

LBS Breakfast Session

The players change
but
the game remains



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CEO, Financial Derivatives Company Ltd.
September 5th, 2018*



Is Politics Cannibalizing Economics?

Outline

Domestic Overview



Stock Market Review



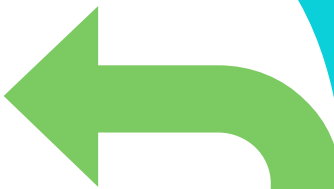
Global Picture



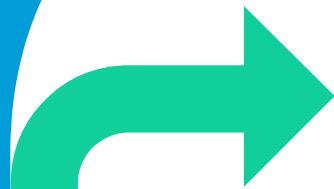
Policy and Politics



August Highlights



Outlook for September



External Imbalances + Political Squabbling = Slow Growth & Market Correction



AUGUST
IN
REVIEW

August Highlights - Bumpy Month

- Hottest day in Europe in 2018 was August 4th (48° C - Portugal)
- August break lives up to expectations
- Average temperature of 27° C and humidity of 85% in Lagos
- Highest rainfall in Lokoja and Katsina since 2012
- Lagos ranks as world's 3rd worst city to live in - Economist Intelligence Unit (EIU)
- 138 out of 140 cities ranked based on security, crime and health care, etc.

August Highlights~ Bumpy Month

- Q2 growth slumps to 1.50% from 1.95% in the preceding quarter
 - Driven by negative growth in petroleum (-3.95%) and sharp fall in agriculture (1.19%)
- Annual GDP growth rate for 2018 now revised downwards to approx. 1.90%
- Average on-grid power increased marginally to 3,660 MW, up 1.13% from July
- Country-wide, average price of diesel was N204.32 per liter and PMS was N146.8 per liter

August Highlights – Bumpy Month

- Shows that manufacturers are stocking up for expected Christmas sales surge
- PMI spikes by 12% to 54.8
 - Increased inventory build up towards Christmas sales and political hedging
- Oil production increased marginally by 4.38 % to 1.67mbpd
- Bonny light traded at an average of \$72pb in August ending at \$78pb



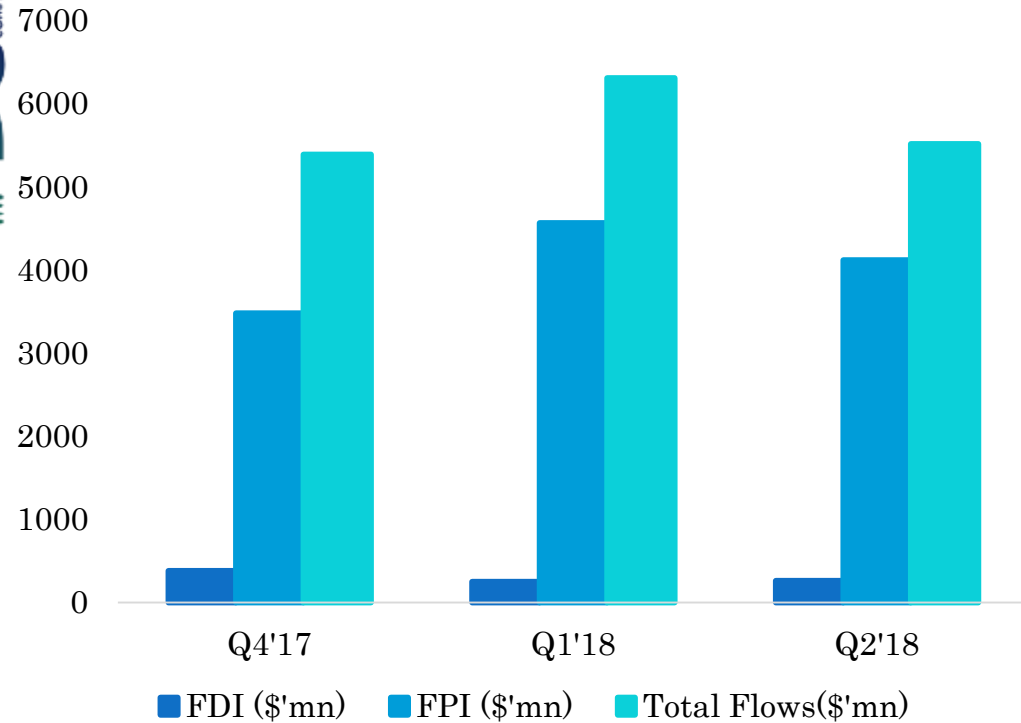
August Highlights – Bumpy Month

- Q2 average price was \$74.2pb
- Oil revenue for the quarter is estimated to be lower than \$9.4bn in Q1: between \$7bn- \$8bn
- A marginal rise in foreign direct investment (FDI) to \$261.35mn but a sharp drop in foreign portfolio investment (FPI)

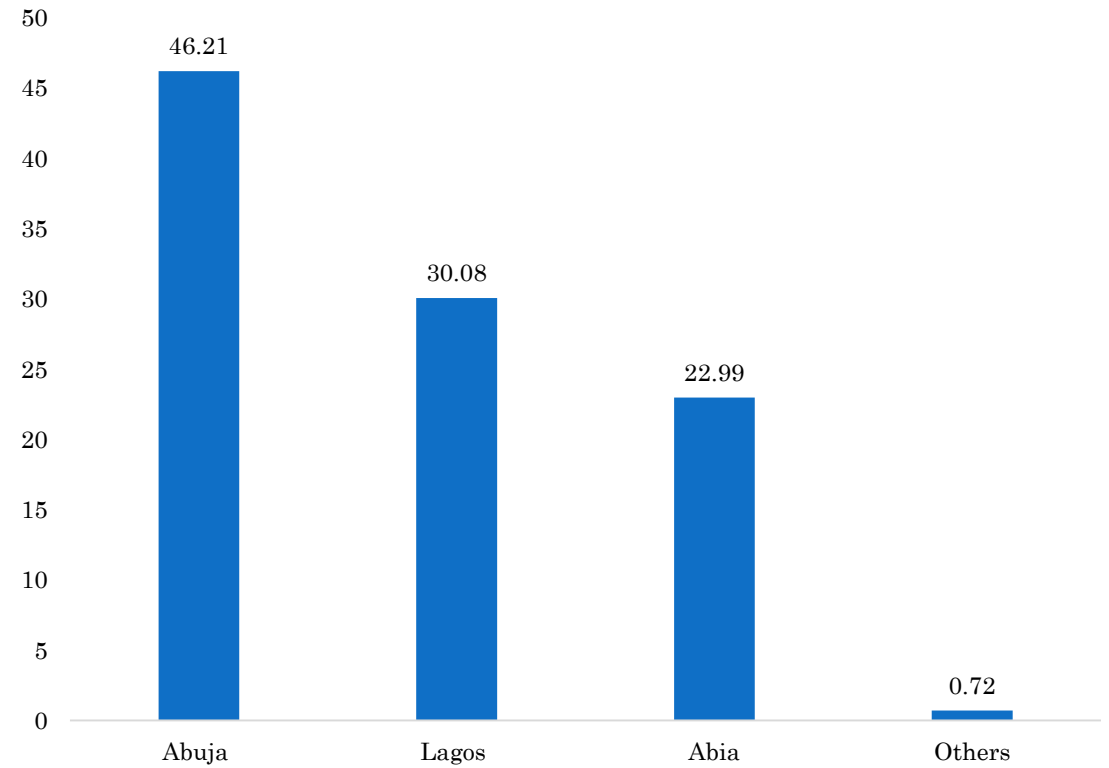


August Highlights ~ Bumpy Month

- Reversal of international portfolio flows in Q2
- Decline of 12.53% to \$5.51bn



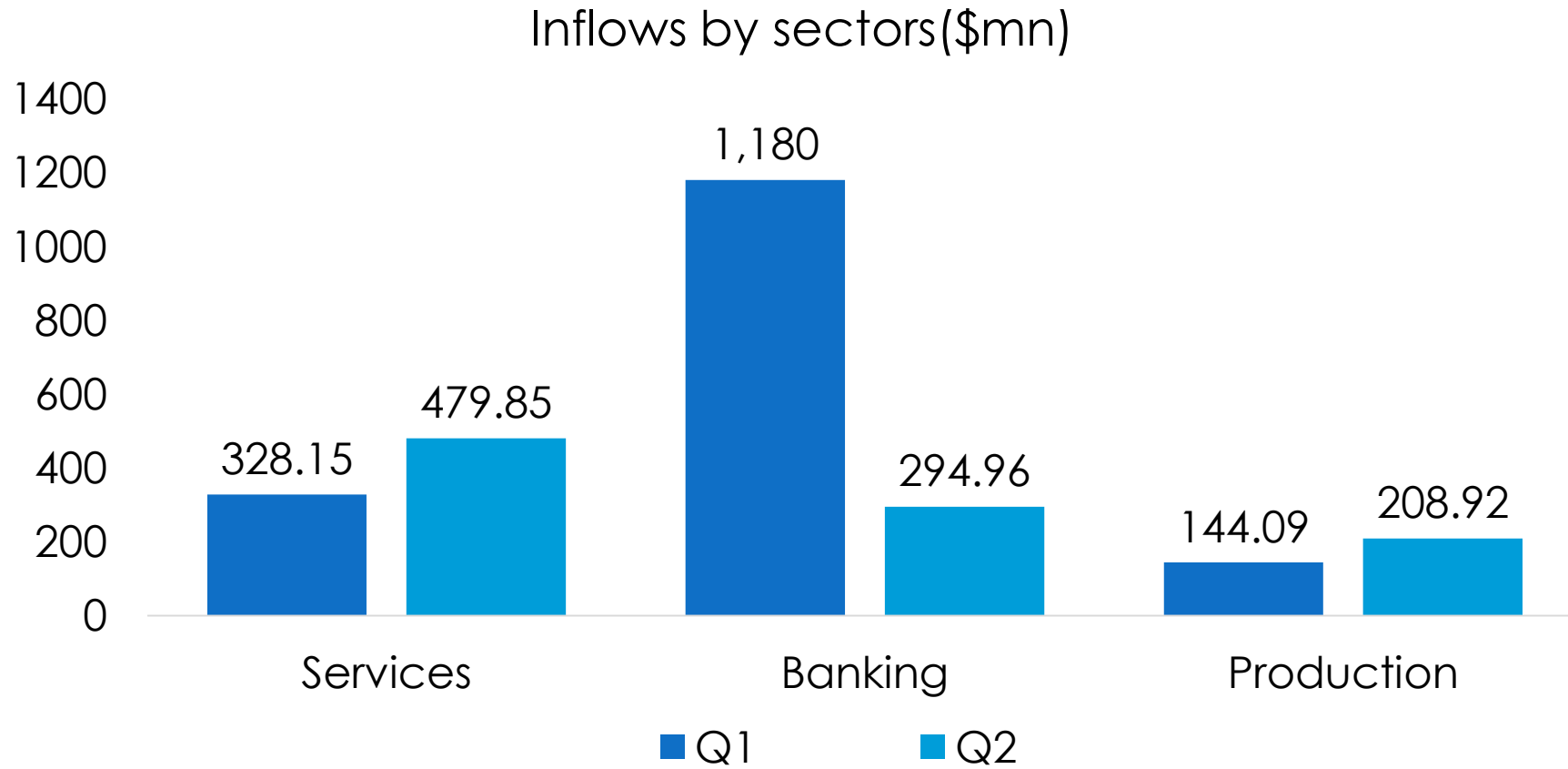
Inflows by states (% of total)



