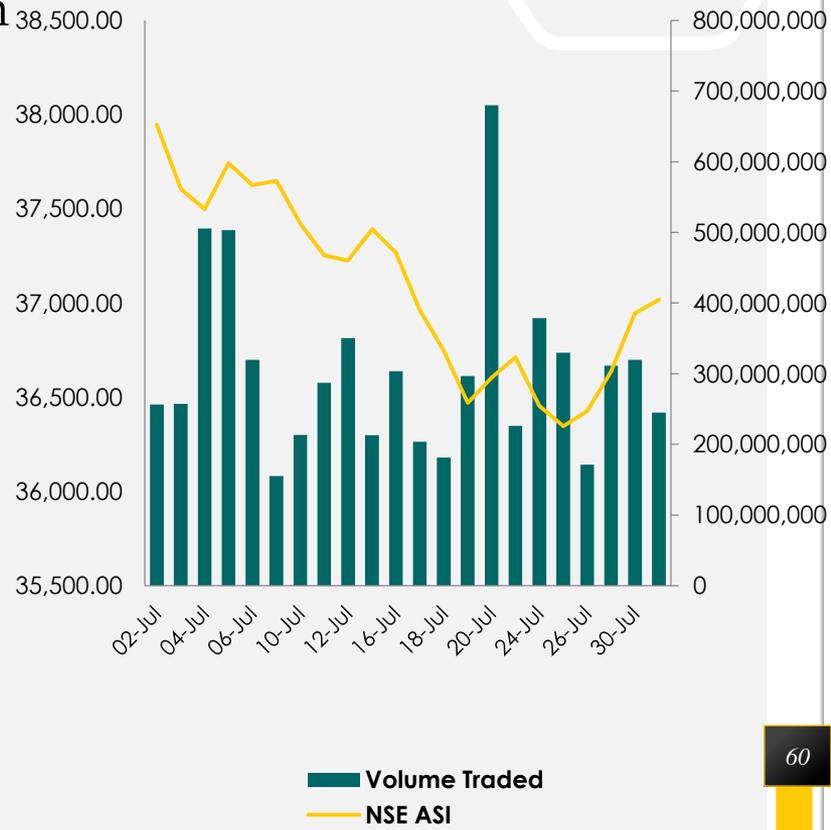
- Stock market performance was muted
- Market cap down  3.29% (N457bn) to N13.41trn
- NSE ASI  03.29% to 37,018 points
- Nine days positive, 13 days negative
- P/E ratio down 1% to 10.70x
- Bearish trend persist

# Trading Activities Slump



- Average volume traded  18.46% to 305mn units
- Average value of daily transactions  32.82% to N3.32bn
- Negative market breadth of 0.24x
- 83 stocks lost, 66 remained neutral and 20 gained

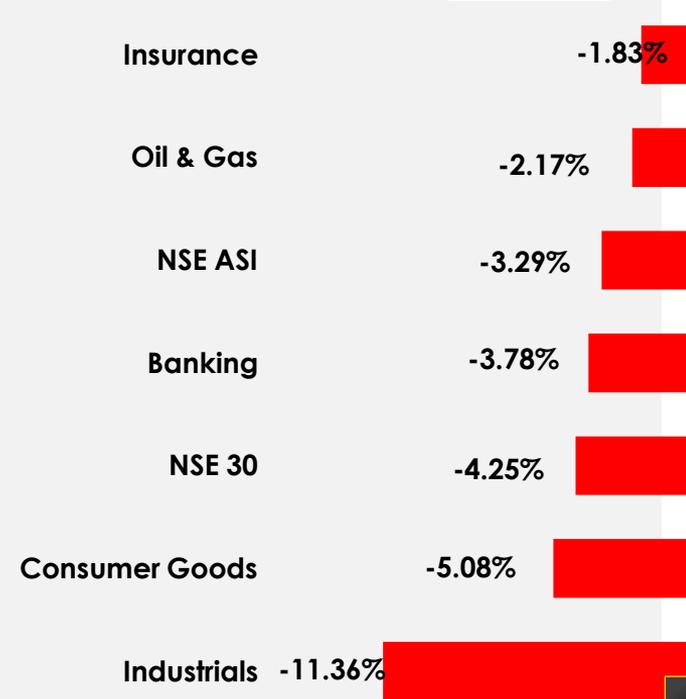
### NSE Performance



# Sub Sector Indices Still Negative

## Sector performance

- All sectors still posting negative returns
- Led by Industrial sector
- Dragged down by Lafarge (-32.84%), DN Tyre & Rubber (-31.03%), Beta Glass(-10.83%)
- Insurance index remained the least loser
- Driven by Continental Re (16.55%), Aiico Ins (16.39%), Custodian (6.45%)
- Sector's stocks have been largely undervalued



