



# *Election Over Now the Heavy Lifting*

*Presented by Bismarck Rewane  
CEO, Financial Derivatives Company Ltd.  
March 14, 2019*

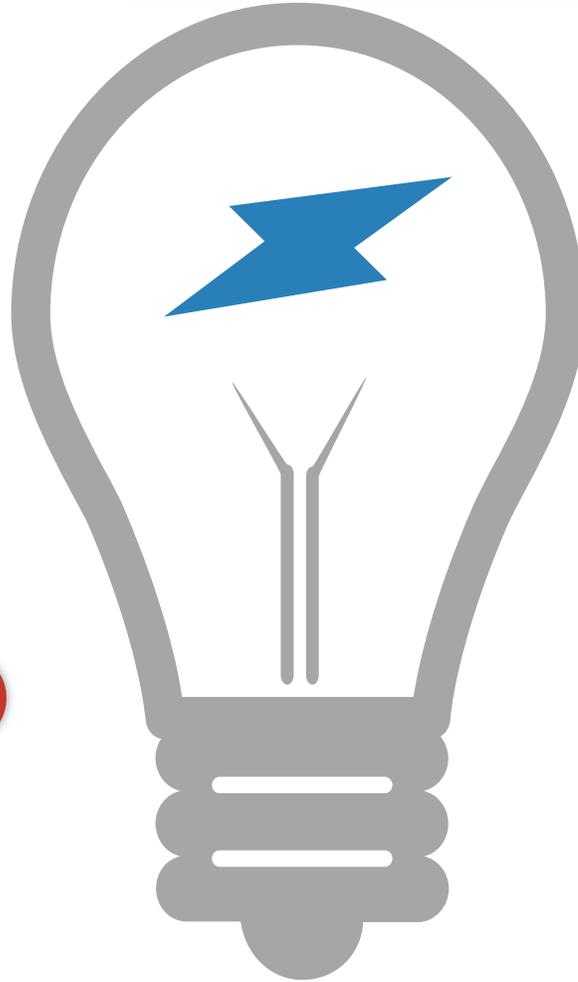
# Outline

## Part A

*Election Results at a Glance*

*Analysis: What It Tells Us*

*Likely Policy Outcomes & Unintended Consequences*



## Part B

*Highlights in February*

*The Economy*

*The Markets*

*March Outlook*



A pair of red, pleated curtains are drawn back, framing a white background. The curtains are tied back with rings, and the central opening reveals the text.

*Part A*



February election was more a class war than regional rivalry

## Class War or Regional Conflict

The rich and elites abstained

The poor voted for the incumbent

The very poor voted for opposition

# *Incumbent Wins Second Term*

## *“Margin Wider, Turnout Lower”*



Buhari wins fair & square

The real work is now

*Next Level*

# *Buhari 1.0 - 1984*



## *Military Commander*

- Economic patriotism
- Unitary government
- War against indiscipline
- Do not live above your means
- Counter trade with Brazil
- Death to drug pushers
- Changed the currency

# *Buhari 2.0 - 2015*



## *Born again democrat*

- Economic protectionism
- Distant management style
- Delayed decisions
- Blocking leakages
- Legislative jam

# *Buhari 3.0 - 2019*



## *The neo economist or back to the future*

- Gradual economic recovery
- Becoming pro market
- New agenda or old wine in old bottle
- The new agenda
- Mixed economy

# Buhari 3.0

## World's view on Nigeria's elections

**FT** FINANCIAL  
TIMES

Nigeria's returning president  
has a chance to make amends

**The  
Economist**

Time to keep those promises

**The Telegraph**

Is Nigeria about to become the  
next Venezuela? The signs are  
not good

**BBC  
NEWS**

Do the promises stack up?

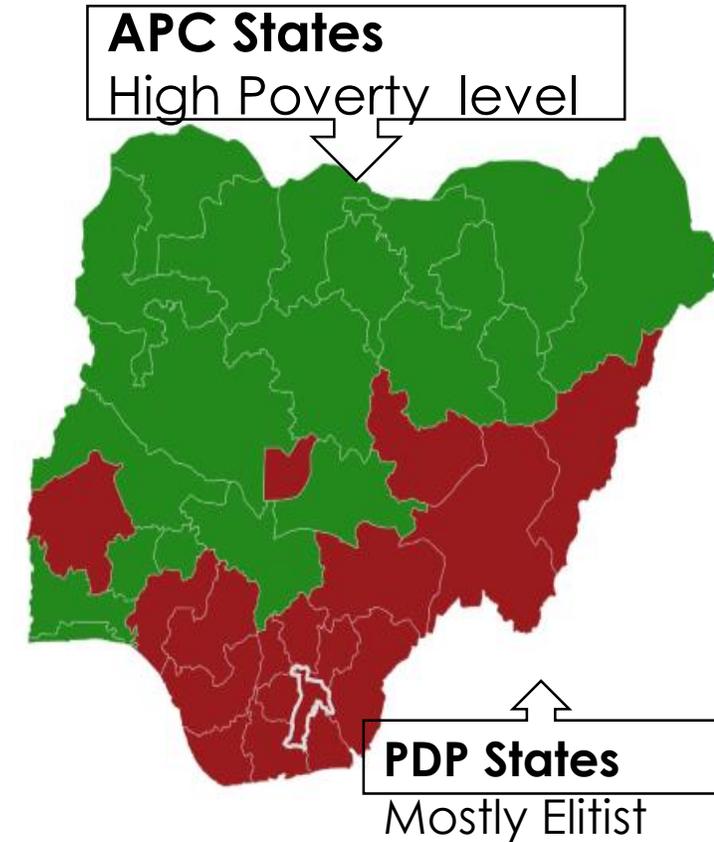
# What the Result Say? (APC Vs PDP)

	PDP	APC	APC Minus Lagos
Turnout as a % of registered voters	38.6	52.1	-
Average income per capita (\$)	1,545	1353	2,585
IGR (N'bn)	493	209.54	350
WAEC scores	1 <sup>st</sup> 5 <sup>th</sup> 7 <sup>th</sup>	3 <sup>rd</sup> 6 <sup>th</sup>	-
Average inflation (%)	11.39	11.92	11.88
Unemployment (highest; %)	36.58	28.96	-
Average FAAC (N'bn)	88.24	55.79	52.39



# How Nigeria Voted - Geopolitical Zones

	APC	Votes	PDP	Votes	Margin
North Central	4	2,465,599	3	2,018,769	446,830
North East	4	3,238,783	2	1,255,357	1,983,426
North West	7	5,995,651	-	2,280,465	2,280,465
South West	4	2,036,450	2	1,773,670	262,780
South East	-	403,968	5	1,693,485	-1,289,517
South South	-	1,051,396	6	2,233,232	-1,181,836
<b>Total states won</b>	<b>19</b>		<b>17 + FCT</b>		<b>1</b>

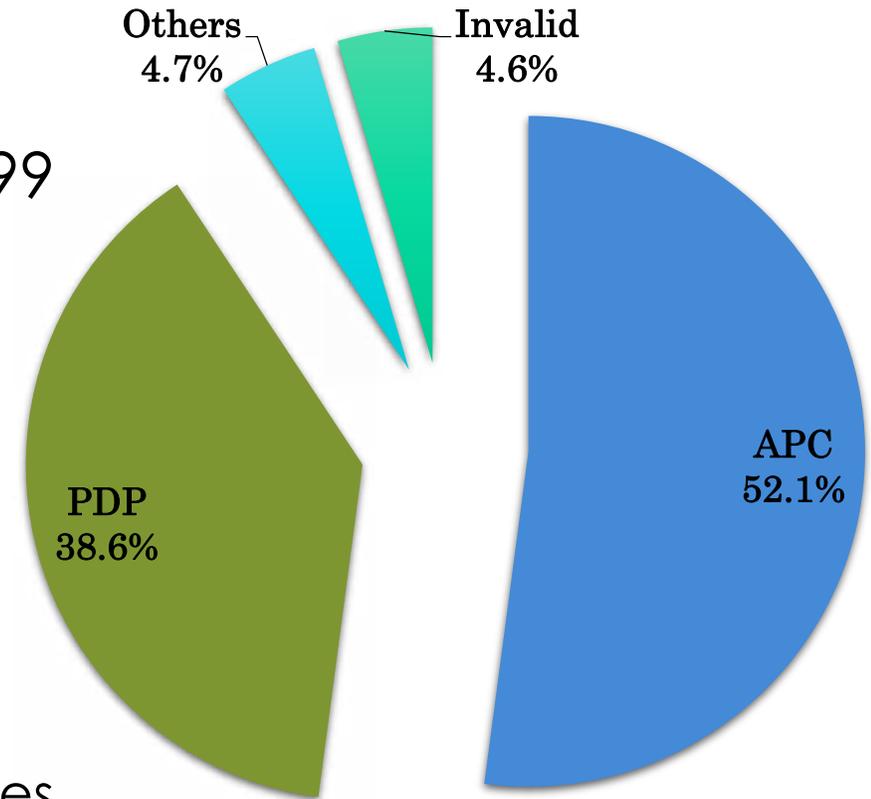


- Highest margins recorded in the North West were in favor of APC: Kano, Kaduna & Katsina
- In Lagos, the PDP and APC were evenly split in the presidential polls

Source: BBC

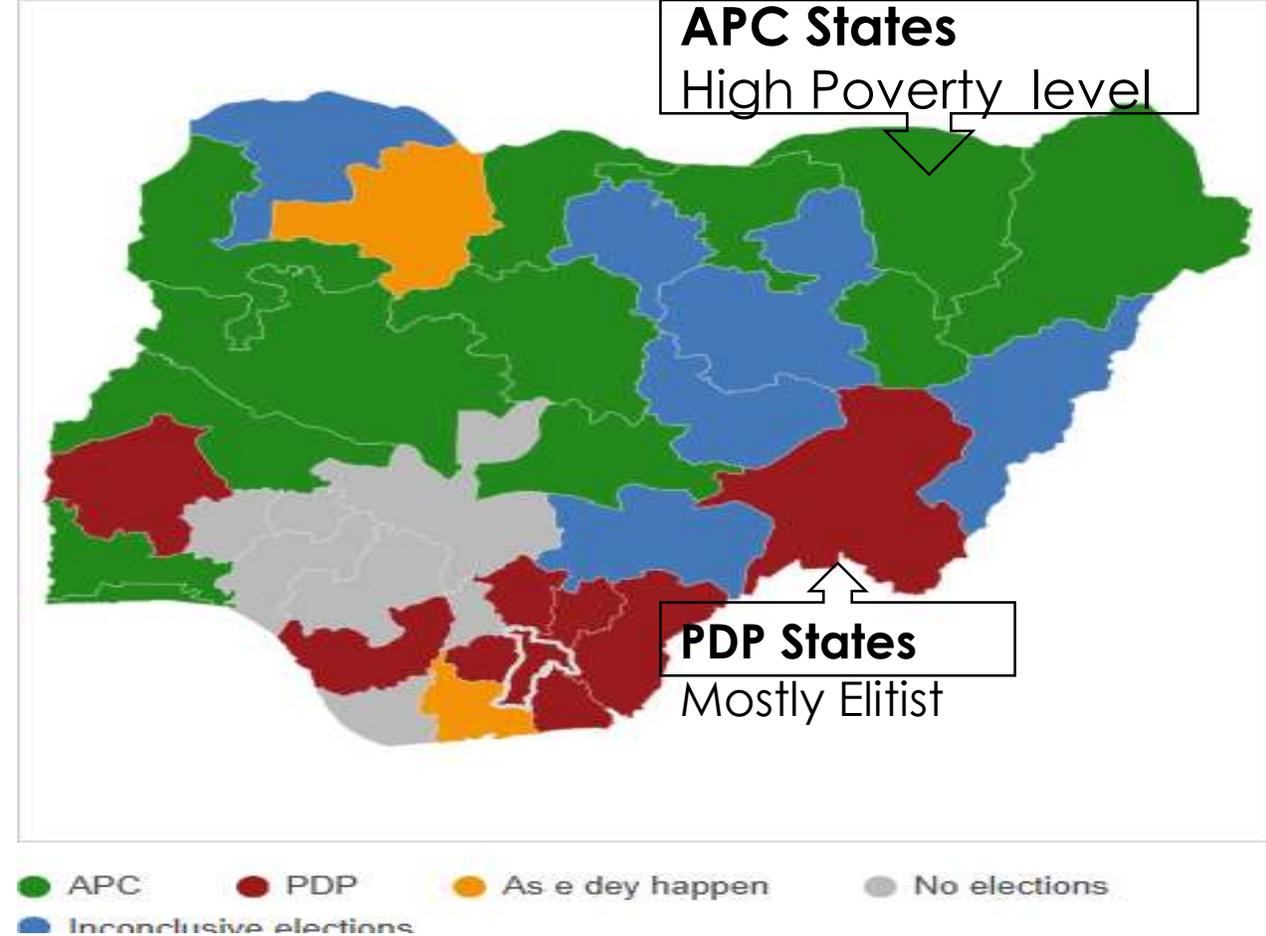
# A 2-Candidate Contest

- The 2019 presidential election was essentially a two-horse race
- Lowest turnout since return to civilian rule in 1999
  - 35.6% of registered voters
  - Compared to 2015: 44%
  - Partly attributed to election postponement
- Of 91 political parties, 73 parties contested the presidential election
  - 2 dominant aspirants accounted for 91% of total votes
  - Remaining 71 parties: 4.7%