Source: NBS

August Highlights - Bumpy Month

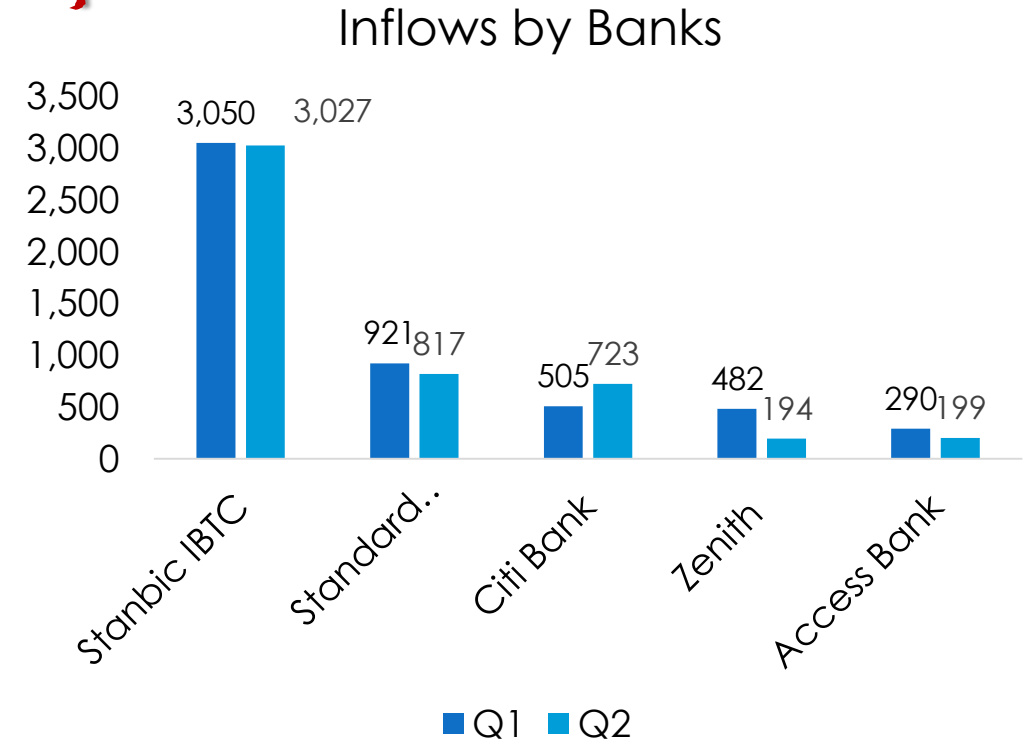
- Sectors that attracted the highest flows



Source: NBS

Capital Importation-Top 5 banks

Name of Bank	Q1 \$'mn	Q2 \$'mn	% of total
Stanbic IBTC	3,050	3,027	55.09
Standard Chartered	921	817	14.91
Citi Bank	505	723	13.09
Zenith Bank	482	194	3.45
Access Bank	290	199	3.64



Source: NBS

- Capital importation is dominated by multinational banks – 83%
- These banks have unfortunately been penalized purportedly for documentary lapses in the MTN Saga

August Highlights – Bumpy Month

- External reserves breaches the \$46bn resistance; now at \$45.55bn
- Total external debt has more than doubled to \$22.07bn since 2015 from \$10.32bn
- The CBN reduced the level of dollar interventions in the market by 2.6% to \$1.5bn
- The naira was stable at N361/\$, in spite of an earlier appreciation to N359/\$
- The weighted effective exchange rate depreciated to N343/\$
- The purchasing power parity (PPP) value of the naira was N336.01/\$

August Highlights – Bumpy Month

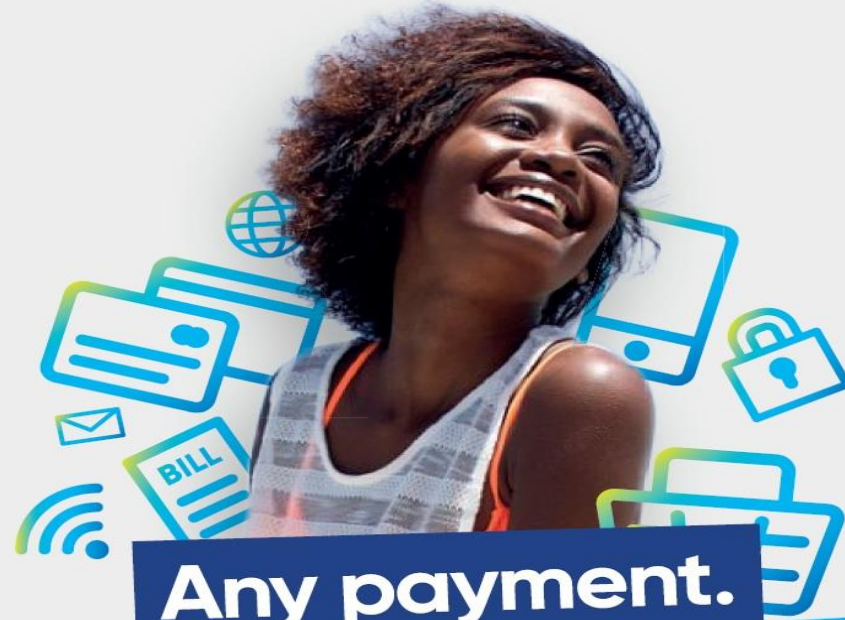
- August holiday blues constrained dollar demand in the market
- The CBN hyped the yuan/ naira deal holding two more auctions of CNY132.92mn
- The value of the deal – \$800mn in a year – shows its relative immateriality compared to Nigeria’s total exports of \$61.4bn or imports of \$43.8bn
- China is now responsible for 21% of total imports into Nigeria
- The total agreement is 27.06% of China/ Nigeria trade
- The British pound fell to an 11-month low of \$1.2860

August Highlights – Bumpy Month

- Supermarket traffic declined in line with liquidity tightness
- Thursday to Sunday traffic remained higher than Monday to Wednesday
- Point of sale (PoS) payments exceeded cash settlements in malls, major supermarkets and neighborhood shops
- Beer market declined by 3.50%, especially lager (down 5%) and stout (down 3%)
- The rate of decline in beer consumption is slowing
- Premium and value segments are showing recovery in line with reduction of salary arrears in many states

August Highlights – Bumpy Month

- Malt market is also declining along with beer, down by 25%
- Alcoholic spirits and distilled products market grows by approximately 15% according to proxies – mainly rum and gin
- Flour sales volume declined by approximately 20% in July
 - In partial response to a 5% price increase in wheat
 - Price elasticity of flour increases during the harvest period of sustainable commodities e.g. yam, garri etc



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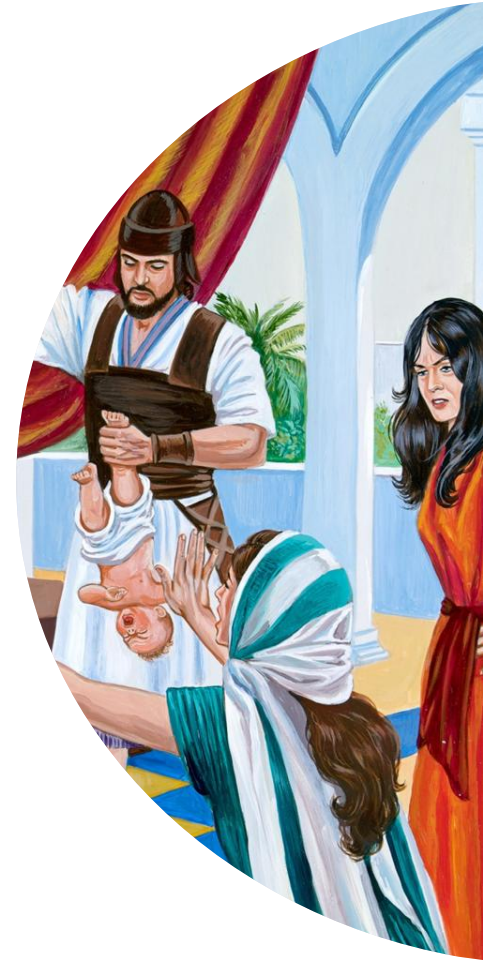
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MTN SAGA

King Solomon's
Justice



The MTN Saga & its Fallout

- MTN and four banks have been accused of breaching forex rules by purportedly using incomplete documentation to remit dividends
- CBN claims no final approval given for debt to equity conversion of \$410mn in 2007
- Banks were to ensure that dollars sourced locally for private placement were not remitted to the issuer
- CBN requests MTN to refund \$8bn of remitted and distributed dividends
- CBN will buy the dollars back from MTN at historical rates (e.g. N150/\$)

The MTN Saga & its Fallout

- \$8bn is approx 80% of MTN Group's market capitalization
- The Ministry of Justice has also requested \$2bn for import duties underpayment
- Timing and level of penalty is curious and disruptive to
 - company
 - industry
 - economy
 - markets
- Foreign portfolio investors are jittery and have started dumping stock
- The penalty almost killed the MTN Ghanaian IPO; only 35% successful
- Three days before the South African economy went into recession

Other Considerations?

- Cannibalization of an industry dominant player
- The only company that can and will invest upwards of \$1.5bn on telco capex annually in the next 5 years
- Nigeria needs 70,000 towers to effectively catch up with 5G technology and the digital revolution
- The payment and settlement system is dependent on a consistent level of telco industry capex
- The economy is vulnerable to capital outflows
- Many multinationals use the route of loan to subsidiary, to rights issue, to new investments in fixed assets



GLOBAL PICTURE

Global & Regional Highlights

- Turkish intransigence and Trump's belligerence sparked asset price declines across emerging markets
- Lira lost an additional 7%, rand down by 2% and yuan fell by 0.5%
 - The rout stopped after a \$15bn Qatar pledge of support
- July China activity data suggests more downside momentum
- Capital outflow pressures being compounded by policy easing
- US retail sales and Eurozone data support robust advanced economy growth

US

- Q2 growth revised upwards to 4.2%
- US economy remains vulnerable to the trade conflict with China
- The next round of tariffs is planned for late September
- Targeted at consumer products and likely to affect consumer spending
- Consumer spending contributes over 66% to U.S. GDP
- Unemployment at 4%, although underemployment is still on the increase
- US inflation rate held steady at 2.9% in July, slightly below the forecast of 3%



UK

- UK inflation rose to 2.5% in July, from 2.4%
- Driven by higher fuel costs
- First increase in consumer prices since November 2017
- Wage growth slowed to 2.4% in June
- Inflation may remain sticky at current rate due to recent weakness of the pound (GBP)
 - GBP fell to a 14-month low against the dollar
- Further depreciation expected due to Brexit
- Keeping real wage growth to a minimum

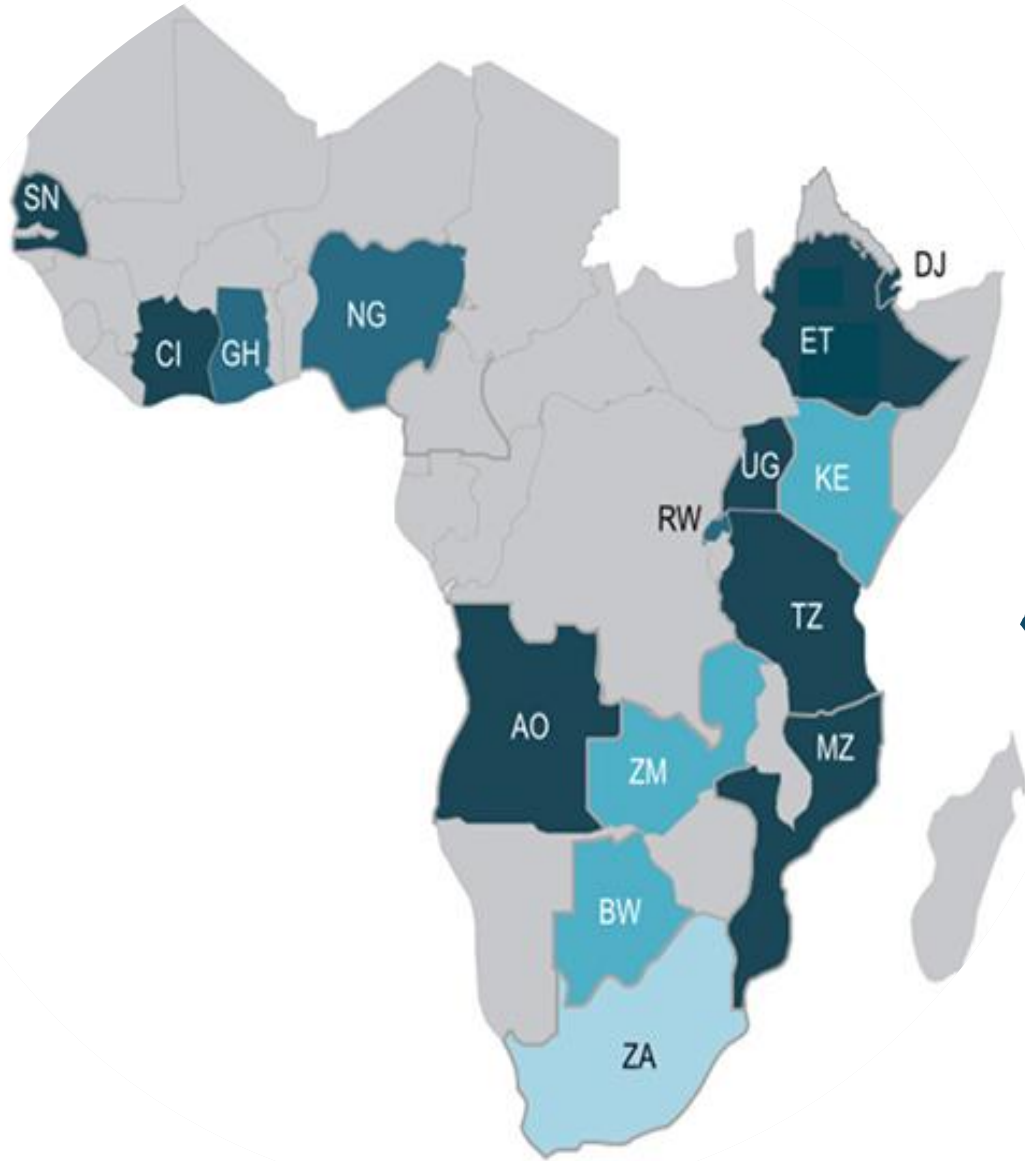


External Imbalances + Political Uncertainty = Slow Growth + Market Correction

- Greece exited its third and final bail out program after eight years of economic adjustment and supervision by the International Monetary Fund (IMF) and European Union (EU)
- It received \$378bn in emergency assistance
- Qatar's central bank signed a \$3bn currency swap deal with Turkey