# Market Integrity

- Regulators committed to market efficiency and investor protection
  - A highly liquid and transparent market
  - Currently characterised by inefficiencies
  - An opportunity for speculative investors to identify mispriced stocks
  - Presents discouragement
    - Listed companies delisting
    - Low confidence by investors



# Outlook for August – Investors' Fatigue to continue

- Stock market will maintain its bearish sentiments
- Portfolio investment inflow into the equity market will stall
- Investors will favour DCM over ECM
  - Driven by political uncertainty
- Market capitalization will remain above the N13trn mark

Ability + Preparation + Focus  
= **Perfect Execution.**

## Advisory Services

Energy | Finance | Strategy



Navigate. Analyze. Deliver.

Find out more:

[www.lavayo.com](http://www.lavayo.com)



# H1'18 Corporate Earnings



# FMCG Industry

- Fragmented market dominated by key players
- Highly sensitive to foreign exchange (forex) volatility
- Import dependent raw material sourcing
  - But local content is gaining traction
- Key players leverage extensively on international alliances
- Critical success factors
  - Distribution network
  - Access to capital
  - Cross-selling strategies



# H1'18 Performance – Nestle

- Represents 9% of total market capitalization
- Revenue  11% to N135.3b from N121.9b in H1'17
- PAT  29.7% to N21.5b from N16.5b
  - Driven by decrease in
    - Admin expenses
    - Finance cost

# H1'18 Performance – Nestle

- Nestle is perceived as overpriced
  - Trading at a P/E of 36.7x
    - Industry average 37x
  - Dividend yield of 2.7% compared to T/bill yield of 11.71%
- Free cash flow  102% to N47.8bn
  - Driven by delay in trade payables settlement
  - Payables increased by 1118% to N19.5b from N1.6b in H1'17
    - Favourable credit terms with suppliers
- Stock recommendation – Buy

# Healthcare

- Industry is in consolidation mode
- WHO high standards – a barrier to entry
- NAFDAC proving impotent
- Categorized into consumer healthcare and pharmaceutical
- Industry is also plagued by economic uncertainties
- Stiff competition from unregulated and unbranded drugs (smuggling & adulteration)
- New policies and guidelines positive for profitability
- Improving investments in the industry



# H1'18 Performance – Fidson

- Revenue  11.5% to N7.4bn from N6.7bn in H1'17
- PAT  18% to N521mn from N466mn
- Free cash flow  20.1% to –N407mn from N384mn
- Driven by increase in
  - Receivables – up 1067% from N109mn in 2017 to N1.2bn in 2018
    - Credit sales was a major driver of revenue growth
  - Inventories – up 84% from N541mn in 2017 to N996mn in 2018
    - Due to the increase in production capacity
- Trading at a multiple of 8x (Industry average – 15x)
- Stock recommendation – Hold

# Banking Industry

- Industry is becoming more competitive and cannibalized
- Resilient with strong growth prospect
- Products are becoming more commoditized
- Differentiation is becoming more difficult to achieve
- Sources of competitive advantage more internal
- Culture, brand and soft issues are dominant
- Lower profits relative other industries
  - As a result of higher cost-to-serve



# Banking Industry

- Increased financial disintermediation
  - Mobile banking and threat from fintech
  - Large firms raising capital through non-banking avenues



# H1'18 Performance – FBN Holdings

- Represents 3% of total market capitalization
- Revenue  3% to N225bn from N232bn H1'17
- PAT  13.7% from N29bn in 2017 to N33.5bn in 2018
  - Driven by increase in
    - Net gain from forex
    - Fees and commission
    - Investment securities
  - Can be perceived as a growth stock with growth potential
    - Trading at a multiple of 10x – above industry average (9x)
- Stock recommendation – Hold

# Insurance Industry



- Nigeria's Insurance regulator tripled minimum capital requirement
- Life insurers: N2bn → N6bn
- Non-life: N3bn → N9bn
- Life and non-life insurance – N5bn → N15bn
- (including oil and gas deals)
- Leading to further consolidation in the industry
- With more financial power to take on more risks
- Improving confidence in the industry