# Governorship Elections

- Elections were declared inconclusive in 6 out of 18 states in the North
- APC won in 12 states
  - High poverty level
  - Low income per capita
- PDP – 9 states
  - Mostly elites
- Electoral process suspended in Rivers and Zamfara



# What the Results Say?

• Of the 5 states with the highest inflation rates

- PDP - 1
- APC - 3

States with the highest inflation

States	Inflation	Party
Bayelsa	13.3	No election (PDP)
Zamfara	13.2	On-hold
Kogi	13.2	No election (APC)
Ekiti	13.2	No election (APC)
Jigawa	13.1	APC



• Of the 5 states with the highest unemployment rates

- PDP - 3
- APC - 1

States with the highest unemployment

States	Unemployment	Party
Rivers	41.82	On-hold
Akwa-Ibom	36.58	PDP
Bayelsa	30.36	No election (PDP)
Imo	29.47	PDP
Kaduna	28.96	APC

# What the Results Say?

- Of the 10 states with the highest West African Examinations Council scores

- PDP - 6
- APC - 2



## States with the highest WAEC score

States	Rank	Party
Abia	1 <sup>st</sup>	PDP
Anambra	2 <sup>nd</sup>	No election (APGA)
Edo	3 <sup>rd</sup>	No election (APC)
Rivers	4 <sup>th</sup>	On-hold
Imo	5 <sup>th</sup>	PDP
Lagos	6 <sup>th</sup>	APC
Bayelsa	7 <sup>th</sup>	No election (PDP)
Delta	8 <sup>th</sup>	PDP
Enugu	9 <sup>th</sup>	PDP
Ebonyi	10 <sup>th</sup>	PDP

# *Class War or Regional War?*

- Election results were as expected
- To the South & elites an anticlimax
- To the far North it's déjà-vu
- Turnout low in the southern states where income per capita is much higher
- Atiku and PDP good showing in all oil producing states
- Also in areas of high commercial activity

# What Does This Tell Us?

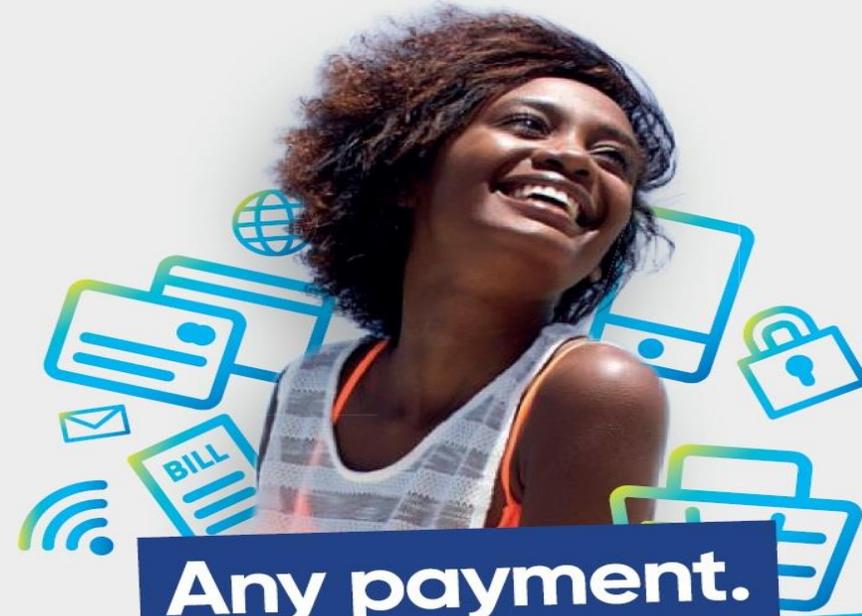
- Buhari swept the areas with high poverty - emotional voting
- Where card readers worked the APC lost ground – where card readers failed APC swept the stakes
- Voter participation was 2.79% (0.82mn) less than in 2015
- The senate race upsets were profound
- Senate president and at least 5 ex governors and serving governors lost in major upsets
- Margins were higher compared to 2015
- The electorate saw little difference between both parties

# *What Does This Tell Us?*

- Voter apathy much worse in the governorship elections
- As expected, they turned out to be more fractitious
- Reports of killings and military involvement marred polls in Rivers
- No surprises as the PDP swept its stronghold of SE & SS
- Close calls and a few surprises in the SW and NW
- A major upset is looming in Kano, after PDP's victory in Oyo
- APC struggling in states where it won with landslide at the national polls

# *Implications of Victory & Sharing of Spoils*

- Buhari needs to reward loyalists
- There is hardly any relationship between effort and outcome
- South West, where there is major investment of political capital, yielded negative returns
- The Nigerian National Assembly could be a pro-Buhari rubber stamp legislature
- Could be a breeding ground for dictatorial tendencies
- The struggle for 2023 has started
- The plump jobs are all in play for lobbyists



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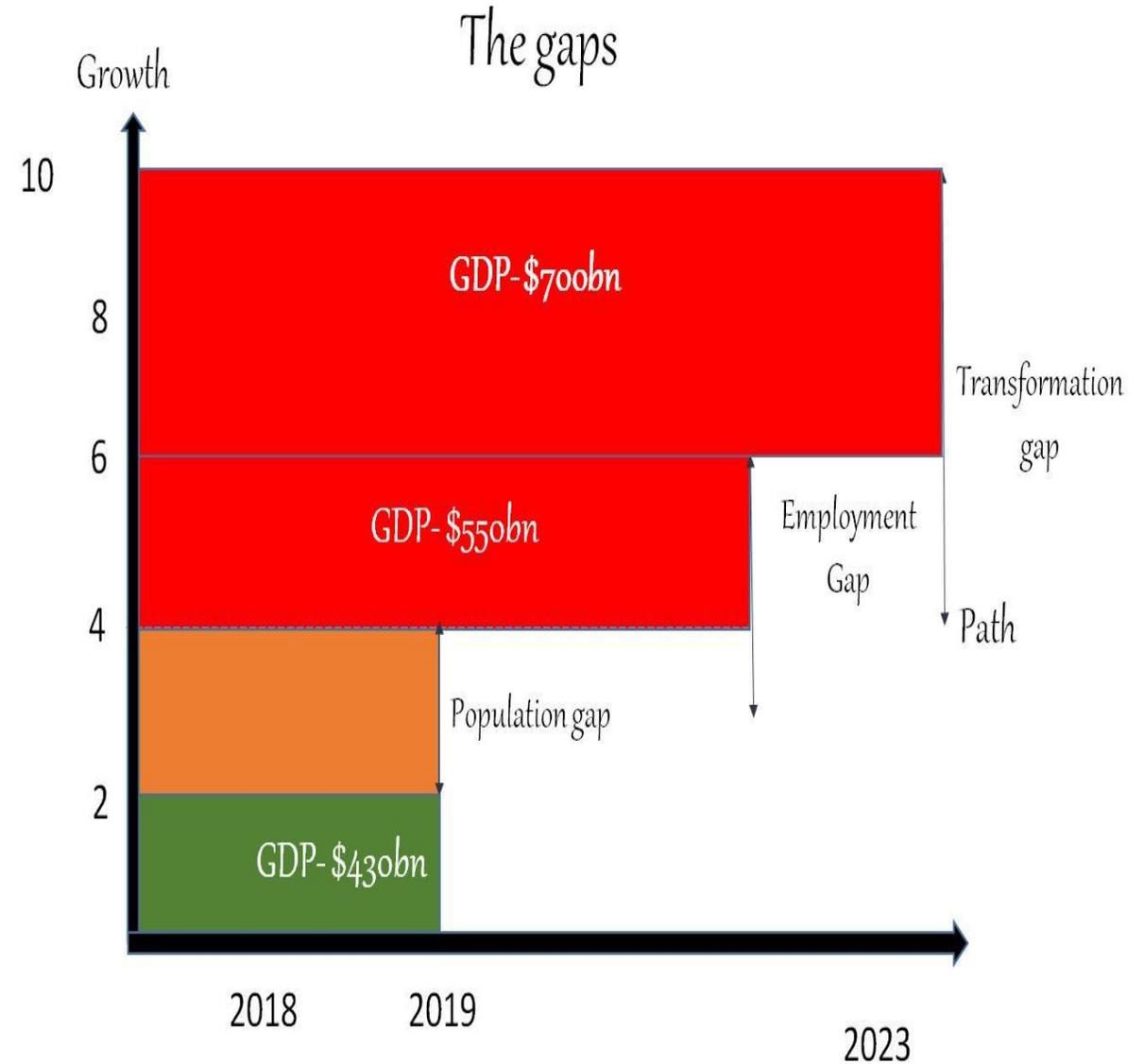
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# *Agenda & Reforms*

# Economic Patriotism Vs Market Reform

- Setting the new agenda - the leopard must change its spots
- The economy must exceed the following targets
  - The recession gap is 1%
  - Means Nigeria could slip back into recession
  - No inflation gap – means the inflation threat is not as potent as the recessionary gap



# Problems That Must Be Fixed Now



## **Petroleum Subsidy**

- Subsidy provision of (N305bn) – 3.45% of 2019 budget
- In 2017/2018 estimated at N1trn
- New and existing refineries



## **Exchange Rate Subsidy**

- Focus on forex market structure
- Not exchange rate management



## **Electricity Subsidies** – New investments required

- Target 20,000MW by 2021
- Cost reflective tariffs up



## **Tax to GDP ratio must improve**

- |                         |              |                     |
|-------------------------|--------------|---------------------|
| • Low tax-to-GDP of 4%  | • Ghana: 16% | • Morocco: 25%      |
| • Compared to SSA peers | • Kenya: 17% | • South Africa: 26% |