Impact on Nigeria & Corporates

- Capital flight coupled with political uncertainty will increase the risk premium
- External reserves depletion to continue, leading to exchange rate pressures
- A stronger dollar will push commodity prices lower
- Higher level of naira liquidity and lower interest rates in the near term
- Raising additional equity at current prices is a good strategy
- Raising bond and commercial papers financing to pay down bank debt
- International finance will be more expensive and sparse



SUB-SAHARAN AFRICA

South Africa in Recession - First time since 2009²⁷

- South Africa's economy contracted by 0.7% quarter-on-quarter in Q2'18 following a 2.6% contraction in Q1
- Agriculture, transport and trade sectors declined the most
- Agriculture, forestry and fishing industry declined 29.2% in Q2 '18
- Manufacturing sector fell 0.3% following a 6.7% decline in previous quarter
- The economy expanded by 0.4% year-on-year in Q2' 18

Angola's Proposed Bailout by the IMF

- Angola asks for bailout funds in return for structural reform to accelerate the diversification of the economy away from oil
- Angola is the second largest African crude exporter
- Oil accounts for 90% of export earnings and over 50% of government revenue
- Has been faced with foreign currency shortages and rising bad loans in banks

Angola's Proposed Bailout by the IMF

- An IMF package will come with stiff conditions
- There is a risk that austerity might spur resentment against the government and lead to protests
- Bailout funds based on the government's commitment to fiscal management and transparency
- Provides an opportunity to build a stronger economy that is less vulnerable to future commodity shocks

Trust

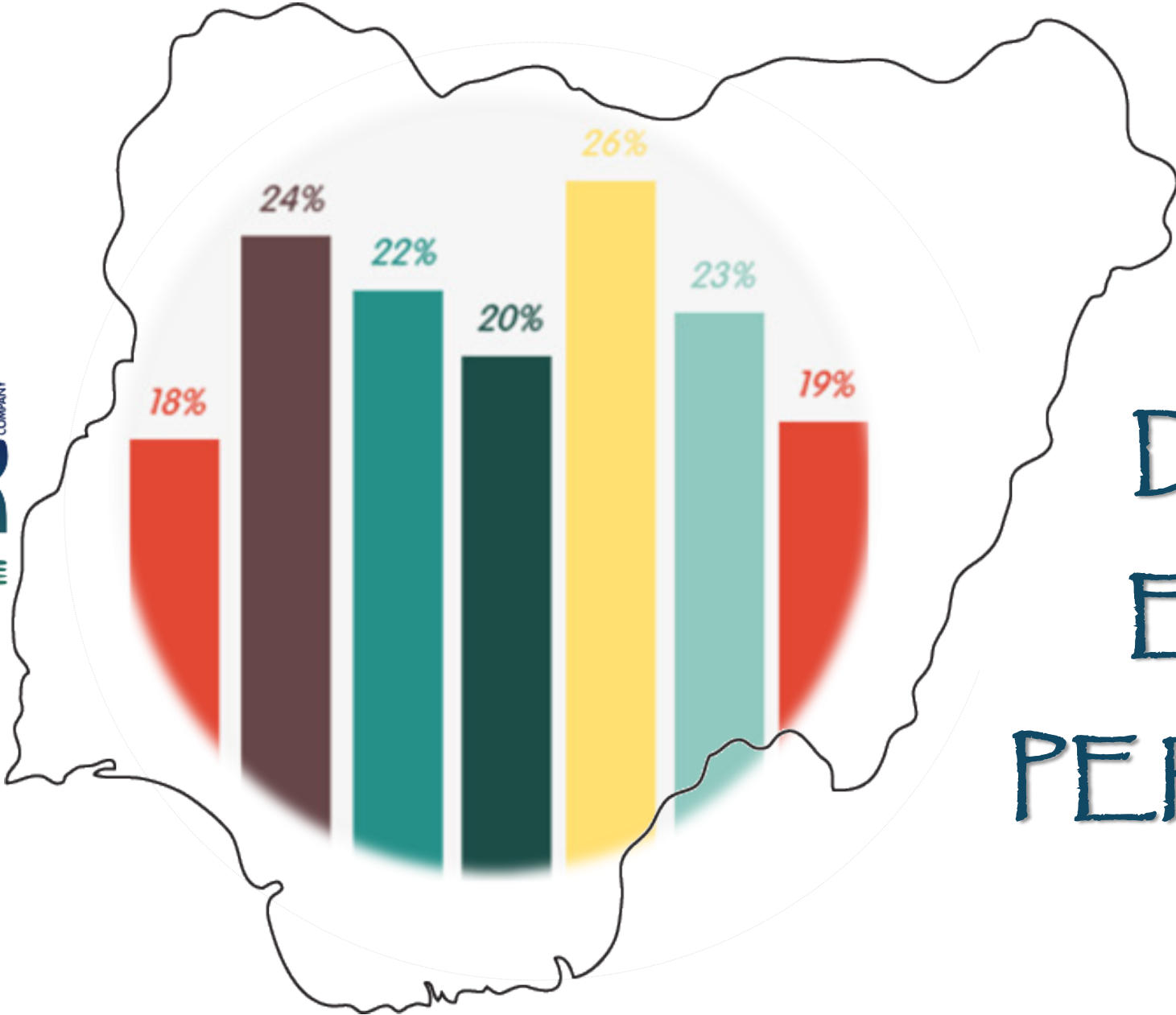
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DOMESTIC ECONOMIC PERFORMANCE

Economic Indicators

Leading Economic Indicator	July	August	% Change	Impact	September's Forecast*
M2 growth (%)	3.37 (June)	4.04 (July)	0.67	Mounts inflationary pressure	4.5-4.7 (August)
Average Opening Position (N'bn)	235.85	337.46	43.08	Evidence of high liquidity + lower interest rates & weaker naira	300-400
FAAC (N'bn)	821.9	714.8	-13.03	Will increase salary backlog and reduce government investment	700-720
T Bills (91 days) (%) – Primary	10.00	11.00	+1.00	Will increase government debt service	10.00
T Bills (182 days) (%) – Primary	10.50	10.40	-0.10		10.2-10.4
Average NIBOR (%) (OBB, O/N)	11.15	9.14	-2.01	In tandem with increased naira liquidity	9-12
Average Lending Rate (%) (pa)	21.00	18.00	-3.00	Will boost activities in the real sector	17-18
Inflation (%)	11.23 (June)	11.14 (July)	-0.09	Likely impetus for lowering interest rates	11.15 (August)
PMI	FBN: 48.9 CBN: 56.8	FBN: 54.8 CBN: 57.1	12.06 0.53	Increased inventory build-up by manufacturers ahead of the Christmas season	55.0 57.5
Oil Price (\$pb; avg)	74.95	73.84	-1.48	Lower oil proceeds, negative for fiscal and external revenue	70-75

Economic Indicators

Leading Economic Indicator	July	August	% Change	Impact	September Forecast*
Oil Production (mbpd)	1.60 (Jun)	1.67 (Jul)	4.38	Will offset fall in prices	1.65-1.70 (Aug)
Power (MW; avg)	3,619	3,660	1.13	Will boost activities in the private sector	3,600-3,800
GDP Growth Rate (%)	1.95 (Q1'18)	1.5 (Q2'18)	-0.45	Reflective of a needed boost to the real sector – credit facilities	1.7-1.8 (Q3'18)
Natural Gas (\$/MMBtu; end)	2.78	2.92	5.04	<ul style="list-style-type: none"> 12.6% of total exports Train-7 deal to increase output & earnings in 2021 	2.85-2.90
External Reserves (\$bn) (end)	47.12	45.84	-2.72	Victim of hot money exodus & higher US interest rates	44.50-45.00
Exchange Rate (N/\$; month-end)	Parallel: 360 IFEM:305.90 IEFX:362.40	Parallel : 361 IFEM: 306.15 IEFX: 362.64	-0.28 0.08 -0.07	Weaker naira + political uncertainty would deter investors	Parallel: 362 IFEM: 306.50 IEFX: 363
Stock Market Cap (N'trn)	13.41	12.72	-5.15	<ul style="list-style-type: none"> Correction/bear territory in sight Political uncertainty 	12.00-12.50

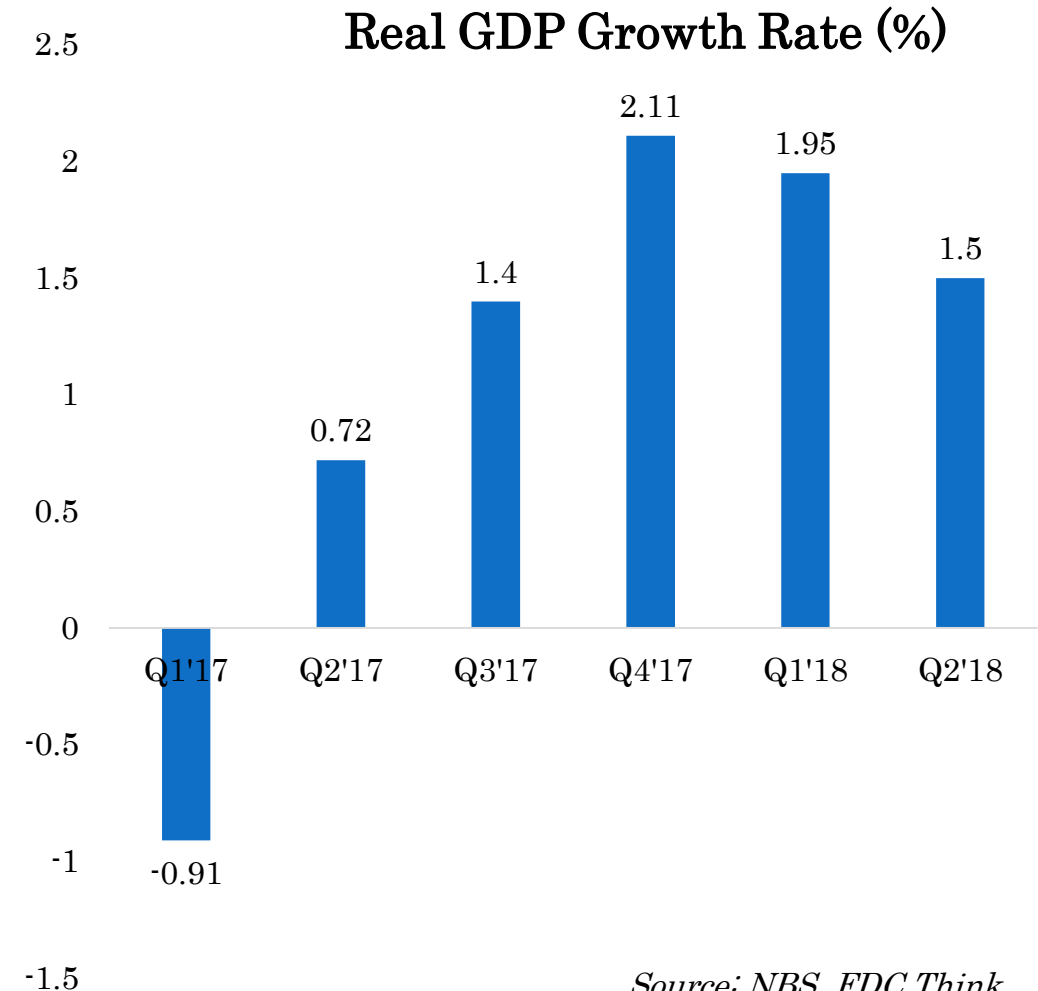
Leading Economic Indicators

- Mixed movement in leading economic indicators in August
 - Nine green, five negative, two amber
- GDP slumps to 1.5% in Q2'18
 - Full year growth of 2.1% unlikely
- Naira depreciated to N361/\$
- Inflation declines further to 11.14% in July
 - Now at a 30-month low
- External reserves below psychological resistance level of \$46bn
 - Now at \$45.55bn