# H1'18 Performance – Custodian Investment Plc

- Represents 0.24% of total market capitalization
- Revenue  20% to N23.7bn from N19.8bn H1'17
- PAT  3% to N3.7bn from N3.8bn
  - Driven by increase in OpEx
- Trading at a multiple of 4x (industry average – 6x)
  - Stock recommendation – Hold





# Aviation Update

# Nigeria Air: Another Bridge to Nowhere

## Then

- Booking via travel agents
- Bilateral Air Services Agreement (BASA)
- Manual ticketing
- Restricted and regulated market



## Now

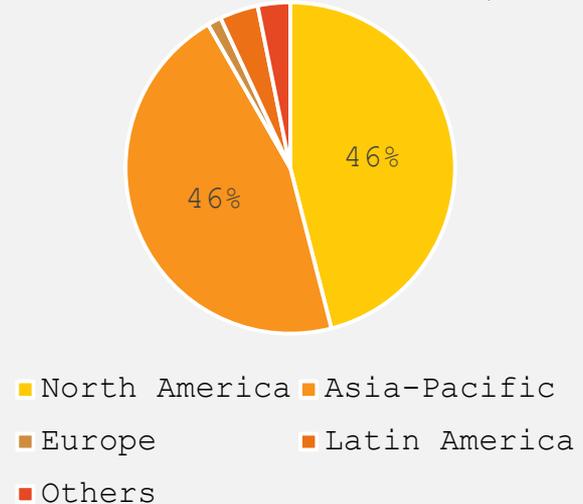
- Billing and settlement plan
- Single African Air Transport Market
- E-ticketing
- Deregulated and competitive market

Using 1975 model in 2018!

# Nigeria Air: Another Bridge to Nowhere

- Airlines in 'Others' (including Nigeria) accounts for only 3% of after tax profits of airlines in Q1'18
- Profits insufficient to cover the \$300mn capital needed for Nigeria Air

**Airline Financial Results (Q1'18)**



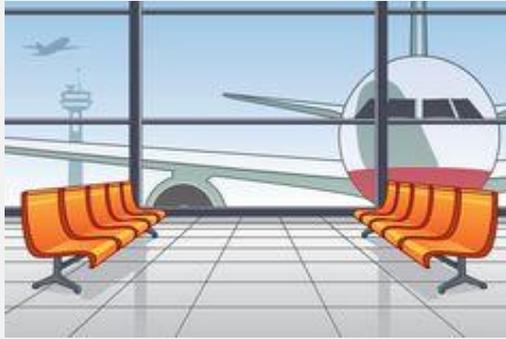
*Source: IATA*

# History of National Carriers

National Carrier	Status	Profit/ (loss) (\$'mn)
South African airways	Unprofitable	(415) 
Kenyan airways	Unprofitable	(101) 
Swiss Air	Defunct	N/A
Alitalia	Defunct	On respirator
Ethiopia airlines	Profitable	233 