# Nigeria's Forex Market: Managing a Market rather than a Rate

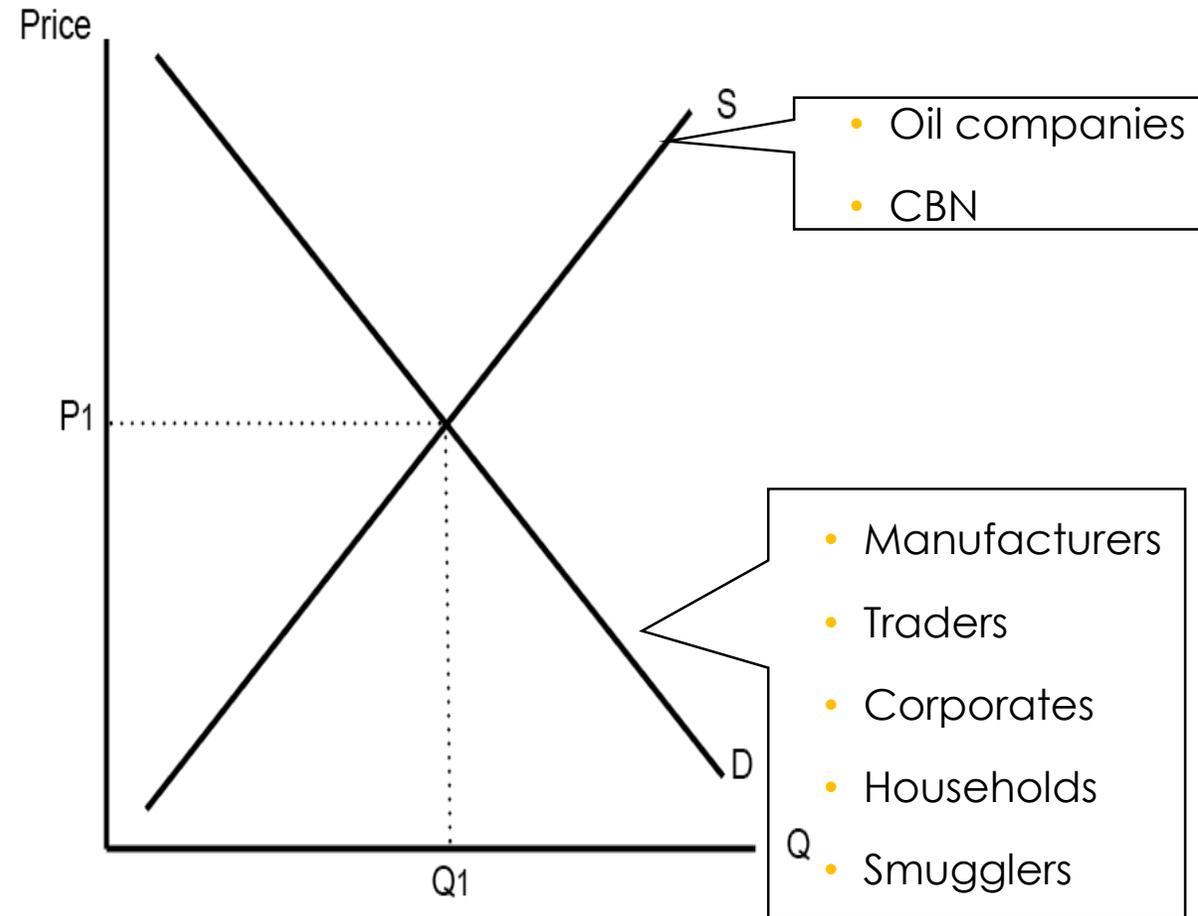
## Managing an exchange rate

- Reactive strategy
- Focuses on the rate
- Short term



## Managing a market

- Changing market structure
- To produce an efficient rate
- Ultimate objective is unified exchange rate



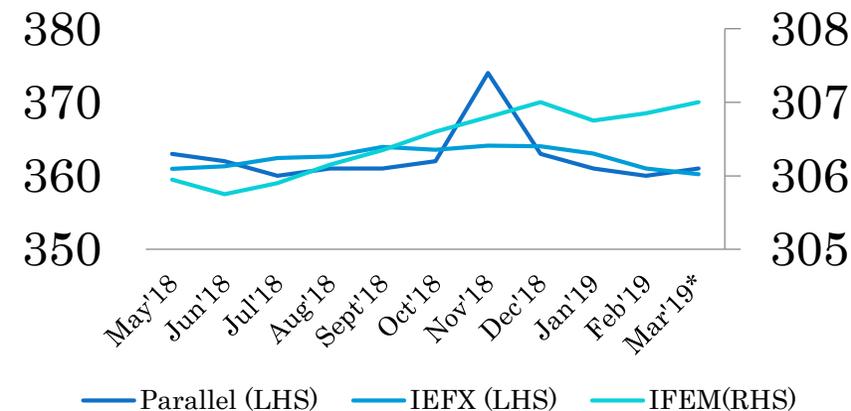
# Exchange Rate Outlook - Cosmetic Rate or Fundamental Rate

## • Scenario 1 – Market Forces

- True value of exchange rate will manifest after structural change
- Exchange rate could slide marginally to N365/\$

Source: FMDQ, FDC Think Tank

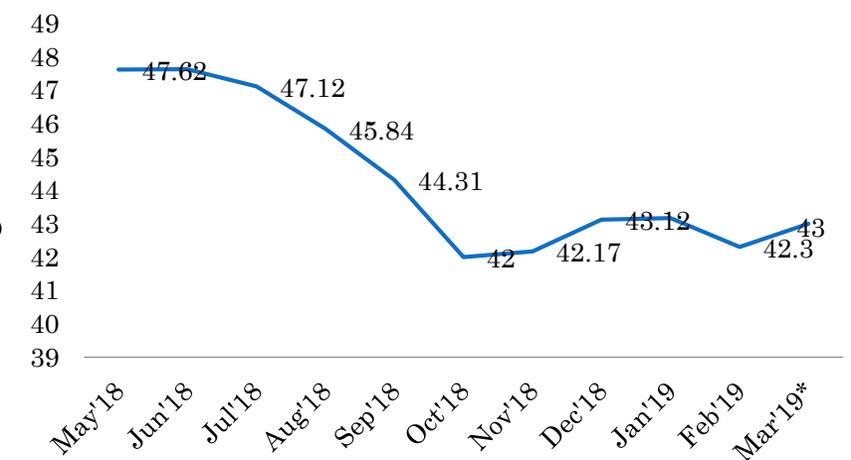
### Exchange Rate (N/\$;end)



## • Scenario 2 – CBN defends the Naira

- CBN continues its forex intervention strategy
  - Prioritizing exchange rate stability over external reserves buffer
- Exchange rate would be stable at N360-N361/\$
- Reserves will deplete

### External Reserves (\$'bn)



# Agenda - What Next?



**Growth**



**Minimum  
Wage**



**Fiscal Deficit**



**Inflation**



**Taxes**

**FOREX**

**Fix Forex Market**

# GDP Growth Must Leap Frog

$$Y = C + I + G + \underbrace{X - M}$$

## Scenario 1: Growth sub-optimal

GDP growth: 2-3%	\$427.5bn	\$341.3bn	\$62.5bn	\$19.9bn	\$8.7bn
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## Scenario 2: Full employment



GDP growth: 6%	\$550bn	\$423.9bn	\$88.7bn	\$24.7bn	\$12.7bn
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## Scenario 3: Transformation & improved quality of life

GDP growth: 8-10%	\$700bn	\$534.2bn	\$116.1bn	\$32.2bn	\$17.5bn
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- Investment is a catalyst for growth
- Has a multiplier effect on aggregate income

# Reforms - Growth Strategy To Lift GDP From \$427.5bn To \$550bn<sup>26</sup>

- **Consumer-led strategy**

- Pro-poor growth
- Increase spending - anchor borrowers, N-power, etc

- **Impact**

- Heighten inflationary pressures

- **Government-led strategy**

- Higher government spending

- **Impact**

- Muted due to inefficiencies & leakages

- **Investment -led strategy**

- Increased infrastructure spend

- **Impact**

- Increase in capital inflows
- Spill over effect – sustainable GDP growth

- **Export -led strategy**

- Export promotion strategy

- **Impact**

- Revenue diversification



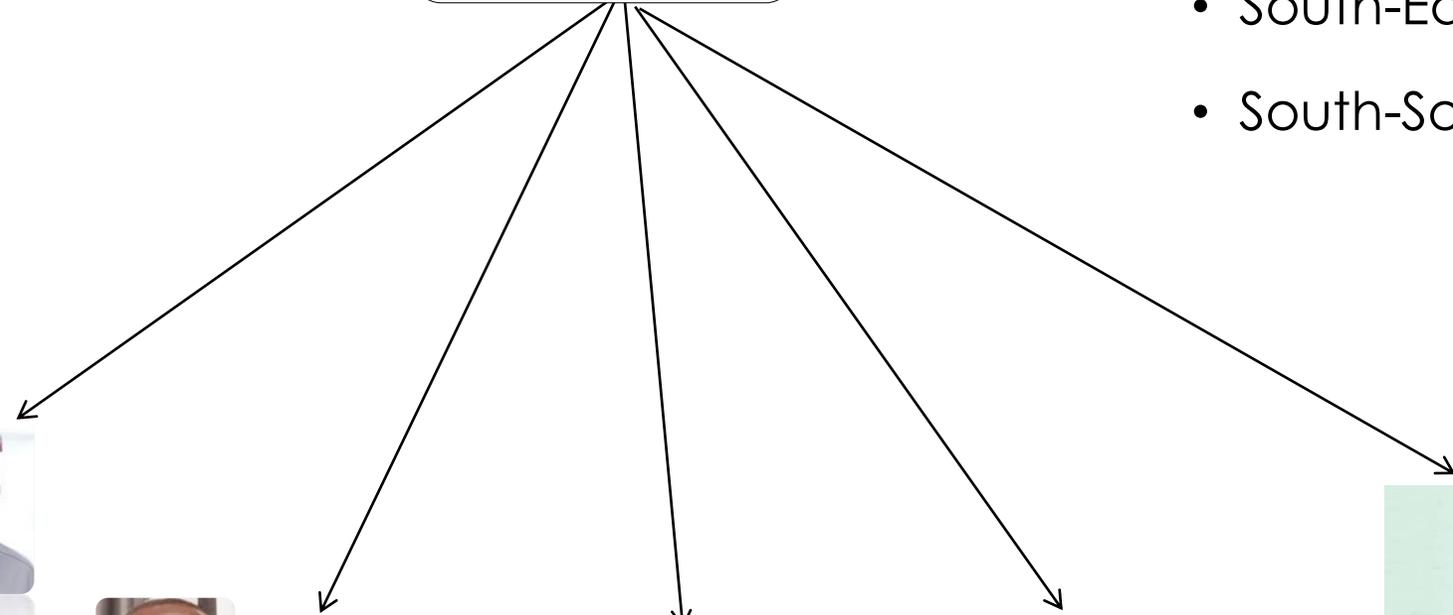
*The 2023 race has begun*

# Power Struggle - 2023

- Power MAY shift to the south in 2023

- Tussle between
  - South-West
  - South-East
  - South-South

North



# Players to Watch: The Government



**Muhammadu Buhari**  
Former Head of State  
Current President of  
the Federal Republic of  
Nigeria



**Prof. Yemi Osinbajo**  
Vice President-Elect  
and respected  
technocrat. Proven to  
be technically  
competent in the  
absence of the  
President during the  
last administration



**Abba Kyari**  
Chief of Staff to  
the President-  
Elect



**Mustapha Boss**

# Players to Watch: The Party



**Bola Ahmed  
Tinubu**

Former Governor  
and influential  
Chieftain under  
the ruling party



**Adams Oshiomhole**  
Former Governor of  
Edo State and  
national chairman  
of the ruling party  
(APC)



**Ahmed Lawan**  
Contender for next  
Senate President



**El Rufai**  
Former FCT Minister  
Kaduna state governor

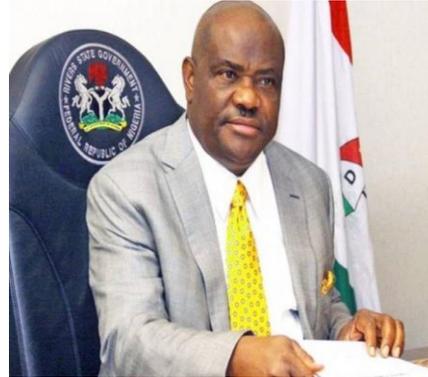
# Players to Watch: The Opposition



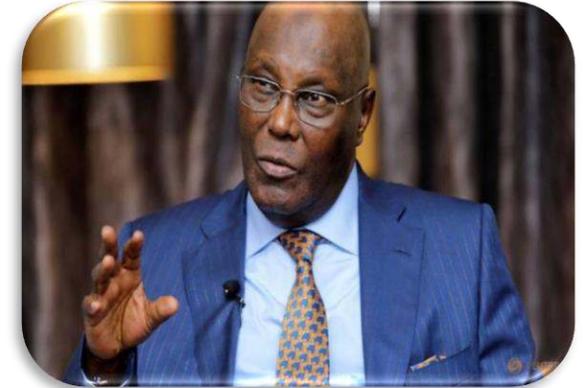
**Bukola Saraki**  
Outgoing Senate  
President and  
former Governor of  
Kwara state. Lost  
his senatorial seat  
to the ruling party  
(APC)



**Uche Secondus**  
Current Chairman  
of the PDP  
National Working  
Committee



**Ezenwo Nyesom Wike**  
Rivers State Governor



**Atiku Abubakar**  
Presidential  
candidate in 2019  
election

# Players to Watch: The Generals



**Ibrahim Babangida**



**Olusegun Obasanjo**



**Theophilus Danjuma**



**Abdulsalami Abubakar**

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APPLICATIONS





# Policy Update

# MPC will Meet March 25/26

- Monetary and fiscal coordination
- Defining the objectives of price stability
- Is inflation a result of exchange rate pass through
- Or is it a constrained output effect
- Will the CBN's OMO instruments increase the debt service burden of FGN?
- Will there now be further convergence of rates in the forex market?