GDP

- Q2 GDP slowed sharply to 1.5% from 1.95% in Q1
 - YTD growth: 1.73%
- Driven by
 - Decline in agricultural output-herdsmen conflict
 - Decline in oil sector growth as a result of several force majeure



Source: NBS, FDC Think Tank

Drivers Of Growth

$$(2018)Y = C + I + G + X - M$$

\$446.7bn



\$353.5bn



\$64.4bn



\$25.5bn



\$61.4bn



\$43.8bn



$$(2017)Y = C + I + G + X - M$$

\$376.4bn

\$311.5bn

\$55.8bn

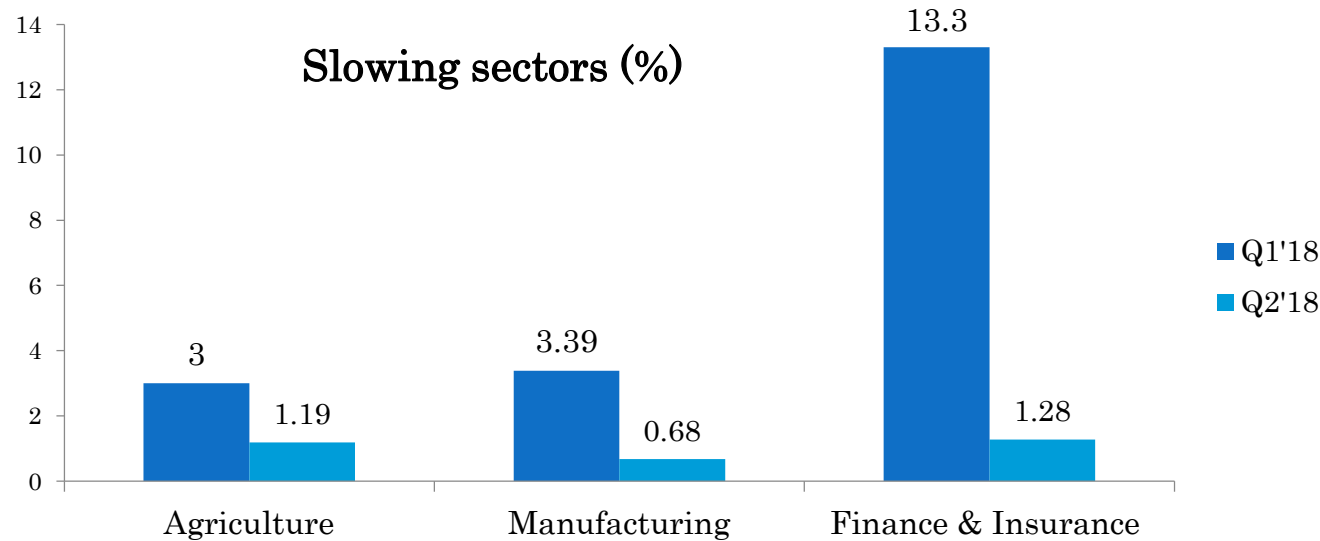
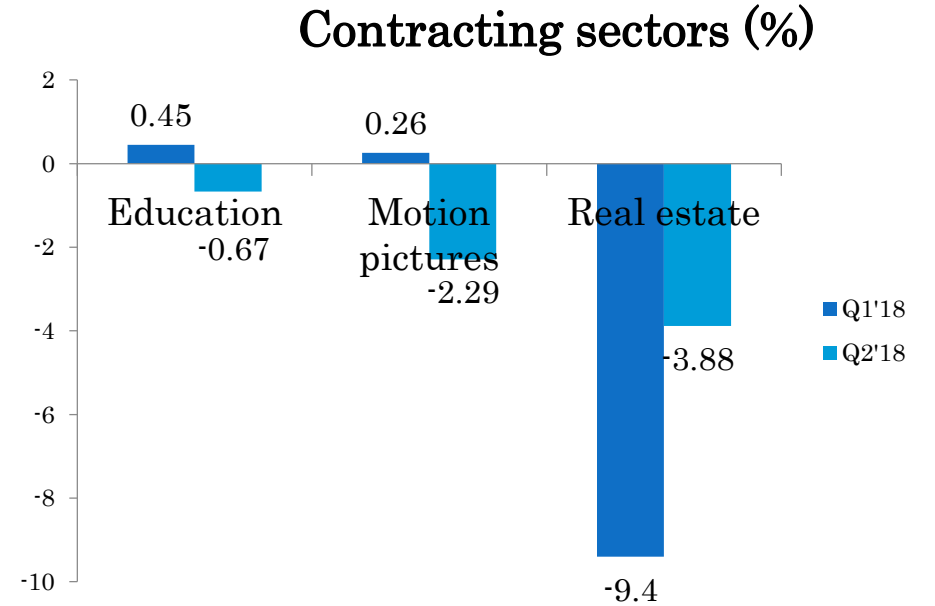
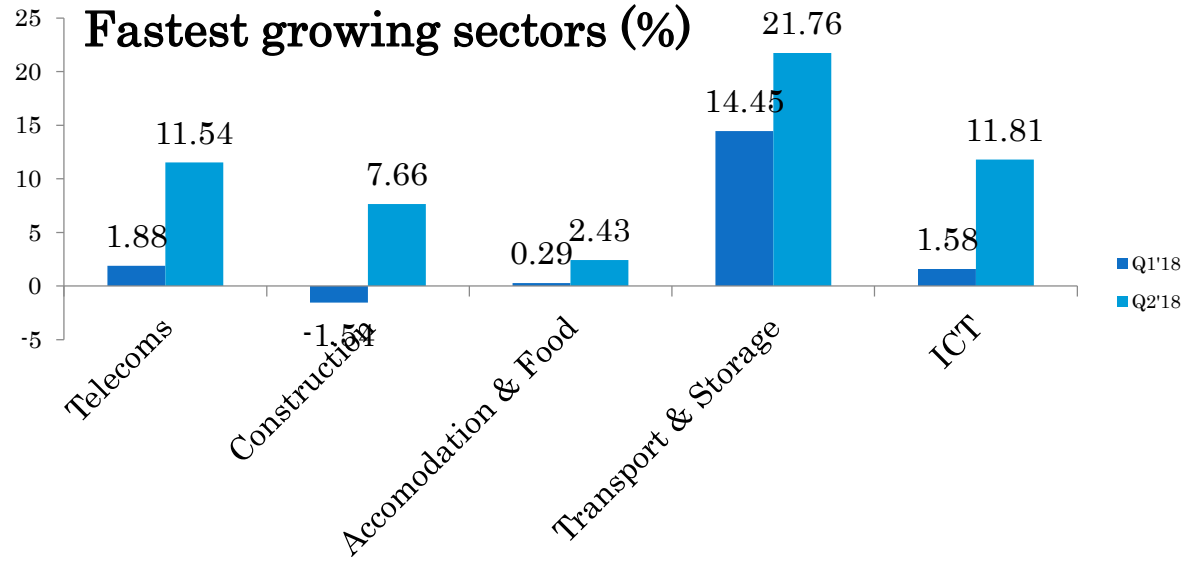
\$21.9bn

\$45.8bn

\$32.7bn

- Consumption accounts for the largest component: 79.14%
- While a vital component, gross fixed investment, accounts for only 14.4% of GDP

GDP: Sector Breakdown - Q2'18



Source: NBS

July Inflation



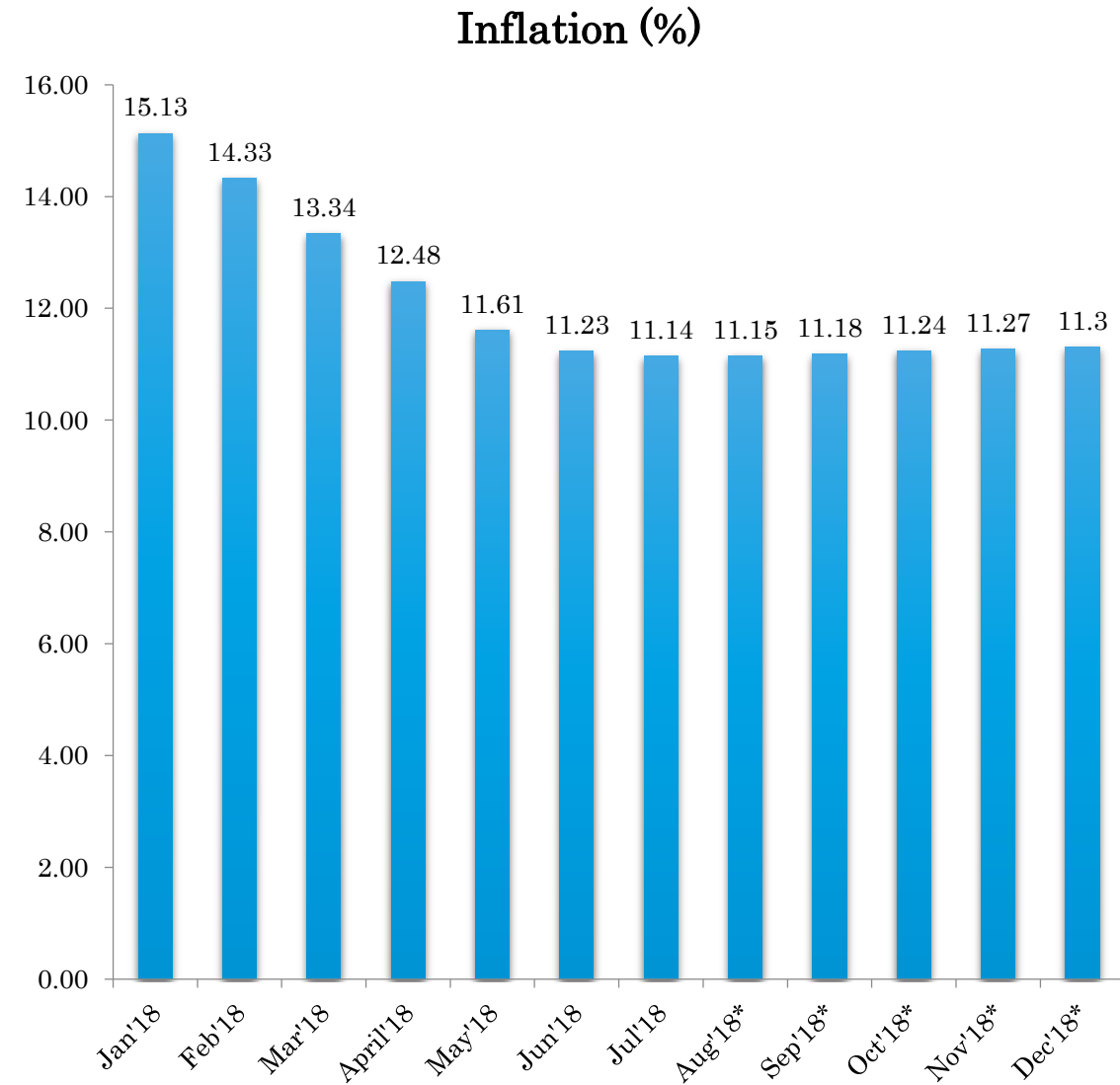
	June	July		% change
Headline Inflation (%)	11.23	11.14	↓	0.09
Core Inflation (%)	10.4	10.2	↓	0.2
Food Inflation (%)	12.98	12.85	↓	0.13
Urban (%)	11.68	11.66	↓	0.02
Rural (%)	10.83	10.83	↔	-
Month-on-Month (%)	1.23 (15.94 annualized)	1.13 (14.44% annualized)	↓	0.1



- June: 11.23%
- July: 11.14%
- Rate of decline : 0.09%

Inflation Outlook- August to December

- Inflation is bottoming out
- Upside risks to inflation in the next four weeks
 - Food shortages - insecurity in producing regions to dampen effect of harvest
 - Naira liquidity- election spending, budgetary spending, minimum wage review, NYSC allowance