1 in 10 national carriers are profitable

# Instead of a National Carrier



Airport concession  
*Reduces government expenditure*  
*No financial Outlay*

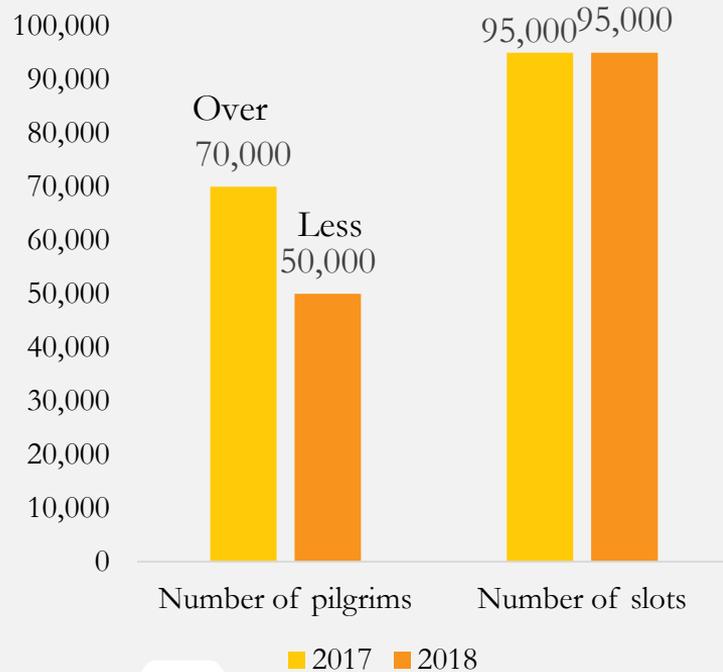


MRO centre  
*Reduces operation costs of airlines*  
*Highly lucrative*



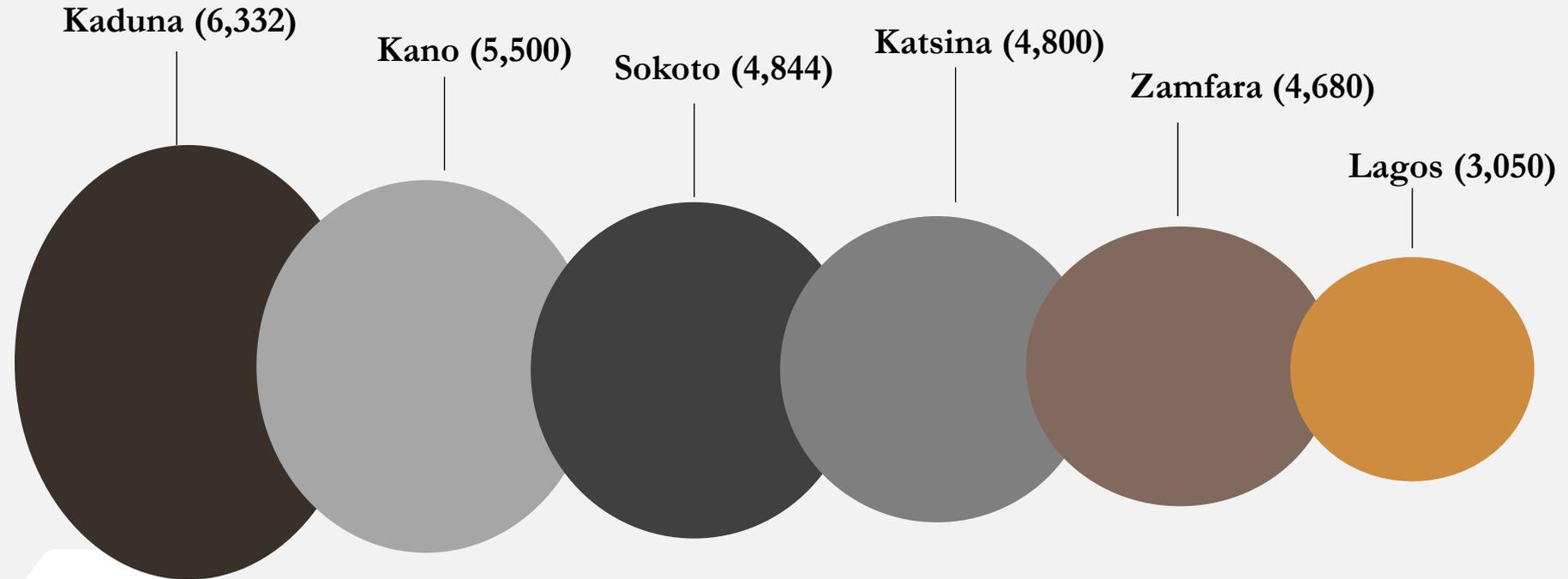
Flight stimulation centre  
*Massive cost saving for Nigeria*

# Hajj Patronage Drops in 2018



- Half of the 95,000 hajj slots are yet to be filled
  - Despite the reduction in cost of a seat from N1.5mn in 2017 to N1.4mn
- Reasons for low patronage include:
  - Introduction of compulsory payment of 2,000SAR (\$533) for returnee pilgrims
  - Stoppage of government sponsorship
  - High exchange rate (N360/\$)

# States with the Highest Pilgrim Slots



Over 70% of Nigerian pilgrims in the last five years are repeaters

# Aviation Update – IATA



- Global airline share prices declined by 6.4% in June
  - Fifth consecutive monthly decline
- Price of jet fuel increased to \$90pb in May: 55% higher than 2017
- Premium-class cabin accounted for 5.4% of total O-D traffic (Jan-Apr)
- Passenger load factor up 0.1 percentage points in May compared to the corresponding period in 2017