## *What will the MPC Do?- Most Likely to Maintain Status Quo*

- Waiting for the political green light to make any major move
- Keep an eye on what happened in Ghana
- Rate cut 8 times bringing inflation down but currency now in turmoil
- Both Benin Republic and Ghana testing the waters for more Eurobond issues



# *Fiscal: Protectionist Stance & Its Implications*

## **Monetary policy priority**

- 43 items now on CBN's forex prohibition list
- Defending the naira

## **Fiscal policy**

- Objective to improve revenue-to-GDP ratio
- Debt service management, improving tax administration and increasing the tax net

## **Intended consequence**

- Infant industry protection
- Backward integration

## **Unintended consequence**

- Breeds crony capitalism
- Encourages consumer exploitation



# Other Policies

- Trade Policy

- AFCFTA to be signed
- Increased focus on import substitution
- Inclusion of textiles on forex prohibition list to spur domestic production



- Investment Policy

- The Petroleum Industry Bill will be stuck at the NASS
- Gradual reduction of petroleum subsidy
- Efforts at boosting competitiveness and the ease of doing business will intensify

A pair of red, pleated curtains with a scalloped top edge, tied back with rings, framing a white background. The curtains are positioned on the left and right sides of the image, creating a central white space.

*Part B*



Highlights

# February Highlights -

## **GDP growth and inflationary pressures**

- Q4'18 GDP expands at 2.38%, FY'18 at 1.93%
- January's headline inflation slides to 11.37%
- Seasonal decline in aggregate demand following the festive period
- Food inflation slowed to 13.51% while core up to 9.9%
- The rise in core inflation suggests that inflationary pressures are mounting

## **External imbalances**

- Capital importation into Nigeria down 25% to \$2.14bn in Q4
- Total trade falls by 5.1% in Q4
  - Imports  14.99%, exports  3.52%
- External reserves declined by 1.14% to \$42.61bn

# February Highlights -

- Trade balance jumps (112.37%) to \$3.95bn in Q4'18
  - FY'18 trade balance \$16.25bn
- Average oil price above \$65pb

Naira stable at the forex market - probably for political reasons

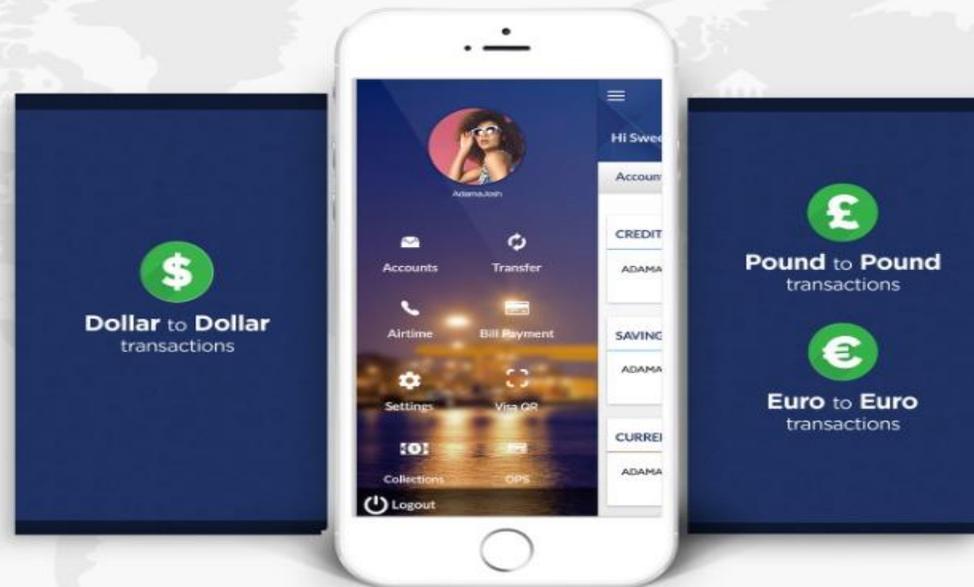
- Naira stable at N360/\$ at the parallel market
- Reduced forex interventions by 18.2% to \$967.53mn in February
- Political forex inflows stabilized rates

Post election stock market – sentiment vs risks

- No post election bounce like 2015
- Lost 2.7% (N326bn) in the week after the elections, YTD performance still green

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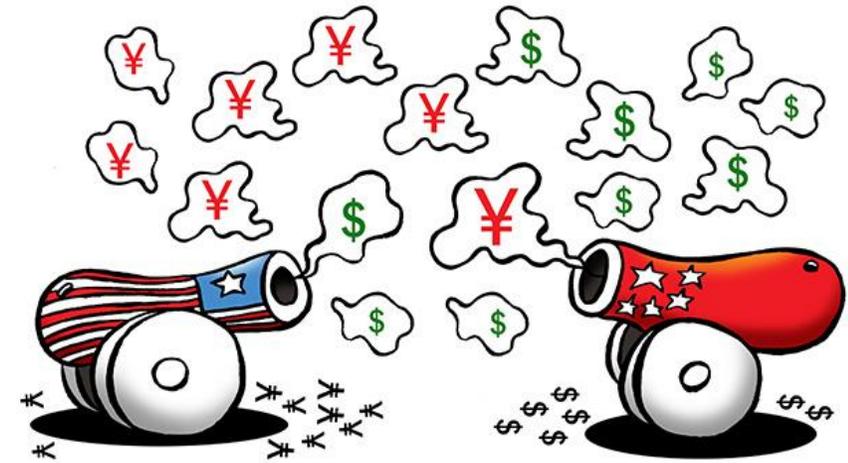
# Global Developments

# Protectionist Trade Policy - Cobra Effect

- The trade war is taking its toll
- US trade deficit deteriorated despite Trump's trade protectionist policy
- Climbed 12.5% to \$621bn in 2018
  - Highest level in a decade
- Trade deficit in goods touched a record high of \$891.3bn
- Partly driven by:
  - Global economic slowdown
  - Strengthened dollar – Fed hiked interest rates four times in 2018
  - Tax cut worth \$1.5trn in 2017 – increasing government borrowing
- Early signs of a recession in the making or a currency war

# Protectionist Trade Policy - Cobra Effect

- Trade deficit with China spiked by 11.6% to \$419.2bn
  - Chinese exports recorded steepest fall in three years
  - 21% below 2017's value
- An unintended consequence of Trump's protectionist policies
- Defying his efforts to narrow the trade gap
- US also slashed crude oil imports from Nigeria by 43%



# *UK Economy Stall Despite Strong January*

- UK's GDP expanded by 0.5% in January
  - Reversing the slowdown in December (-0.4%)
  - Fastest monthly growth in over 2 years
  - Supported by the services, manufacturing and construction sectors
- Quarterly, the economy grew by 0.2% (November – January)
- The same pace in the preceding quarter
- Growth in 2019 could be undermined by BREXIT which is expected to kick-off on March 29

# Job Growth in the US Slows in February

- The US added a paltry 20,000 jobs in February
  - Falling below analysts' expectations of 180k
  - Lowest since September 2017
- Partly driven by a 35-day partial government shutdown
- Meanwhile, wages grew by 3.4%
  - The strongest in a decade
- Unemployment rate fell to 3.8% from 4% in January



# Global Development: Monetary Policy

- US Fed to adopt a wait and see approach
- Put a hold on its rate hikes
  - Increased interest rate four times in 2018
- On the back of rising uncertainty about the US economic outlook
- Fed has also shifted to a more dovish stance on its shedding of assets



# *Bank of England Cut Its Growth Target for 2019*

- ECB surprise announcement of new plans to stimulate Eurozone
  - Cheap long term loans for banks
- BoE revised downwards its 2019 growth forecast to 1.2% from 1.7%
  - On the back of slowing global economy
  - Brexit uncertainty
- Citing a 25% chance of a recession this year
- BoE MPC voted unanimously to keep its bank rate unchanged at 0.75%pa at its February meeting

# *Implications for Nigeria*

- The US economy is beginning to show signs of weakness
- Wider trade deficit symptomatic of an overvalued dollar
- Pushing up the prices of commodities such as oil
- Value of Nigeria's exports to decline as dollar weakens



*Sub-Saharan  
Africa*

## *South Africa - Growth Slows to 1.4% in Q4'18*

- From 2.6% in Q3'18 – dragged down by a 3.8% contraction in the mining sector
  - 2018 FY GDP growth was 0.8% - lower than 2017's revised growth of 1.4%
- The 2019 budget projects growth of 1.5% - driven by strong agriculture sector growth
  - SARB forecasts of 1.7%
- High inflation, fuelled by electricity supply shortages, constitutes a major downside risk
- 2-month decline in PMI so far in 2019 is negative for GDP growth in Q1'19

# *Kenya - Current Account Deficit Moderated to \$4.41bn in 2018*

- Down 12.15% from a deficit of \$5.02bn in 2017
- Attributed to a decline in merchandise trade deficit and a rise in invisibles surplus
- Merchandise trade deficit shrank by 0.3% to \$10.17bn
  - On increased horticulture earnings and lower food imports due to increased rainfall in Kenya
- Aggregate Invisibles surplus was up 11.2% to \$5.77bn
  - Driven by a surge in earnings from tourism and remittances
- Further decline in the deficit would be positive for external reserves accretion

# *Ghana - Cedi Slumps to a Record Low Against the US Dollar*

- Ghanaian cedi has plunged 8.2% against the US dollar so far in 2019
- The largest fall recorded among over 140 currencies
- Triggered by a slash in key policy rate by 100bps to 16% in January



- Raises concerns over the demand for dollar-denominated bonds in Ghana
- The free fall of cedi against the US dollar will be short-lived, says the Bank of Ghana
- On expectations of foreign currency inflows totaling \$850mn before March end
- Ghana to record a three-year trade surplus in 2019
  - On increased production in oil & gas sector
- This will be positive for external reserves accretion and currency stability



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# Domestic Economic Performance