Lending Rates



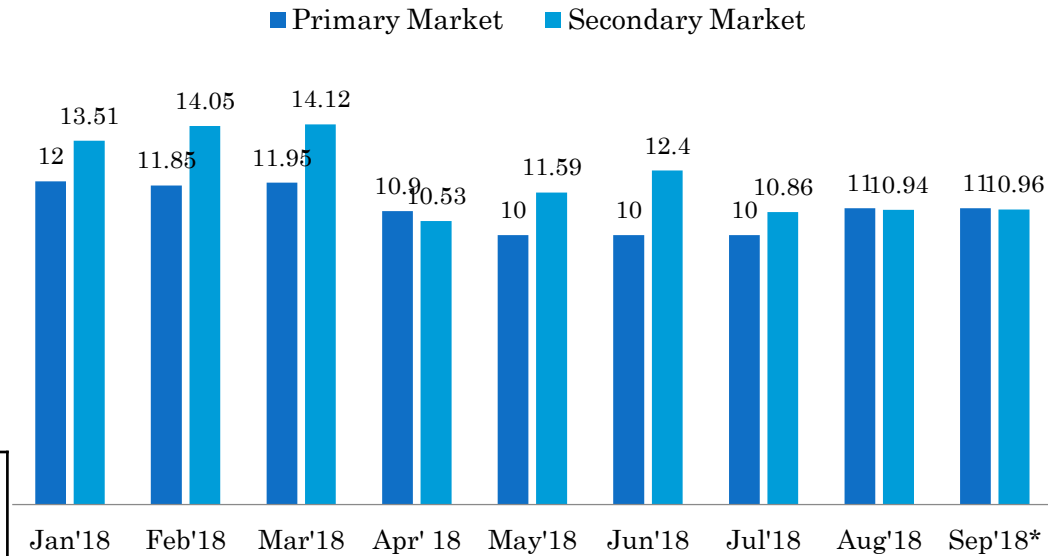
CBN Initiative	Remarks	Impact
Differentiated Cash Reserve Requirement (DCRR)	<ul style="list-style-type: none">• Deposit money banks may request the release of funds from their CRR to finance projects in the real sector	<ul style="list-style-type: none">• Boost credit to the employment elastic sectors- agriculture, manufacturing
Corporate Bonds Funding Program	<ul style="list-style-type: none">• Investment by the CBN and the public in CBs issued by corporates	<ul style="list-style-type: none">• Eases the pressure on deposit banks

Treasury Bills Rates- Outlook

- CBN likely to increase benchmark interest rate soon on the back of increased liquidity and higher inflation in September/October
- Other nominal interest rates will move in tandem



91-Day T/Bills (%)



Source: FMDQ, FDC Think Tank

Tenor	Primary market rates (July 31 st) (%)	Primary market rates (August 29 th) (%)	Secondary market rates (July 31 st) (%)	Secondary market rates (August 31 st) (%)
91-day	10.00	11.00 ↑	10.86	10.94 ↑
182-day	10.50	12.30 ↑	12.06	12.37 ↑
364-day	11.49	13.05 ↑	11.71	12.97 ↑

Price Discriminating Monopoly



Purchasing Power Parity			
	Sep-18		
	=N=	US \$	PPP ('=N=/US\$)
Bottle of Coke (60cl)	150	2.65	56.60
Heineken	500	2.91	171.82
Hamburger (Johnny Rockets)	3,800	4.59	827.89
Uncle Ben's rice (S. Pkt)	1,370	3.65	375.34
Toyota Corolla	21,000,000	21,980	955.41
Bottled Water (150cl)	120	1.31	91.60
Big Loaf Bread	400	2.39	167.36
Irish Spring Soap (1 cake)	250	0.86	290.70
Chicken Drumsticks (1 kilo)	1,200	4.15	289.16
Eggs (Big Size)	600	4.47	134.23
Average PPP			336.01
Naira Price at IFEM			362.00
PPP (%)			
Decision: Naira is		undervalued	-7.18%
Spot Rate (Parallel)			361
Outcome: Compared to IFEX rate of N362/\$1, the Naira is undervalued by 7.18%			

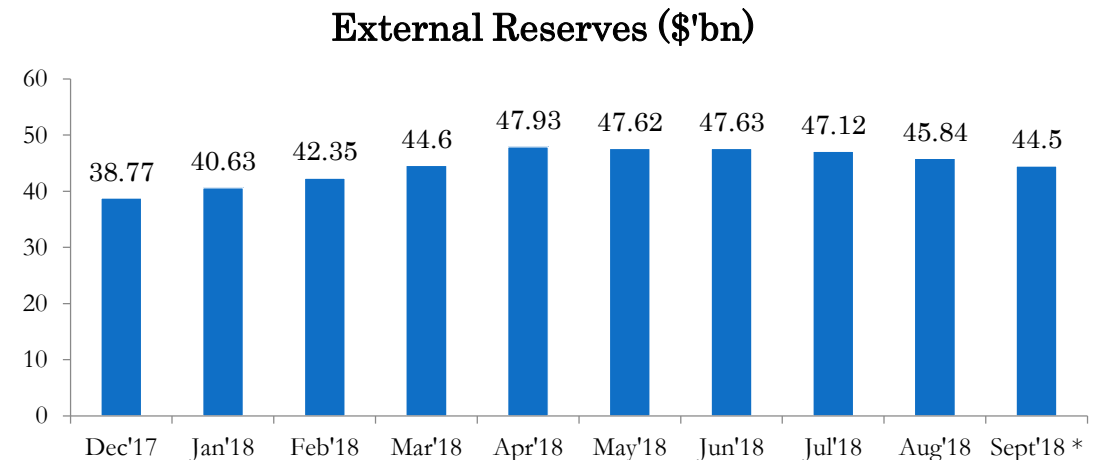
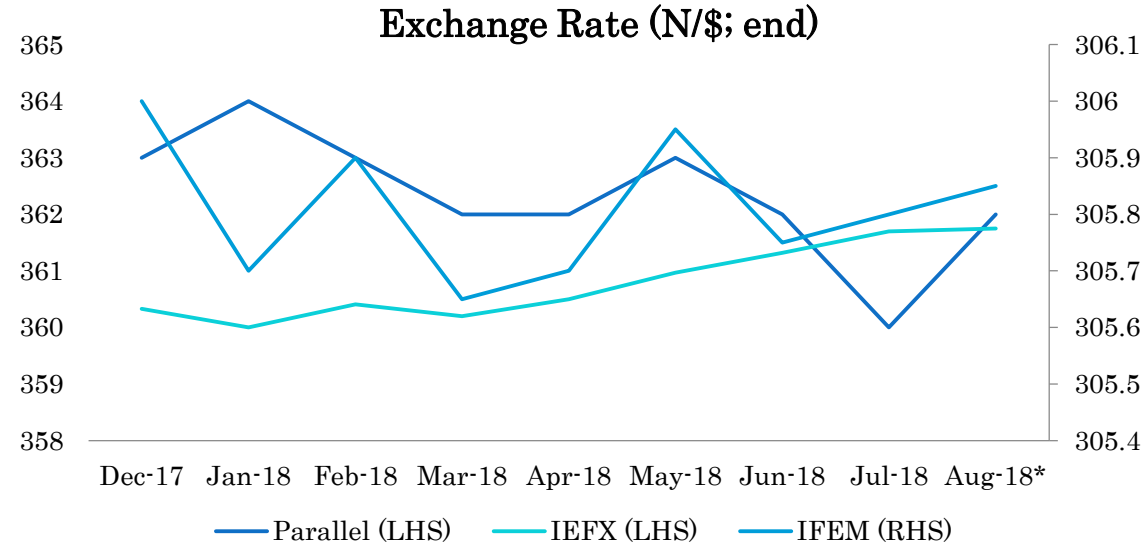
- Effective weighted average depreciated by 0.87% to N343/\$
- IFEM: N306.15/\$*10%
- SME: N345/\$*40%
- IEFX: N362.11/\$*40%
- Parallel: N361/\$*10%
- PPP now N336.01/\$

Forex Market Outlook



- Increased forex demand pressures:
 - Budgetary spending
 - Summer and hajj tourists
- Likely to push external reserves towards \$44-45bn by September-end
- Strong oil proceeds to slow the pace of depletion

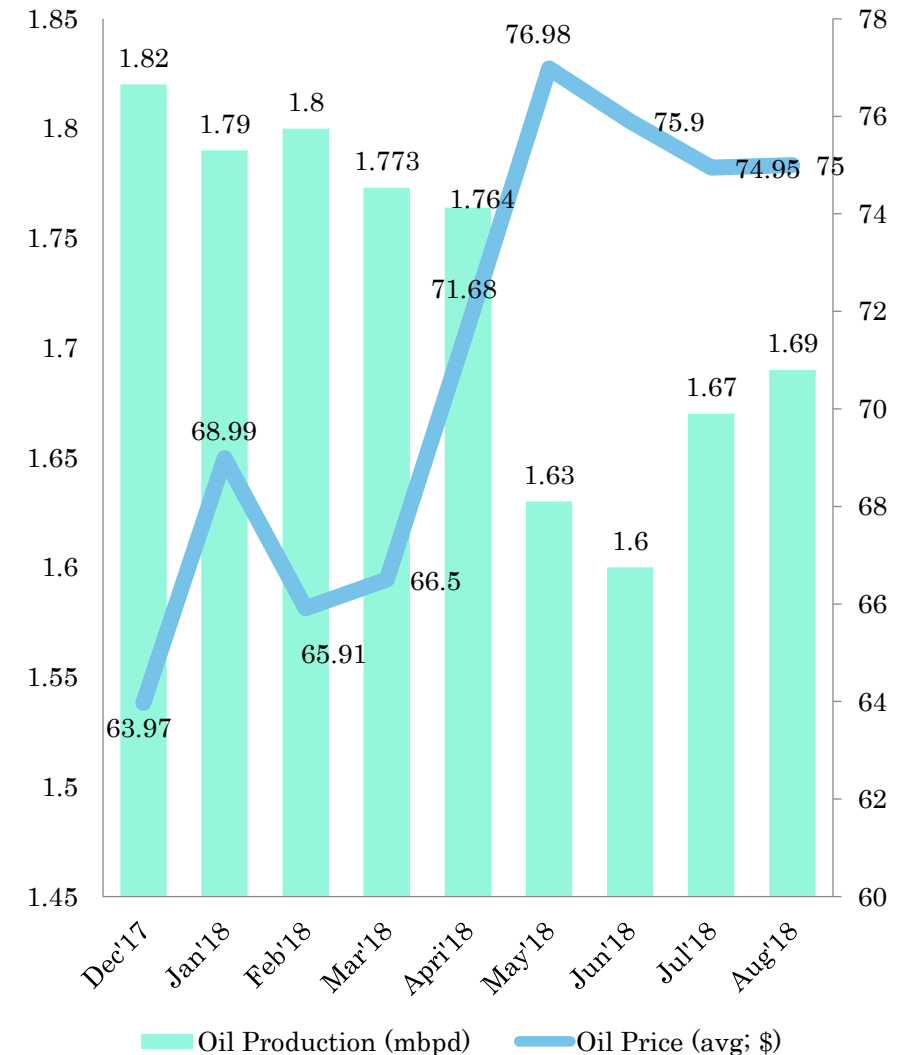
Source: CBN, FDC Think Tank



Oil Market Outlook



- Trade tensions between the US and China, Turkey and Iran have dampened global demand
- May likely push prices down to \$70-\$72pb
- Nigeria's oil production is projected to increase to 1.69-1.72mbpd in August barring any disruptions to production
- Increase in oil rig count to 16 is indicative of increased exploration and production activities



Source: OPEC, Baker Hughes

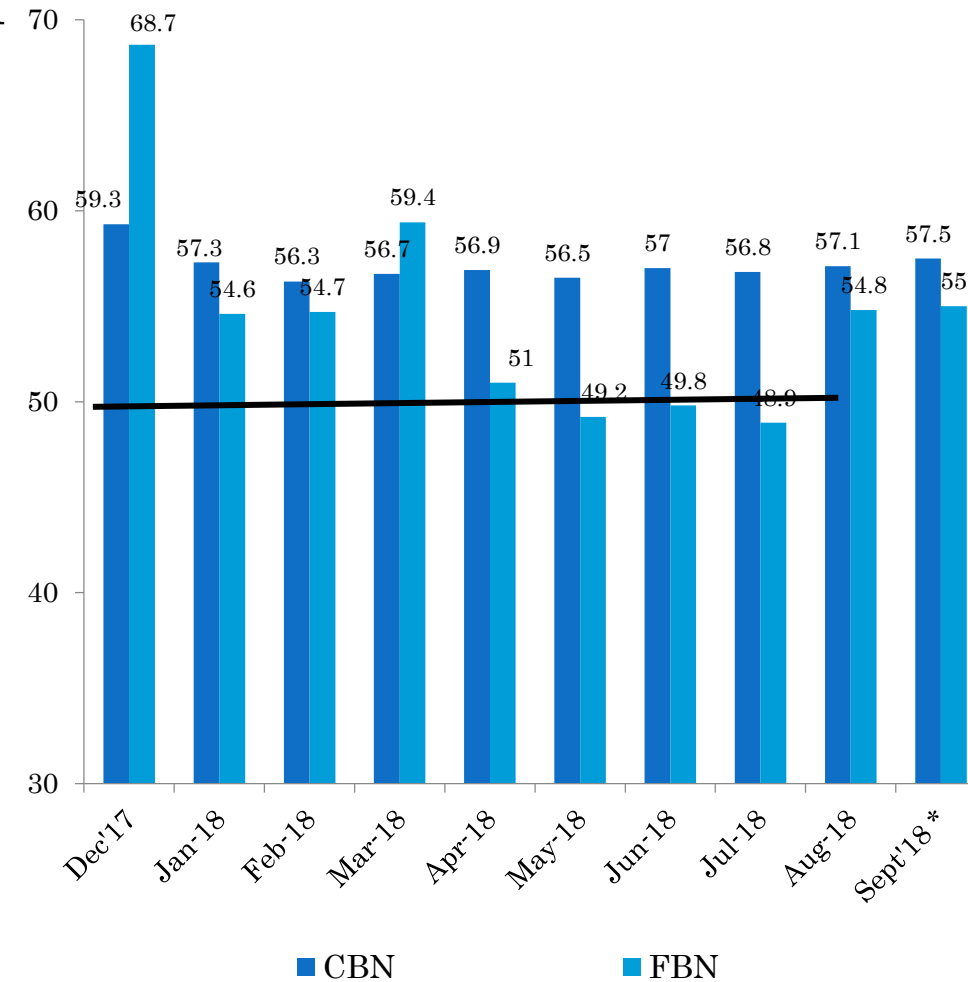
MARKET PROXIES



August PMI up 12% to 54.8



- FBN PMI expands out of contraction region
 - From 48.9 points in July to 54.8 points in August
- Inventory build up ahead of the festive season
- Expected to remain above the contraction region in the remaining months of 2018