# Summer Travel Update



- Discount fares on Lagos-Dubai route
  - Turkish Airlines (\$709)
  - Emirates (\$923)
  - Ethiopia Airlines (\$1,084)
- Increased ticket fares
  - High load factors – Delta Airlines: 93%  
BA: 95%  
South Africa Airways: 50%



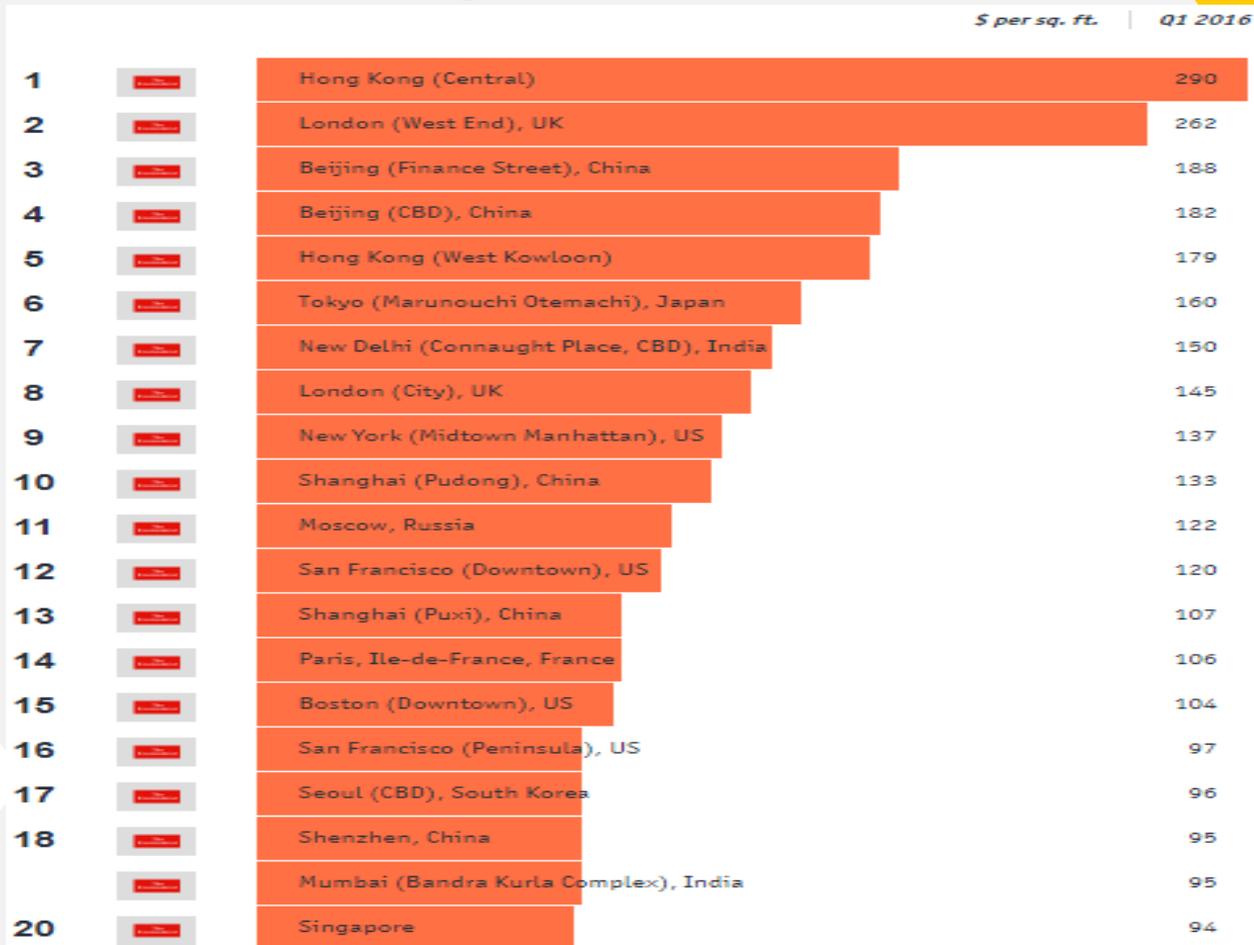


# Real Estate Update



# Office Rents

Rank of Countries with the most expensive office rents in Q1'16



# Real Estate Update



- Hilton to open a 54-room hotel in Lagos
  - Its Africa Growth Initiative positively impacting the Nigerian landscape
  - Hilton has sustained only one hotel for over two decades
  - The Legend Hotel Lagos Airport, Curio Collection, to be launched this August
- Nigeria approves 0% equity for housing loans below N5mn
  - Equity deposits to FMBN no longer needed
  - Housing loans between N6mn-N15mn require only 10% equity deposits