# Economic Indicators - Output

Leading Economic Indicator	January	February	% Change	Comments	March 11	April's Forecast*
<b>GDP Growth Rate (%)</b>	2.38 (Q4'18)	1.8-2 (Q1'19)*	0.38	<ul style="list-style-type: none"> <li>Remains below population growth of 2.6%</li> <li>Negative for investment sentiment</li> </ul>	1.8-2.2 (Q2'19)	1.8-2.2 (Q3'19)
<b>Oil Production (mbpd)</b>	1.74 (Dec)	1.79 (Jan)	2.87	<ul style="list-style-type: none"> <li>OPEC quota of 1.68mbpd would slow production in the coming months</li> </ul>	1.68*	1.68-1.70
<b>Power (MW; avg)</b>	3,952	4,148	5.19	<ul style="list-style-type: none"> <li>Will reduce operating cost of companies</li> </ul>	4,047	4,300-4,500
<b>PMI</b>	CBN: 58.5 FBN: 51.5	CBN: 57.1 FBN: 50.4	2.39 2.14	<ul style="list-style-type: none"> <li>Likely to improve in March driven by inventory build up by manufacturers ahead of Easter celebrations</li> </ul>	56-58* 55-58*	58-60 55-58
<b>Inflation (%)</b>	11.37	11.31	0.06	<ul style="list-style-type: none"> <li>Third decline in the last 6 months</li> </ul>	11.4*	11.55-12*
<b>Oil Price (\$pb; avg)</b>	60.25	64.43	6.94	<ul style="list-style-type: none"> <li>Saudi Arabia's pledge to reduce output to 9.8mbp to boost prices</li> <li>Surge in US shale inventory could curtail gains</li> </ul>	65.82	60-63
<b>Natural Gas (\$/MMBtu; end)</b>	3.12	2.68	14.10	<ul style="list-style-type: none"> <li>Gas accounts for 12.6% of total export revenue</li> <li>Would reduce Nigeria's export revenue</li> </ul>	2.86	2.9-3.0

\*: FDC's Forecast

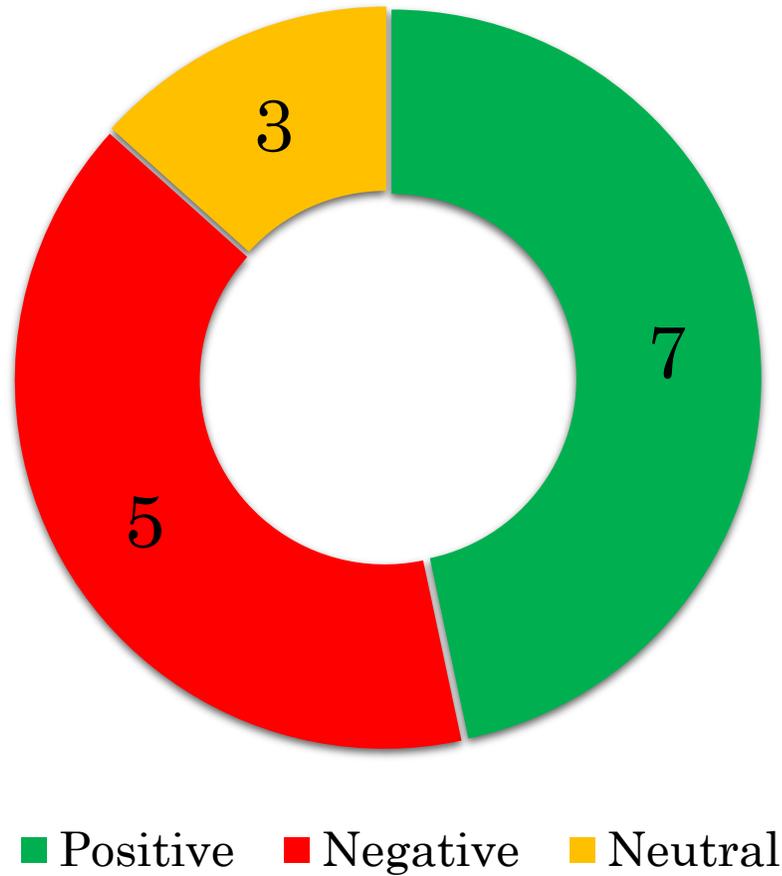
# Economic Indicators - Market

\*: FDC's Forecast

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Leading Economic Indicator	January	February	% Change	Comments	March 11	April's Forecast*
M2 growth (%) (end-period)	0.67 (2017)	12.17 (2018)	11.50	0.31% lower than CBN's target of 12.48%	>15 (2019)*	>15 (2019)*
Average Opening Position (N'bn)	77.73	43.38	-44.19	As CBN continues to mop up excess liquidity in the market	229.22	200-250
T Bills (91 days) (%) – Primary	11.10	10.90	-0.20	Will reduce government debt service burden	10.90	10.5-10.9
T Bills (182 days) (%) – Primary	13.50	13.01	-0.49		11.85	12-12.25
Average NIBOR (%) (OBB, O/N)	18.73	18.73	-	-	11.48	22-24
Average Lending Rate (%) (pa)	22.00	22.00	-	Positive for activities within the real sector	22	22-23
External Reserves (\$bn) (end)	43.17	42.3	-2.02	Despite a reduction in CBN's forex intervention	42.66	43-44
Exchange Rate (N/\$; month-end)	Parallel: 361 IFEM:306.75 IEFX:363.03	Parallel : 360 IFEM: 306.85 IEFX: 360.99	0.27 -0.03 0.57	Reduced demand pressure due to lower naira liquidity Market forces to determine rate •Relatively peaceful elections	Parallel : 360 IFEM: 306.90 IEFX: 360.19	Parallel: 361 IFEM: 306.95 IEFX: 360.25
Stock Market Cap (N'trn)	11.39	11.83	3.86	As investors anticipate the release of FY'18 corporate earnings	11.98	12-12.2

# Mixed Bag of Economic Indicators



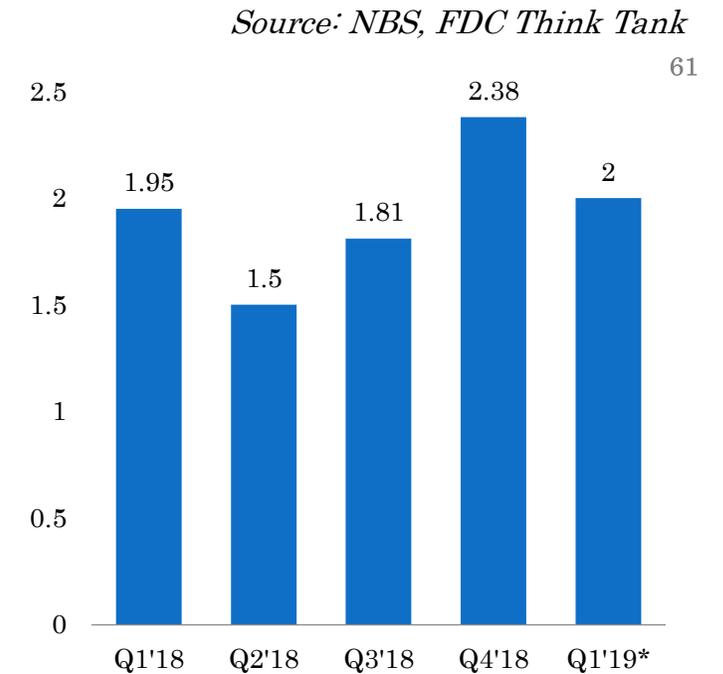
## Impact

- Crude oil production expected to fall to 1.68mbpd
  - Compliance to OPEC's quota
  - Negative for fiscal buffers
- Increased on-grid power output(raining season)
  - Reduction in operating cost of firms

# GDP Outlook - 1.8%-2% (Q1'19)

- Typically, GDP slows in the first quarter

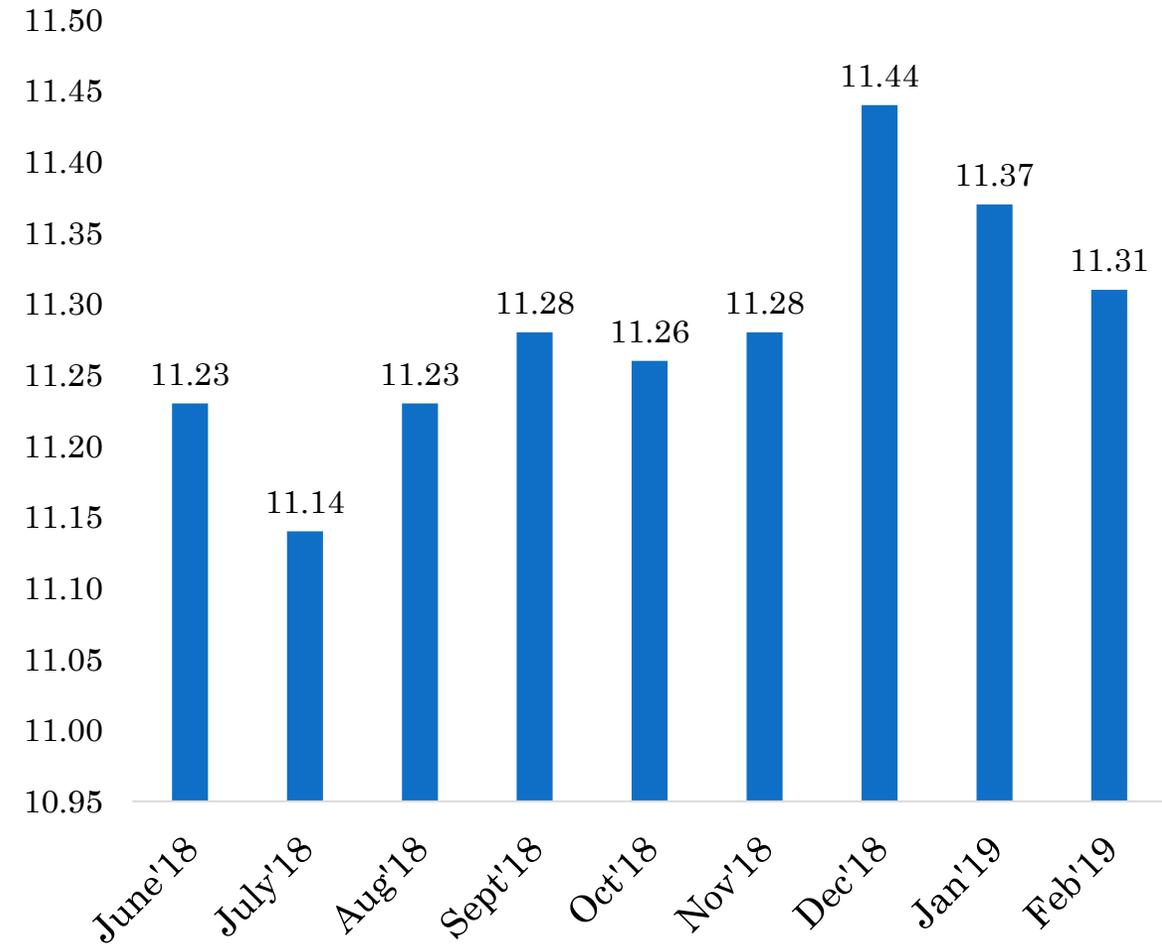
Quarter	Growth rate(%)	Direction
Q1'15	3.96	↓
Q1'16	-0.67	↓
Q1'17	-0.91	↑
Q1'18	1.95	↓



- Q1'19 = economic slowdown + political activities
- Slowing sectors within the quarter:
  - Manufacturing: slow growth of PMI in two consecutive months
    - To reverse trend in March on inventory build up towards Easter celebration
    - Not enough to offset slowdown in sector's performance
  - Oil & Gas: reduced oil production- OPEC quota, Nembe fire

# Inflation Slides Third Time in 6 Months

- Headline: 11.31% ↓
- Month-on-Month: 0.73% (9.12% annualized) ↓
- Could maintain an upward trajectory in the next few months due to seasonalities (planting season) and higher liquidity (minimum wage increase)



## Current State

### February

- FGN bonds (10-year): 14.80% pa ↓
- T/Bills (91-day): 10.90% pa ↓
- Lending rates (avg): 22% pa ↔
- Deposit rates: 2%-4% pa ↓