Source: CBN, FBN, FDC Think Tank

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Average Power Output up 1.13%



4854 MW

Peak Energy Generated



3660 MWH/H

Average Energy Generated



783.2 MMSCF/D

Average Gas Delivered to Plants



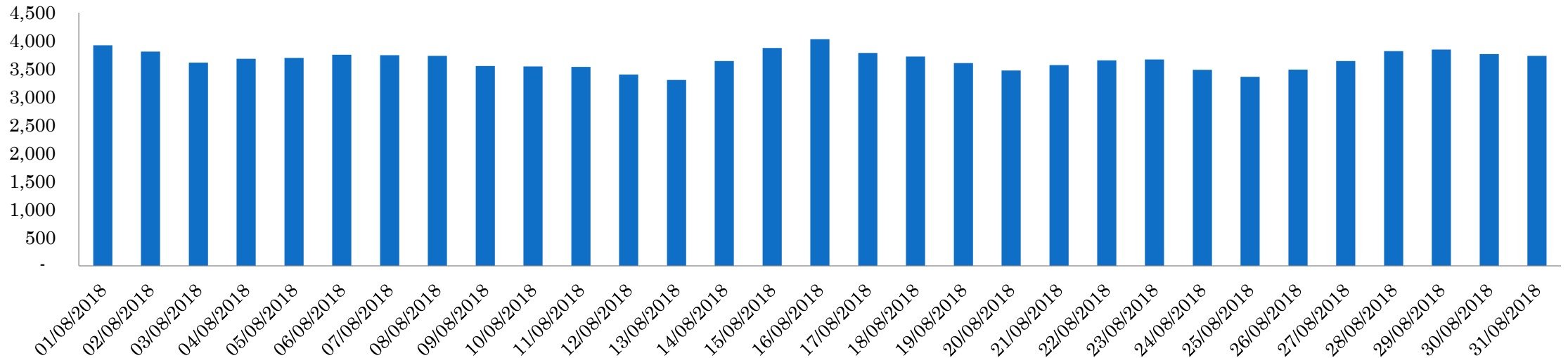
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Total Grid Collapses



3906 MW

Average constrained energy



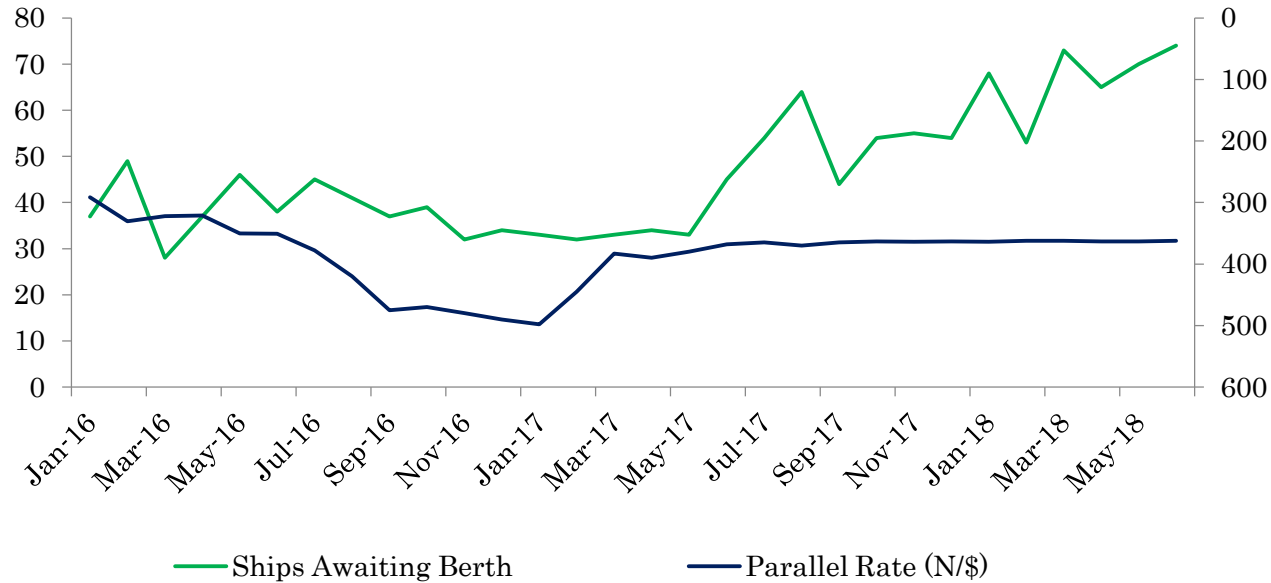
Source: Lavayo Advisors

Power Sector News

- Bank loans to the power sector tops N726bn
- FGN has approved the TCN to manage the N72bn upgrade of transmission infrastructure
- AfDB to invest \$12bn on renewable energy development in Africa







Ships Awaiting Berth







- Lagos port: 38
- Tin-Can port (as at June 2018): 43
- Reflective of increased trading activities and inventory build up
- Also validates the increase in PMI




Mixed movements in E-payments

- Volume of transactions in Jul'18 relative to Jun'18

- Cheques  2.29%
- PoS  3.31%
- NEFT  10.56%
- NIP  5.20%

- Value of transactions in Jul'18 relative to Jun'18

- Cheques  3.99%
- PoS  1.77%
- NEFT  5.61%
- NIP  0.004%

- Total value of payment: N7.91trn, 31.68% of M2
- Velocity of circulation approximately 4x, i.e M2 turns over four times in one year
- Improved payment system  increased velocity of circulation  increased money supply  increased commodity prices

Impact Analysis

- Market proxies have moved in line with leading economic indicators (LEIs)
- Reflective of slowdown in activity in August
- Expected to pick up in H2, supported by increased government spending
- PMI to expand out of contraction region as the festive season draws closer

COMMODITY IN FOCUS

Kolanuts



Facts About Kolanuts

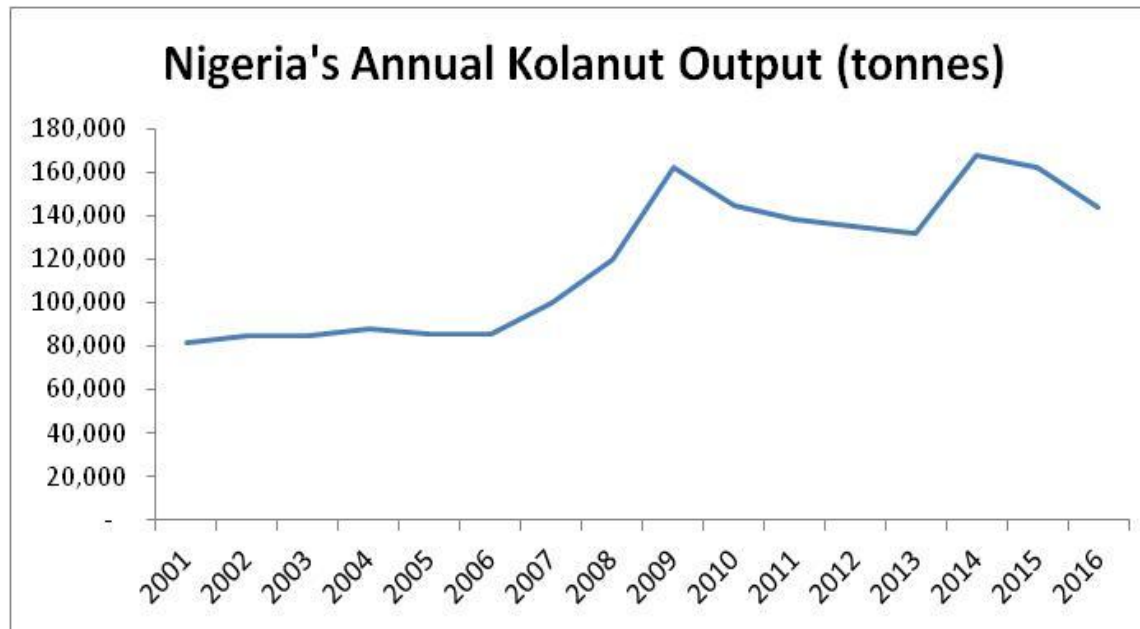
- Planting/harvesting lag: about 4 years
- Total global output: 275,000 tonnes
- General uses: ceremonies, rituals, nocturnal reading, doping and sport enhancement
- Industrial uses: pharmaceuticals, beverages, breweries
- World's top producers:  Nigeria,  Ivory Coast,  Cameroon
- World's top consumers:  Nigeria,  Ivory Coast

Facts About Kolanuts

- **Nigeria's output:** 144,000 tonnes (52.4% of global production) (revenue <\$10m annually)
- Highest in the world
- 11.1% decline year on year
- Mainly consumed domestically
- Historically, cattle for Kola nut exchange at Sagamu (Sabo)
- **Major producing states:** Ogun, Osun, Oyo, Kwara

Facts About Kolanuts

- Consumed mainly in the Northern states (Kano, Kaduna, Sokoto, Katsina)
- **Listed users:** Nigerian Breweries, Guinness
- **Non-listed users:** Coca-Cola



Source: FAOSTAT, FDC Think Tank

STOCK MARKET REVIEW

The bears have it!!



Nigeria Stock Market in August



- Short term investors remain bearish
- H1'18 result unable to change negative sentiments
- Issuers shifting towards DCM
- Association of Securities Exchanges of Nigeria (ASEN) launched
 - To improve efficiency, liquidity and settlement & to deepen market activities
- NSE places technical suspension on Conoil.
 - Lifted it 24 hours after the company released its outstanding financial reports

Nigeria Stock Market in August

- Paintcom delisted on NSE
- Notore Chemicals listed on NSE at N62.50
- Increasing the market capitalization by N101bn (0.8% of total market cap)





Nigeria Stock Market in August and Other Markets

- Bearish sentiment persist
- Market capitalization  4.47% to N12.81trn
- NSE ASI  5.86% to 34,848.45 points
- YTD, net FPI outflow of N38bn
- 5 days positive, 16 days negative
- P/E ratio down by 6.64% to 9.99x