# Real Estate Update



- World Bank and CBN to review Land Use Act
  - Aimed at enhancing housing delivery in Nigeria
  - As Nigeria has a housing deficit of approximately 16mn
  - \$300mn lifeline credit for the Nigerian Housing Finance Programme (NHFP) approved by the World Bank
- Nigerian court ordered the interim forfeiture of Safe Towers Estate, Ikate Lekki
- Increased vacancy factor again in Victoria Island and Ikoyi to 41%
- Lekki vacancy factor slowing as rents are declining marginally
- Politicians are selling properties to mobilize for 2019



# FLEET MANAGEMENT

Rated ★★★★★



VEHICLE LEASING WITH  
NEW CARS OF CHOICE  
FOR 1-4 YEARS



SALE AND LEASE BACK  
OF EXISTING CARS



DRIVER SOURCING  
AND TRAINING



TRACKING, FUELING  
AND MAINTENANCE OF  
OTHER FLEET ELEMENT



OPERATION AND  
MAINTENANCE OF  
YOUR FLEET



BUY BACK OPTION  
AVAILABLE

\* Services are available to businesses in Lagos, Abuja, Portharcourt, Enugu, Benin and Ghana.



09060004026  
09060004025  
09060004024



[info@c-ileasing.com](mailto:info@c-ileasing.com)



[www.c-ileasing.com](http://www.c-ileasing.com)

A photograph of a legislative assembly, likely the Nigerian House of Representatives, with members seated in red chairs. Several members are raising their hands, indicating a vote. The members are wearing traditional Nigerian attire, including agbada and fila. The background shows a wood-paneled wall and other members seated in the background.

# Monetary Policy Trilemma

# MPC Fallout – The Poison Chalice

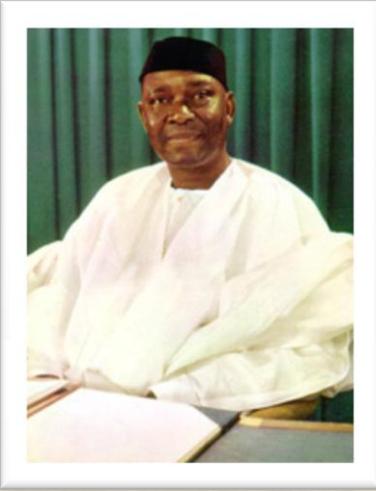


- Monetary Policy Committee (MPC) voted mainly to keep status quo
- Offered banks a conditional refund of their Credit Reserve Ratio (CRR)
- Take 30-day money at 10% pa, place it at 0% pa return in CRR
- Get a refund of 30-day money, lend at 9% pa for seven years with two-year pass
- 9% spread of your own money with a 2,500 day negative maturity gap
- Effective CRR ratio now 40% because of slow to no refunds
- IFRS nine will kill the banks on this



# MPC Fallout – The Poison Chalice

- CBN is encouraging financial disintermediation by commercial paper issues
- Willing to invest in Commercial Papers (CPs) for employment elastic sectors
- An unorthodox approach to dealing with slow credit to the private sector
- Credit to the private sector contracted by 0.04% as against target of 5.64%
- Aggregate lending will not increase in 2018



*“Long awaited dance has begun, some chickens have broken their legs before the real music begins”- Zik of Africa*



*“24 hours is a long time in politics”-*

*Harold Wilson*

# Political Update

# Views-From the Political Balcony

- Party crisis – crossing the new norm
- Followed by carrots and sticks
- Incentives and intimidation in response to fence sitters
- Buhari consolidates hold on a party in turmoil
- Delays full blown campaign till after the primaries



# Views-From the Political Balcony

- Attack dogs go after fragmented opposition groups
- Security agencies are focusing on the disgruntled defectors
- Perversely unifying the opposition into a solid block
- In the end opposition have too many leaders and not enough followers
- If they coagulate around a credible ticket it could be lethal
- It is a big IF



# Political permutations

*Some possible tickets*

Atiku, Ben Obi/Ekweremadu

Kwankwaso, J.K. Agbaje

Saraki, Duke

Atiku, Peter Obi

Makarfi, Wike

David Mark, S.W. candidate (muslim)