## Outlook

### March/April

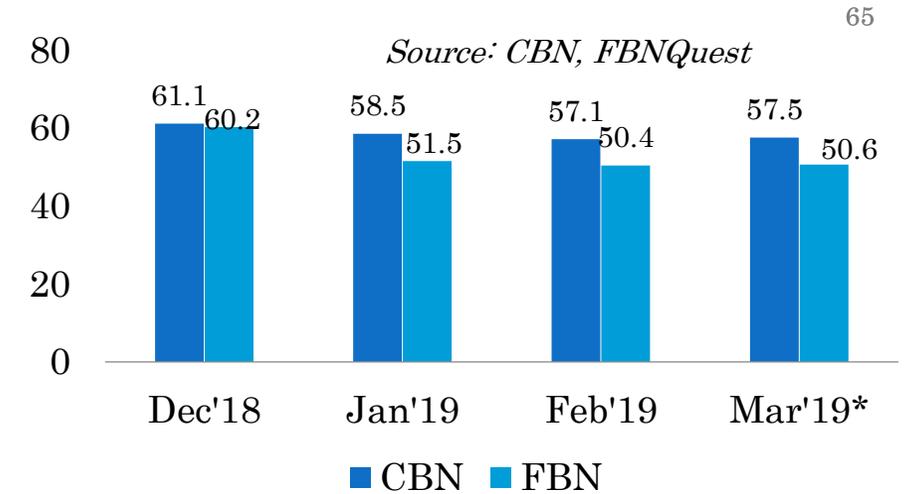
- Investors regain confidence on the back of a peaceful outcome
- Resulting in a decline in interest rates
- MPC meeting in March will determine interest rate movement



# Market Proxies

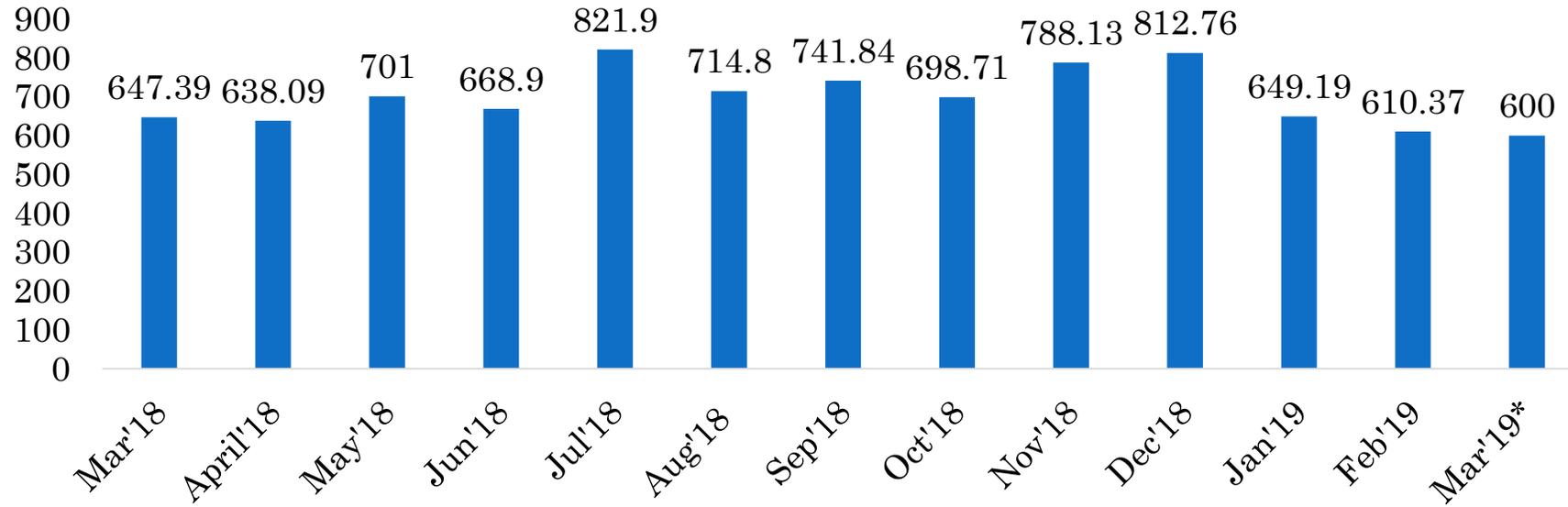
# PMI Down, Manufacturing Sector's Growth to Slow

	Jan'19	Feb'19	Mar'19 Forecast
CBN	58.5	57.1 ↓	57.5
FBNQuest	51.5	50.4 ↓	50.6



- Slowdown in February PMI bucks a 3-yr trend of an increase
  - Impact of election and political activities
- Impact on manufacturing sector's Q1'19 growth is negative
  - Projected to fall to 1.9% from 2.35% (Q4'18)
- Recovery expected in March
  - Increased inventory build-up ahead of Easter celebrations

# FAAC Down for Second Consecutive month



- February disbursement 5.98% lower at N610.37bn
  - Despite increased crude oil revenue (↑\$149.94mn)
- Expected to fall further in March to N600bn as Nigeria complies with its OPEC production quota

# *Ships Awaiting Berth*



- Up 22.22% in five months
  - From 27 to 33 (Lagos Port)
- Despite stable forex availability
- Expected to increase in March and April
  - Inventory build-up towards Easter celebrations

# Mixed Movement in E-Payments



## • **Volume of transactions** in Feb'19 relative to Jan'19

- Cheques  10.07%
- PoS  8.47%
- NIP  0.41%
- NEFT  14.95%

## • **Value of transactions** in Feb'19 relative to Jan'19

- Cheques  7.65%
- PoS  13.23%
- NIP  7.95%
- NEFT  4.70%

## **Outlook for March/April**

- Increased volumes and value driven by boost in consumer purchasing power
- Minimum wage implementation would serve as a stimulus

# Average Power Output Up 5.19%



**5375MW**

Peak Energy  
Generated



**4157MWH/H**

Average Energy  
Generated



**772MMSCF/D**

Average Gas  
Delivered to Plants



**0**

Total Grid  
Collapses

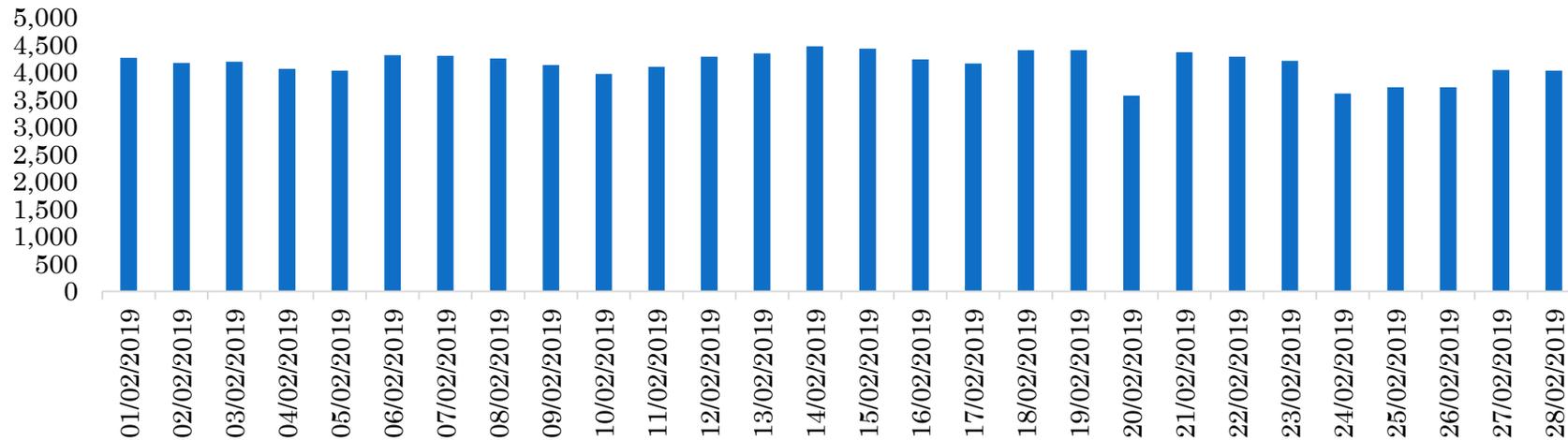


**3302MW**

Average  
constrained  
energy



Power Output MWh/h



Source: Lavayo Advisors

# Power Sector News

- Total meters supplied by Discos in 2018 - 79,850 meters
  - Compared to demand of 4.6 million households
- Meter manufacturers appeal to CBN for single digit credit line
- Power sector revenue shortfall hits N80bn in two months
- Only 1.6 million consumers using prepaid meters in Nigeria – NBS



*Source: Lavayo Advisors*



# Leo

## on WhatsApp

Chat on +234-903-000-2455

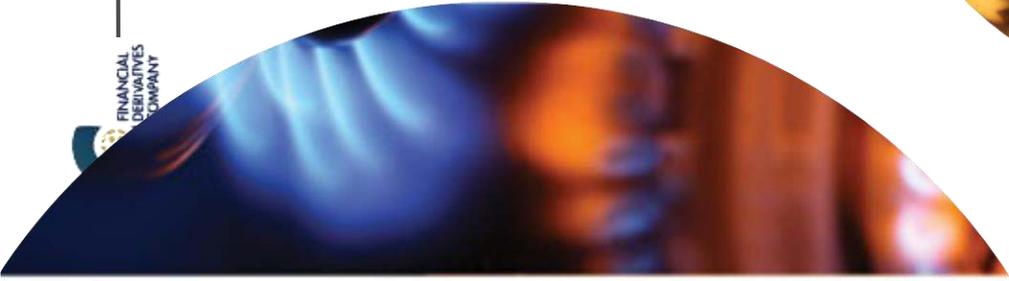
*Check Account Balance?*

*Top up your airtime?*

*Bank Transfers?*

*Bills Payment?*

<https://m.me/ubachatbanking> ✉ [Leo@ubagroup.com](mailto:Leo@ubagroup.com) 📞 CFC (+234-1-2807400)



# Commodities

# Commodities Outlook and Nigeria



Export Commodities	March	April*	Import Commodities	% Change (March/April)
Oil (\$/b) 	66.94	62 	Wheat (\$/bushel) 	-7.4
Liquefied Natural Gas (\$/mmbtu) 	2.78	2.60 	Sugar (\$/pounds) 	-6.5
Cocoa (\$/mt) 	2,217	2,100 	Rice (\$/cwt) 	-5.3

- Expected impact on oil revenue in Q1 is likely to be \$6-\$8bn
- Negative for FAAC allocation, state government investment



*Investors are Discerning*

# Nigerian Stock Market in February

- Market cap  3.86% to N11.83trn
- NSE ASI  3.81% to 31,721.76
- 13 days positive, 7 days negative
- P/E ratio  12.2% to 7.76x
- Positive market breadth of 3x
  - 72 stocks gained
  - 72 stocks remained neutral
  - 24 stocks lost