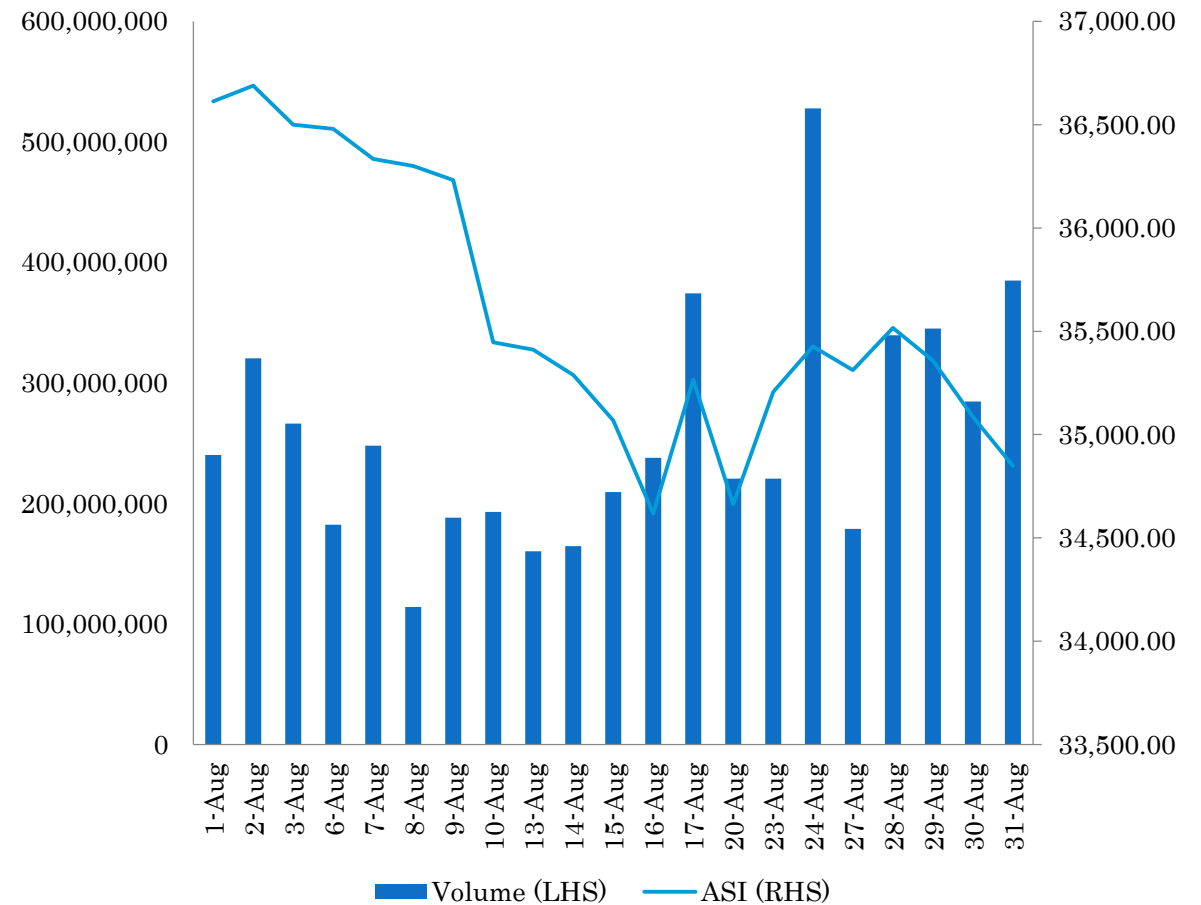
	NSE ASI	JSE ASI	GSE CI
YTD Gain (Loss)	(8.88%)	(1.85%)	7.86%

Trading Activities



- Average volume traded  16% to 257mn units
- Average value of transaction  5.72% to N3.13bn
- Negative market breadth of 0.21x
- 82 stocks lost, 69 remained neutral and 17 gained

NSE Performance in August

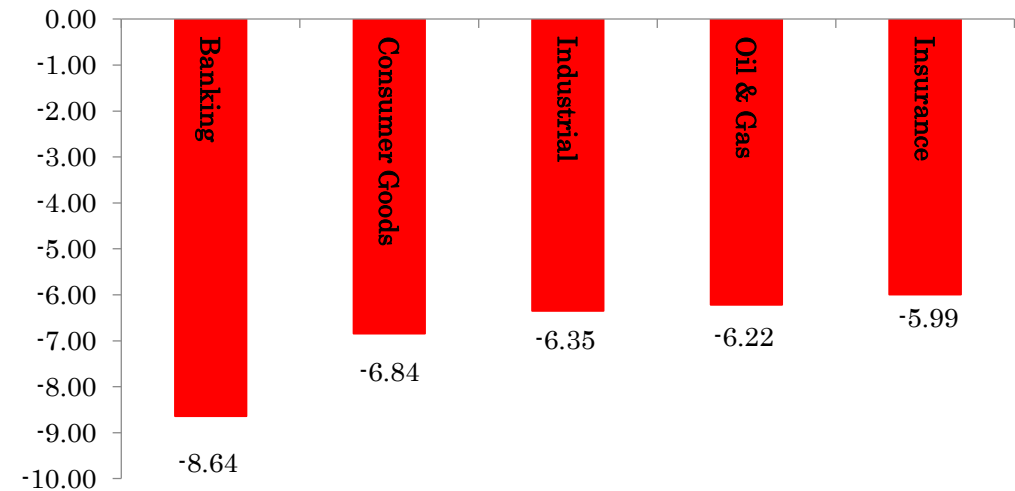


Sub Sector Indices



- Financial sector returns still negative
- Led by banking sector
 - The poor performance of the sector can be attributed to Skye Bank (-13%), Fidelity (-17%), UBA (-16%)
- Insurance index lost the least

Sectors' Performance (%Change)



- Driven by Universal insurance (-20%), Continental reinsurance (-19%), Cornerstone insurance (-17%)

Asset Managers' Reaction

Asset Classes	Jul 2018 (N'bn)	Jun 2018 (N'bn)	Growth
Equity	163	172	-5.2%
Money Market	263	180	31.1%
FGN Bond	1,116	1,121	-0.4%
Treasury Bills	316	354	-10.7%
Mutual Fund	11	12	-8.3%
State Bond	51	52	-1.9%
Supra-National Bond	1	1	0.0%
Corporate Bonds	63	66	-4.5%
Real Estate	6	6	0.0%
Cash	15	8	87.5%

- Shift towards Money

Market

- Lack of confidence in long term securities



Outlook for September

- Investors' fatigue to continue
 - Driven by growing political uncertainty
 - Growing preference in Debt Capital Market (DCM) to Equity Capital Market (ECM)
 - FPI outflow expected to increase
 - Expected increase in US Fed rate to impose pressure on performance

CORPORATE EARNINGS

Nothing to cheer



Banking Industry - Performance

	FBN	GTB	Zenith	Sterling
Gross Earnings	↑ 1%- N293bn	↑ 6%- N227bn	↓ 15%- N322bn	↑ 31%- N78bn
Interest Income	↓ 3%- N225bn	↓ 2%- N162bn	↓ 13%- N229bn	↑ 25%- N63bn
Profit Before Tax	↑ 9%- N39bn	↑ 8%- N110bn	↑ 16%- N107bn	↑ 47%- N7bn
Impairment	↓ 15%- N53bn	↓ 72%- N2bn	↓ 77%- N10bn	↓ 55%- N2bn
Dividend Yield	2.59%	6.96%	11.73%	1.48%
P/E Ratio	6.33x	6.31x	4.00x	3.54x



- H1'2018 profitability driven by lower impairment cost
- Increased financial disintermediation
 - CP market rose to N1.06tr in June from zero level in 2013
- Large firms raising capital through non-banking avenues
 - Completion of the sale of 9mobile to lift the performance of exposed banks.

Brewery Industry - Performance

- The largest segment of the food & beverage industry
- 2nd largest beer market in Africa
- Evolved from a duopoly to an oligopolistic market structure with a strong multinational presence
- Decline in profit margin recorded in H1'18 as new excise duty dampens consumer demand

	Nigerian Breweries	Guinness
Revenue	↓ 4% - N183.7bn	↑ 13.6% - N143bn
PAT	↓ 22% - N18.4bn	↑ 299% - N6.7bn
EPS	↓ 23% - N2.3	↑ 236% - N3.3
Dividend yield	4.22	1.94
P/E Ratio	28.23	30.98
Market share	67.20%	22.80%

Brewery Industry - Performance

- Guinness Nigeria revenue driven by increased sales volume for Guinness, Dubic and spirits brands
- Guinness committed to a sustainable growth by:
 - Securing stout leadership
 - Retaining leadership in flavored drinks
 - Building on momentum in malt category
 - Devoting more resources and capability to lager

Brewery Industry - Performance

- 10% excise duty, which induced a price increase of beer & malt was rolled back
- SAB did not follow the move of the price leaders
- Showing the difference between a duopoly and oligopoly
- Excise tax on the spirits is still under review
- The proposed rate of 400% increase over 3 years is excruciating
- Will kill investments in the sector if not reviewed

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RETAIL SECTOR

Key Macroeconomic Trends Impacting on Consumers ⁷²

Global trend	Nigeria's Impact
Tough economy	<ul style="list-style-type: none">•Tepid level of economic growth of 1.5% (Q2'18)•Relatively high level of inflation•Subdued domestic demand due to low disposable income
Political uncertainty	<ul style="list-style-type: none">•Consumers are wary of rising political uncertainty in the build up to the 2019 election
Rising inequality	<ul style="list-style-type: none">•Rising household inequality to impact on demand pattern
Millennial Impact	<ul style="list-style-type: none">•Median age is 18.4 years•Over 60% of the population is below 24 years
Mobile technology	<ul style="list-style-type: none">•Rising use of mobile technology and internet shopping, internet penetration of 32 per thousand•Increased threat to mortar and brick store
Urban Migration	<ul style="list-style-type: none">•Increased rate of migration

Key Emerging Trends for Consumers



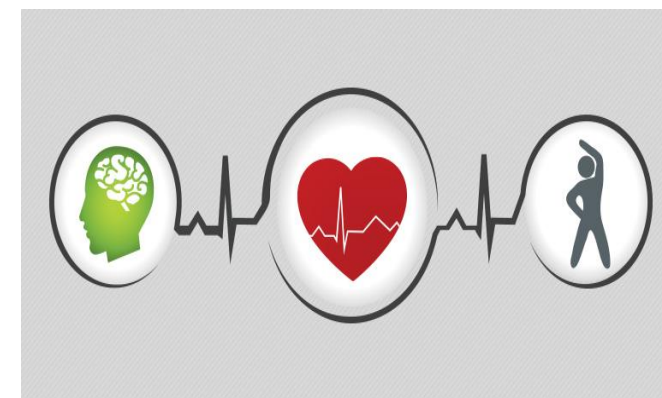
New urban mindset



Millennials reshaping the system



Gender inclusivity



Wellness & health

The Changing Consumer World

- In a free market economy the consumer is king
- The consumer world is being transformed into a near perfect market
- Global retail sales volumes are estimated to grow at 2.6% annually (2018-2022)
- Sales volumes are \$20.2trn or 25.8% of global GDP
- Asia will be the leading region for global retail sales
- This is consistent with a shift in wealth and economic influence
- China and India will be the global leaders
- These 2 countries are Nigeria's leading trading partners

The Changing Consumer World

- India is Nigeria's largest export market with 32.6% of the total exports
- Amazon has now joined Apple as the only companies with market cap in excess of \$1trn
- In SSA a modest economic recovery will help retail sales in 2018
- Consumer led expansion among medium sized economies
- Emerging markets witnessed a frontier shift from BRICS to MINT
- But Nigeria and Turkey have suffered economic reverses, leading to market shrinkage

The Changing Consumer World

- e-commerce will continue to drive expansion
- Retail sales from e-commerce projected to hit \$4.5trn (17.5% of total global retail sales) by 2021
- China will continue to lead globally, online sales expected to account for 33.6% of total retail sales
- Overseas players find it difficult to succeed in China's e-commerce market



AVIATION UPDATE

IATA

- Global airline share prices up by 4.8% in July
 - First monthly increase since January 2018
- Jet fuel prices declined below \$90pb in July
- Premium-class passengers accounted for 5.4% of total international O-D traffic between Jan-May
- Moderate decline in airline profitability in Q2'18
 - Reflecting higher fuel costs
- Divergent trend between passenger and freight load factors continues

Aviation Update

International Update

- Flash promotions across many airlines (British Airways, Delta, Air Cote d' Ivoire)
- Etihad Airways launches low cost baggage-free option
- KLM/Air France hires a new CEO, Benjamin Smith, a Canadian
 - The first non-French citizen to do the job
- SkyTeam is the leading alliance out of Nigeria

Aviation Update

Regional Update

- Zambia to relaunch national airline at a cost of \$30 million
- Ownership structure: 45%- Ethiopian Airlines, 55%- Industrial Development Corporation Zambia