Tambuwal, Ekweremadu



# Views-From the Political Balcony

- The APC is facing major challenges at the state level
- Especially Delta, Imo, Rivers etc
- APC favourability ratings have dropped since the defections and opposition harassment
- But still ahead in most polls
- The race is getting narrower
- The incumbency factor and funding are major pointers for Buhari
- The June 12 magic as anticipated has faded into a non-event

# Politics-From the Political Balcony

- Osun state election is going to be very close
- APC may squeeze a narrow victory
- Ede vs Iwo to split the Eastern Osun vote
- But Omisore entry will split Ife from Ijesha
- The race is still wide open
- At this point Buhari is still the favourite



# Politics-From the Political Balcony

- NW- Buhari county
- NE- same
- NC- Opposition territory
- SW- Buhari tight win
- SS- Opposition
- SE- Opposition
- High population in NW and SW tilt it to APC for now but as they say in politics 24 hours is an eternity
- Demography, religion, herdsmen, Boko Haram and Niger Delta militancy are still unknown factors





# Outlook for August

# Outlook for August



- Massive investment in railways, pipelines and road works to be announced
- New projects will be commissioned by Buhari across all geopolitical zones
- Positive economic news on naira appreciation will be part of the narrative
- GDP growth for Q2 will come in flat to slow at 1.8%-1.9%
- Corporate earnings will improve but not enough to change investors fatigue
- August inflation will not decline, will increase towards 12%
- T/Bill rates will remain at the 10%-11% floor for 90-180day paper



# Outlook for August



- APC primaries will hold and endorse Buhari/Osinbajo for 2019
- Opposition will continue their makeover
- PDP will change name and coalesce into an alliance
- PDP will also witness some defections back to the APC
- APC will be net takers



# Corporate Humour



Husbands are like fires. They  
go out when unattended  
– *Zsa Zsa Gabor*

I am not upset about my  
divorce. I am only upset  
that I am not a widow.  
– *Roseanne*

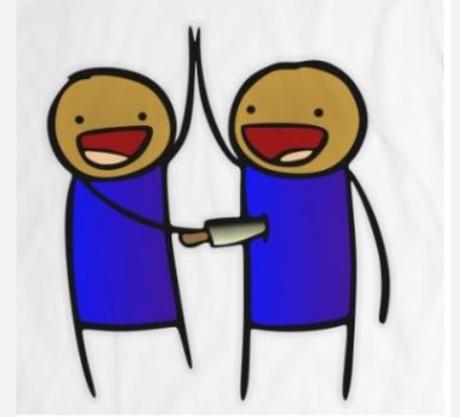


# Corporate Humour



The difference between divorce  
and legal separation is that legal  
separation gives a husband time  
to hide his money  
- *Johnny Carson*

A true friend is someone  
who stabs you in front  
- *Oscar Wilde*



# Corporate Humour



At every party there are two kinds of people – those who want to go home and those who don't. The trouble is they are usually married to each other  
- *Ann Landers*

It is called rap music because the “c” fell off the printer  
- *Allan Bease*



# CORPORATE HUMOUR



Dancing is a perpendicular  
expression of a horizontal  
desire

- *George Bernard Shaw*

I think the expression, its a  
small world is really a  
euphemism for I keep running  
into people I can't stand

- *Brock Cohen*



# Corporate Humour

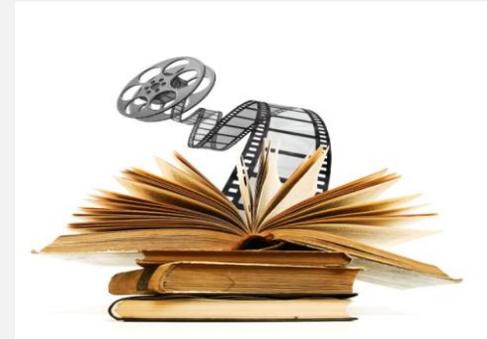


A synonym is a word you use when you can't spell the word you first thought of

- *Burt Bacharach*

Never judge a book by its movie

- *J. W. Eagan*



# Corporate Humour



Its the good girls that keep diaries. The bad girls never have the time  
- Tallulah Bankhead

A committee is a group of people who individually can do nothing but together decide that nothing can be done  
- Fred Allen



# Corporate Humour



Once you start buying first-  
aid kits, you start having  
accidents  
- *George Mikes*

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

**Thank You**