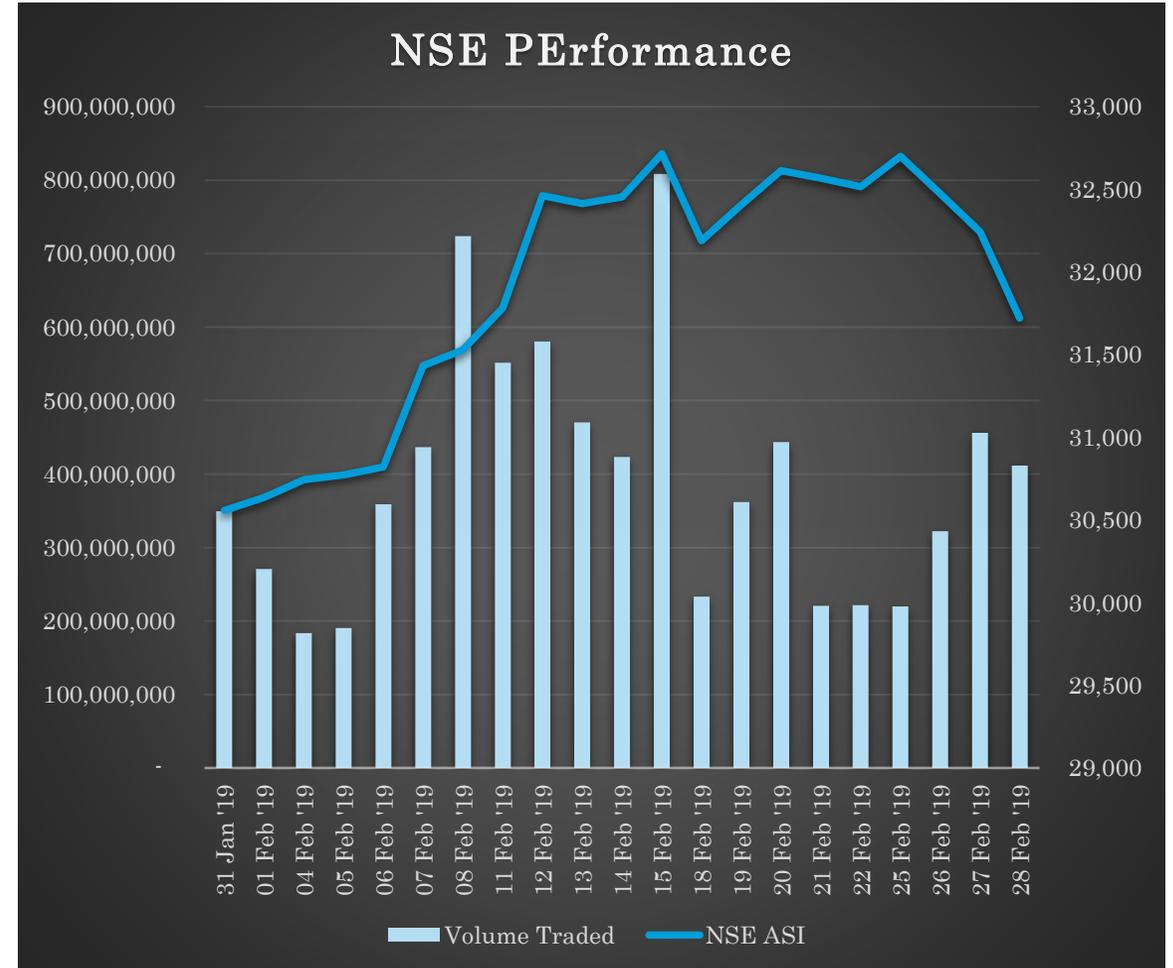
## Peer Comparison

Exchange	YTD Return	Driver
NSE ASI	 2.2%	<ul style="list-style-type: none"> <li>• Pre-election rally</li> <li>• Improving investors' confidence</li> <li>• Corporate earning</li> </ul>
JSE ASI	 6.33%	<ul style="list-style-type: none"> <li>• New listing - MultiChoice Group</li> <li>• Corporate earning</li> <li>• Rising gold and palladium prices</li> </ul>
GSE ASI	 3.59%	<ul style="list-style-type: none"> <li>• Increase in FPI outflows</li> </ul>

# Nigerian Stock Market in February



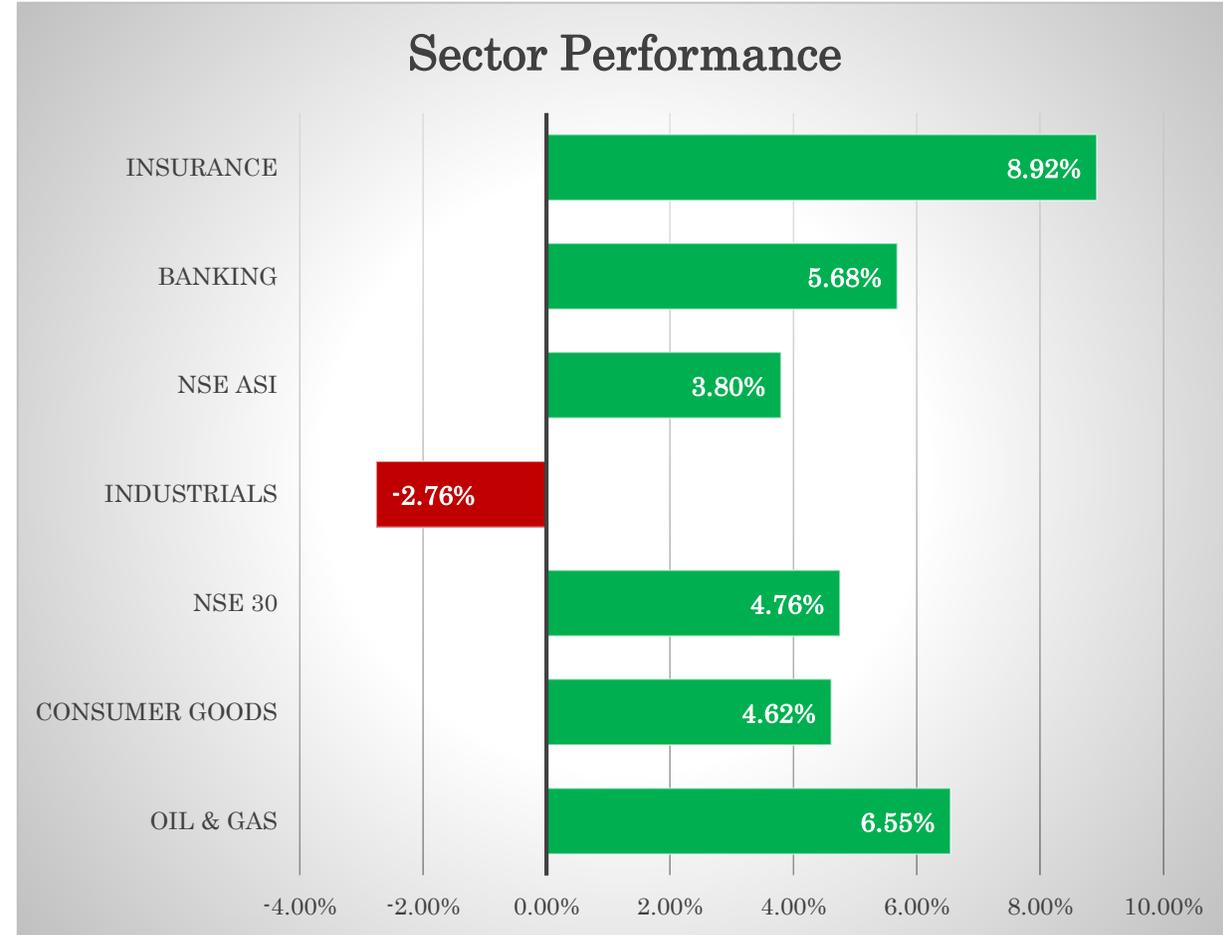
- Average volume traded  39% to N394.5mn units
- Average value of transaction  72% to N4.65bn
- Pre-election rally
  - NSE ASI gained 6.4%
- NSE ASI lost 2.4% post-election
  - YTD gain of 2.2%



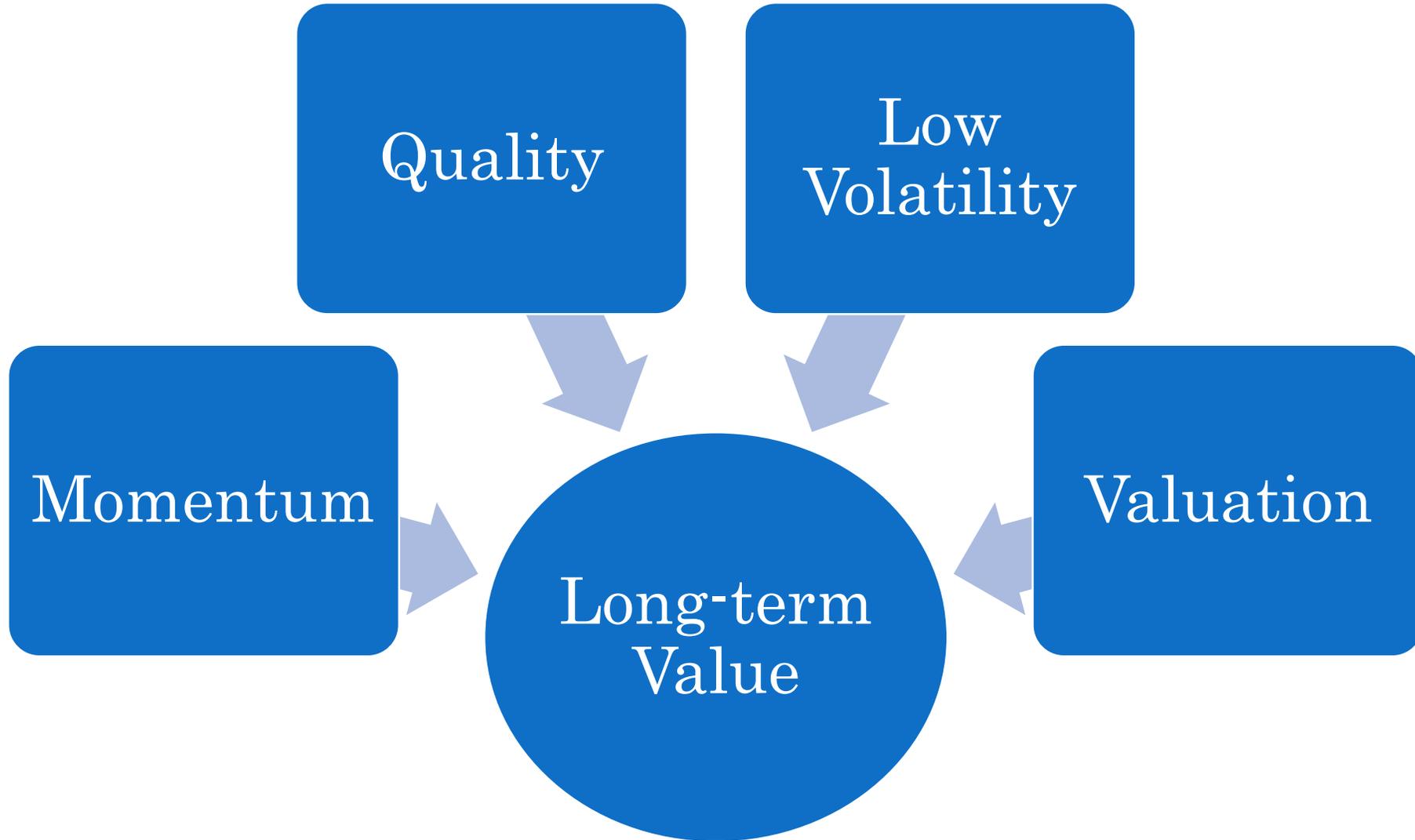
# Sectoral Indices



- All sectors closed positive except industrial
- Industrial performance driven by
  - 16.7% decline in CCNN
  - 9.4% decline in First Aluminium Nigeria
- Banking stocks recorded the highest volume traded
  - 70% of total volume traded



# Drivers of Long-term Value



# Outlook for March

- Pre-election rally fades
- FY 2018 earnings will drive prices
  - FMCG - affected by waning consumer demand
  - Oil & Gas - to benefit from rising oil prices
  - Insurance – larger companies to outperform smaller ones
- Positive market sentiment
- Increase in FPI
  - 94% increase in first two months in 2019 (\$3.5bn) relative to Q4 '18 (\$1.8bn)
- Government commitment to stem volatility in equities market



*Corporate Earnings*

# Banking Industry - Full Year 2018

	GTB	Zenith	Stanbic IBTC
Gross Earnings	↑ 3.7% - N434.7bn	↓ 15% - N630.3bn	↑ 4.7%- N222.4bn
Interest Income	↓ 6.2% - N307bn	↓ 7.2% - N440bn	↓ 4%- N118.4bn
Profit After Tax	↑ 10% - N184.6bn	↑ 11% - N193.4bn	↑ 54%- N74.4bn
Impairment	↓ 60% - N4.9bn	↓ 82% - N18bn	↓ 96%- N618mn
Cost to Income	37.09%	49.30%	52.90%
NPL	7.30%	4.98%	3.90%
EPS	10% - 6.5	11% - N6.15	53% - N7.04
Dividend Yield	7.37%	11.22%	5.21%
P/E Ratio	5.95x	4.05x	6.6x