Domestic Update

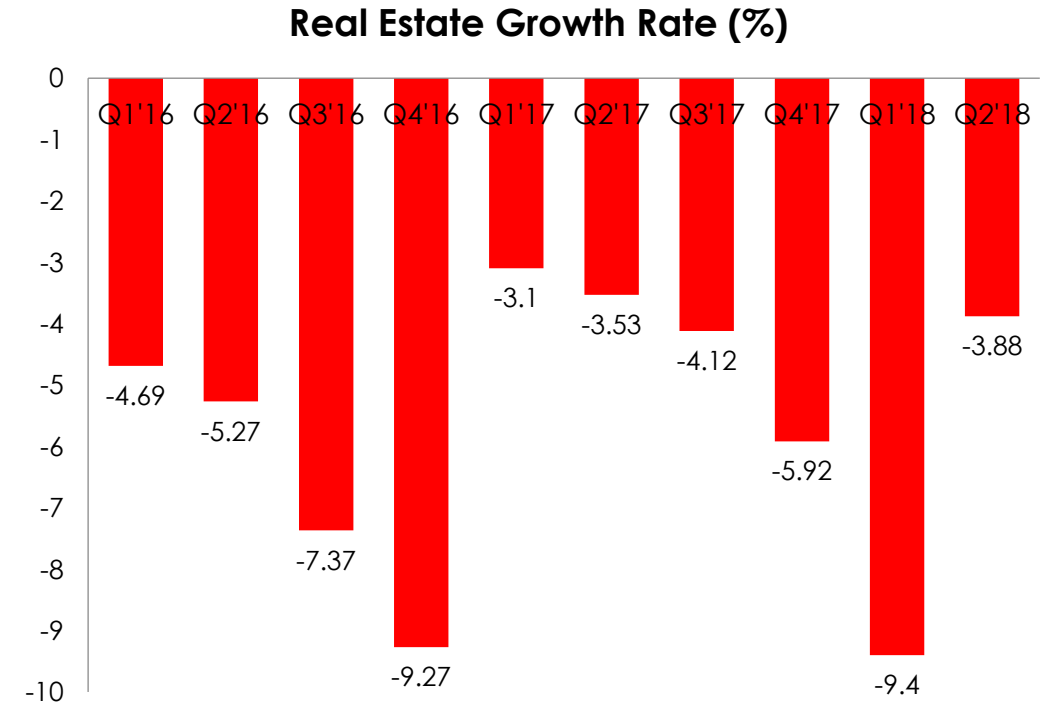
- Passenger traffic declines by over 30% in H1 2018
- Air Peace receives second Boeing 777 aircraft
 - Launch of long-haul flights is expected



REALESTATE UPDATE

Real Estate Performance in Q2'18

- Sector contracted by -3.88% in Q2'18
 - Compared to -9.4% in Q1'18
- Sector has been feeling the pinch of lower private consumption and anti-corruption sweep
- Lag between economic recovery & market recovery to delay growth
- In some areas the market has recovered



Property Trends- Residential & Commercial

88



- Slight improvements in vacancy rates in Lagos: Yaba (3%), Surulere (4%), Magodo Phase II (5%)
- High brow areas: Victoria Island (35%), Oniru (37%), Lekki (39%) and Ikoyi (40%)
 - Affordability remains a key issue
- Improved design and finishing features
- Grade-A office vacancy rates remain high
- Increased flexibility in pricing and terms
- More developments in the pipeline compared to H1 2017

Property Trends-Retail & Hospitality



- The Palms (0%) and Ikeja City Mall (2%) recorded the lowest vacancy rates
- Large-scale investments in the retail space by local high net worth individuals
- Events, entertainment and leisure features continue to pull traffic to larger malls

- Increased Asian infrastructure investment



- Increased demand for hotel accommodation and guesthouses

MONETARY POLICY UPDATE



MPC to Meet September 24/25

Key considerations

Parameter	Comments	Outcome
Q2 GDP growth numbers	Flat lining, tepid consumption and low aggregate output	Supports the argument for a rate cut
Inflation expectations	Upside risks are increasing: minimum wage review, budget disbursements, election spending	Supports the argument to maintain status quo or tighten further
External balance	External reserves depletion, capital flight, currency weakness imminent	Supports the argument to maintain status quo or tighten further
Credit to the private sector	Contracting, compared to CBN's target of 5.64%, banks are averse to lending due to high NPLs	Supports the argument for a rate cut
Money supply growth	Still below CBN's target of 10.84%, tempered by sterilization via CRR, OMO, forex auctions. Threat of a demand-pull inflation is relatively subdued. Upside risks exist due to expansionary fiscal policy	Supports the argument to maintain status quo
Unemployment/underemployment rate	On the increase Calls to question the efficacy of the CBN's sectoral interventions	Supports the argument for a rate cut

Scenario 1 - Maintain Status Quo 60% Probability

- *MPR: 14%, CRR: 22.5%, LR: 30%, Asymmetric Corridor: +2%/-5%*

Rationale

- Risks to macroeconomic and financial environment appear fairly balanced to support growth
- Further moderate inflation, which is still outside the 6%-9% target range

Impact

- High interest rates will continue to deter credit demand
- Consolidate gains of current monetary policy stance
- Contain inflationary pressures

Scenario 2- Interest Rate Cut- 30% Probability

88

- *MPR: 13.5%, CRR: 22%, LR: 30%, Asymmetric corridor: +2%/-7%*

Rationale

- Slowing GDP to 1.5% needs a boost
- Support growth
- Reduce government's debt service obligations
- Increase credit to private sector

Impact

- More resources freed up for spending
- Reduce NPL and strengthen asset quality
- Could exacerbate inflationary and exchange rate pressures
- Could reverse gains already made on reduced importation
- Increase pressure on the naira

Scenario 3- Tighten Further- 10% Probability

- *MPR: 14.5%, CRR: 22.5%, LR: 30%, Asymmetric corridor: +2%/-5%*

Rationale

- To curtail inflationary pressures
- Curb capital flight and strengthen the naira
- In line with the IMF's recommendation in its Article IV review

Impact

- Weaken consumption
- Increase domestic cost of borrowing to investors
- Re-pricing of assets, further constricting credit to the real sector
- Rising NPLs



POLITICS UPDATE

Which World Are We Living In?

- Realist world- the players change but the game remains
- Liberal world- the resilient order
- Tribal world- identity over ideology
- Marxist world- dialectical materialism
- Tech world- digital revolution
- Warming world- climate change

The Most Important Global Political Trends

The Realist World- Stephen Kotkin & the Tribal World

- Geopolitics never went away, history bends towards delusion
- Great power politics will drive events
- The Great Depression ended the earlier age of globalisation, started in the 19th century
- Today's competition between China and the US is a new twist on an old story
- In the 18th century, China was by far the world's largest economy controlling 40% of global GDP
- Then it went into decline, ravaged by war from within and without

The Realist World- Stephen Kotkin & the Tribal World⁸

- The US was born and rose as China declined
- Both countries have dominated the world ever since
- To understand the world of tomorrow look back to yesterday
- In the 1970s the US and NATO were rich but disordered and stagnant
- The Soviet Union was military strong and was arming
- China was convulsed by internal turmoil and poverty
- India was poorer than China
- Brazil ruled by a military Junta
- South Africa was under apartheid

The Tribal World- Amy Chua

- The rise of economic tribalism
- Tribe denotes something primitive, backward and unsophisticated
- But it is now tearing at the fabric of liberal democracies in the developed world
- Mina Cikara, the Harvard psychologist, notes it as part of group identity
- Especially true when one group fears or envies another and has a long history of rivalry
- The new dynamic of economic tribalism is the phenomenon of market dominant minorities
- Outsider ethnic minorities that hold vastly disproportionate amounts of a nation's wealth

The Tribal World - Amy Chua

Vietnam

- Hoa of Vietnam - Chinese minority
- Controlling 80% of the country's commerce & industry

Afghanistan

- Pashtun dominated economy for 200 years before the Taliban

Iraq

- Sunnis dominated Iraq for one century
- Under the Ottoman Empire
- Leading to Saddam Hussein, a Sunni

USA

- Political tribalism is fracturing the US
- Where one tribe sees others as opposition, immortal and evil

The Tribal World- Amy Chua

Nigeria

- In Nigeria, the use of economic tribalism to complement political tribalism will play into the 2019 equation
- Variants of intolerant tribal populism are erupting all across Europe
- Brexit was a populist pushback against elites in London & Brussels
- The elite in Nigeria is an exclusive tribe of the gini-coefficient: 48.8
- The class tribe as against the ethnic tribe

The Politics of 2019

- Buhari's grip is strengthened by the bye-election results after losing a grip with the massive defections
- The NASS invasion was a black eye depicting weakness at the top
- The exit of Daura is a major setback
- In spite of the problems, Buhari seems an odds on favorite
- Opposition is too fragmented with very limited time
- The electoral map for 2019 is still fluid in spite of incumbency
- The Osun State election could be a litmus test for the South West where millennial game, the urban/rural dichotomy is vanishing
- The Ede/Ire boys want to take over Oshogbo

The Politics of 2019

- The image of the late Adeleke and sympathy vote could make the dancer competitive
- The PDP candidate has no political skills and may snatch a pyrrhic victory
- Buhari's adoption of direct primaries is a game changer
- Be careful what you wish for, you may get it
- A delegates primary process is easy to manage and control
- The direct primaries will forever undermine the governors
- The outcomes are totally unpredictable
- Buhari will get the APC ticket
- The PDP and allies is a close contest between Atiku, Kwankwaso and Tambuwal

The Politics of 2019

- The 2019 election will be more dependent on the VP choice even after the PDP primaries
- Their success will depend on the VP pick
- Osibanjo is a strong asset for team Buhari
- The outcome of the state direct primaries could erupt into an APC crisis and could inadvertently handover victory to the opposition
- APC seems to have a major management problem

OUTLOOK FOR SEPTEMBER



200 1
400 0.1 1
200 0
30
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September Outlook

- Headline inflation will come in at 11.15%
 - Marginally higher than July
- The CBN will maintain status quo again on interest rates
- External reserves will fall below \$45bn
- Oil production will increase back to 1.8mbpd in October

September Outlook

- Bonny light will fall back to \$70pb
- The stock market will fall further into correction territory
- APC will adopt Buhari & Osinbajo
- State direct primaries will be marred by violence and could breakdown
- The naira will fall marginally to N362/\$ in the parallel market

Corporate Humour



To eat is human to digest is
divine
– *Mark Twain*



The two biggest sellers in a
bookstore are the cook books and the
diet books

The cook books tell you how to
prepare the food and the diet books
tell you how not to eat it.

- *Andy Rooney*

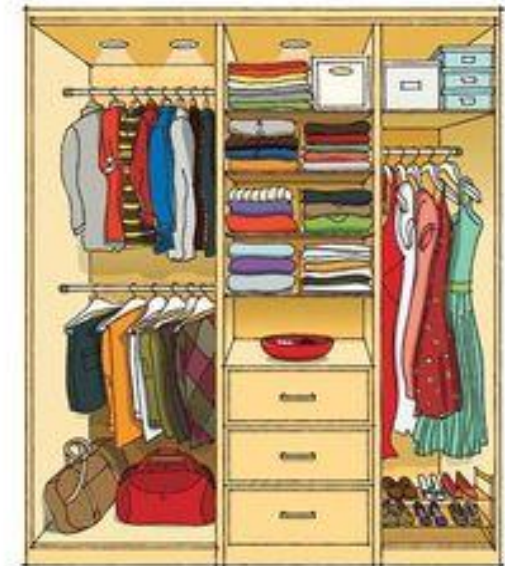


Corporate Humour

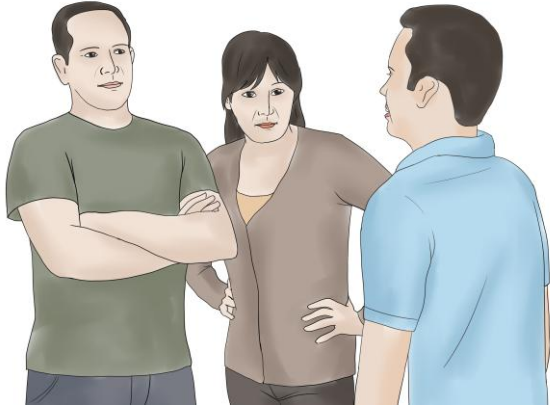


Its easier to get forgiveness
than permission
- Murphy's law

There is something about a
closet that makes a skeleton
restless
- Anonymous



Corporate Humour



A woman talks to one man,
looks at a second and thinks of
a third
- *Bhartrihari*

Any girl can be glamorous, all
you have to do is stand still and
look stupid
- *Hedy Lamarr*



CORPORATE HUMOUR



A relationship is what happens
between two people who are
waiting for something better to
come along
- *Anonymous*

Nothing matters very much
and few things matter at all
- *Arthur Balfour*



Corporate Humour



Middle age begins with the first mortgage and ends when you drop dead
- *Herb Caen*

Idealism is what precedes experience; cynicism is what follows
- *David Wolf*



Corporate Humour



Ignorance is the mother of
admiration
- *George Chapman*

Living with a conscience is like
driving a car with the brakes on
- *Budd Schulberg*





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01-7739889

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A collage of various colored envelopes (red, blue, green, purple, yellow) with a central white envelope. The white envelope has a yellow note attached to it with the handwritten text "THANK YOU!". The envelopes are arranged in a circular pattern, and the edges of the collage are rough and torn.

THANK YOU!