- Profitability driven by non-interest income and lower impairment
- IFRS 9 helped drive down impairment across board
- Increased financial disintermediation
- Cost structure a major threat to earnings sustainability
- Declining loan books due to
  - Relatively low demand for credit
  - Reduced capacity of banks to lend

# Outlook - Banking Industry

- Increased competition from fintechs and non-bank companies
- Traditional banking gradually becoming obsolete
  - Continuous decline in interest income
- Need for diversified means of generating income
  - Innovative product and service offering
- Increased competition amongst banks to capture market share in the retail and micro business space

# FMCG - Full Year 2018



	Flour Mills of Nigeria	Guinness	Nigeria Breweries	Nestle
<b>Revenue</b>	↓ 6% to N401bn	↓ 3.91% to N67.79bn	↓ 6% to N324.4bn	↑ 9% to N266.3bn
<b>PBT</b>	↓ 42% to N11.28bn	↑ 7.06% N3.79bn	↓ 37% to N29.4bn	↑ 28% to N59.8bn
<b>FCF</b>	↓ 37% to N35.28bn	↑ 644% to -5.04bn	↓ 99% to N0.7bn	↑ 488% to N61.9bn
<b>PE</b>	9.5x	20.5x	30.8x	27.3x
<b>DY</b>	5.2%	2.70%	4.97%	3.9%
<b>YTD</b>	-16.70%	-6.70%	-12.28%	-0.34%

- Competitive operating environment
- Waning consumer demand
  - Increase in unemployment and underemployment
  - Declining purchasing power
- Beverage industry less affected by waning demand due to
  - Ability to pass rising cost to consumers
  - Quasi-necessity nature of products
- Companies switching to non-interest bearing financing

# Telecoms Industry

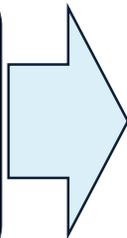
- Largest telecoms market in Africa
- Four mobile telecom operators
- 160.5 million mobile subscribers with teledensity and penetration rate at 114.7% and 75% respectively
- MTN is the market leader (65.2 million subscribers at 40.7% market share)
  - Listing to increase market cap by approximately N2.trn
    - Improve wider sector diversity
      - Currently 4 sectors (banking, consumer goods, industrial and oil & gas) 80% of market cap

# Earnings Review - FY2018



- Group revenue  10.7% to \$9.4bn
- Buoyed by strong revenue growth in Nigeria ( 17.2% to \$2.6bn)
- Nigeria accounts for almost a third of group's revenue
- Nigerian subsidiary remained resilient despite regulatory hardships - (~N1trn top line)
- Positive for the impending listing on the NSE

## Group Revenue Breakdown



Voice  7%  
\$5.73bn

Data  22%  
\$1.99bn

Fintech  47%  
\$0.54bn

Digital  33%  
\$0.27bn

Share price has gained 4.4% in 2019

# Trust

it's not about falling  
...it's about helping you fly.



In life, people are often limited by their fears; failing to soar because they are afraid to fall. At Custodian, we've got your back if the unexpected ever happens. So while others say "what if you fall"; we say "**...oh, but what if you fly.**"

✓ CUSTODIAN AND ALLIED INSURANCE LIMITED ✓ CUSTODIAN TRUSTEES  
✓ CRUSADERSTERLING PENSIONS LIMITED ✓ CUSTODIAN LIFE ASSURANCE LIMITED



**Custodian**  
...exceeding expectations



# *Aviation Update*

# First Class Travel is in Decline- The Economist

- 'Airlines are falling out of love with first class'
- Increasing number of airlines have scrapped the first class cabin
  - Emirates: from 14 seats to 11 seats
  - Singapore Airlines: from 12 seats to 6 seats
- Airlines still offer first class for two key reasons:
  - The "halo effect": marketing strategy
  - Free upgrades from business class serve as incentive for loyalty from corporates and private individuals



The Economist

# *First Class Travel is in Decline- The Economist*

- First Class cannibalized by private jets
- Only BA and Emirates have First Class in Nigeria
- 3 years ago:
  - AirFrance
  - Lufthansa
- Premium traffic is 12% of passengers but 40% of revenue & yield

# Boeing 737- Max 8 Saga:

- Panic among passengers over safety of the aircraft since Ethiopian crash
  - 2<sup>nd</sup> crash in less than 6 months
- Boeing has lost 11% since the crash

## Clear divide across economies

- Advanced economies maintain status quo while most emerging markets remain cautious



Airline	Grounded the aircraft	Continue to operate the aircraft
Air China	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Ethiopian Airlines	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Garuda Indonesia	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Comair	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Norwegian Air Shuttle	<input type="checkbox"/>	<input checked="" type="checkbox"/>
American Airlines	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Air Italy	<input type="checkbox"/>	<input checked="" type="checkbox"/>

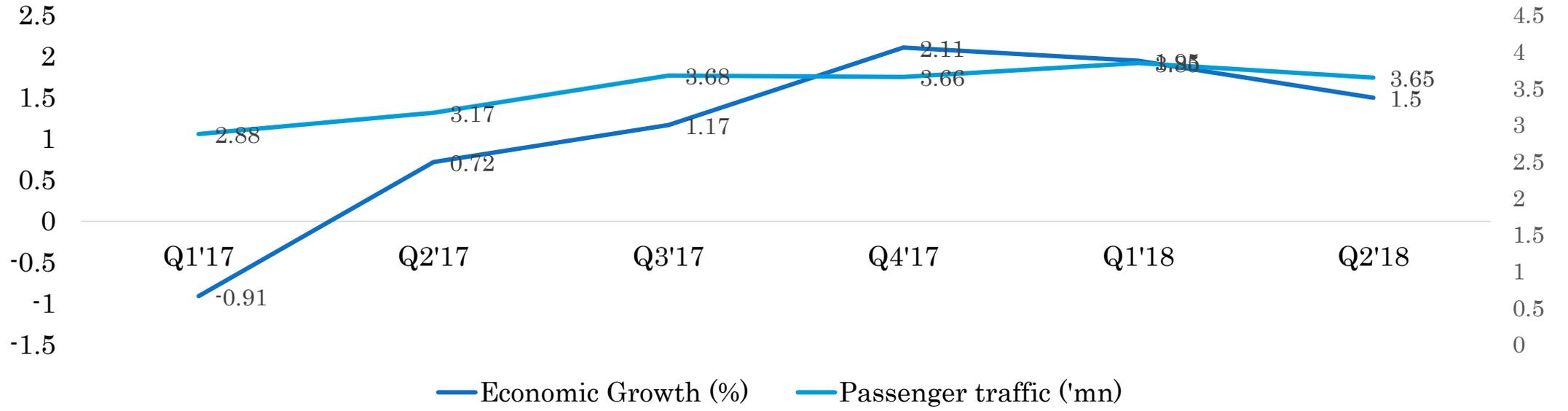
## Election postponement on passenger traffic

- 'Fly to Vote' promo across airlines boosted sales
- Lull in traffic post-election

## Load factor

- Turkish Airlines to launch Istanbul-Port Harcourt-Istanbul route from June 24<sup>th</sup> (4 times weekly)
- Lufthansa has increased capacity to Lagos & Abuja
  - Back to daily flights from Lagos
- Outbound load factor: 85%-90%
- Inbound load factor down to 60%
- Same pattern for BA, AirFrance & KLM

# Domestic: Economic Performance & Passenger Traffic



- Passenger traffic appears to move in tandem with economic growth
- Other factors driving passenger traffic in Nigeria:
  - Income distribution
  - Security

# Aviation Update- IATA

- Oil and jet fuel prices remained at low levels in January
- Modest rise in base fare prices in January
- Financial markets remain uncertain about prospects for airline earnings
- Premium class passengers accounted for 5.2% of total international O-D traffic
- Load factors and aircraft utilization have improved airline profitability



# Real Estate Update

# Vacancy Factor Flat at 18% in Q1'19



	Q1'19		
	RVF (%)	CVF (%)	VFI (%)
Ikoyi	22	19	21
VI	13	8	11
Lekki	24	10	19
<b>Total</b>	<b>19</b>	<b>14</b>	<b>18</b>

- Noteworthy trends in the Island axis:
  - New developments of serviced apartments in Lekki
  - High number of plots of land in Ikoyi



# Outlook



- New ultra-modern apartments
- Rents in new developments increasing
- Mortgage refinancing and home ownership schemes will drive rents in 2019/20
- Vacancy factor in old properties will remain high



# March Outlook

# March/April Outlook

- Q1 GDP will decline to 1.9%
- Inflation could inch up in the coming months
  - Driven by seasonalities such as planting season
- Oil price will trade in the \$60-\$63pb range
- Production will be 1.65-1.70mbpd
- Price of diesel will fall to N220 per liter
- Stock market will dip on weaker earnings
- Minimum wage bill will be passed by NASS & implementation in Q2
- Naira will trade flat at N360-N362/\$

# March/April Outlook

- M2 will increase by 4% to N26trn
- Interbank interest rates will rise by approximately 100 basis points
- FAAC will decline to N600bn as oil revenues dip
- Rig count will fall further to 13
- Real estate market in Lagos will start strengthening - higher rents for new properties

# Corporate Humour



Behind almost every woman  
you ever hear of stands a man  
who let her down  
- *Anonymous*

A professor is a man whose job  
is to tell students how to solve  
the problems of like which he  
himself had tried to avoid by  
becoming a professor  
- *Anonymous*

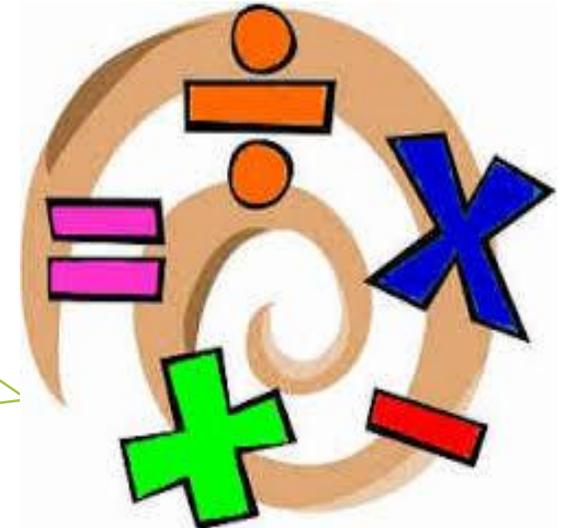


# Corporate Humour

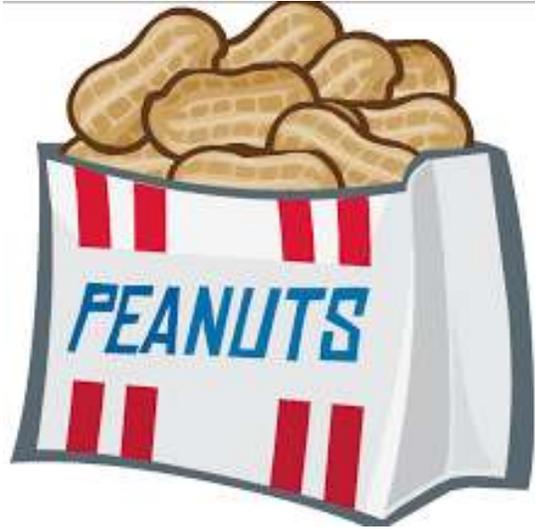


Generosity is giving more than you can, and pride is taking less than you need.  
- *Kahil Gibran*

Women have a passion for mathematics. They divide their age in half, double the price of their clothes, and always add at least five years to the age of their best friend – Marcel Achard



# Corporate Humour



If you are in the peanut  
business, you learn to think  
small  
- Eugene McCarthy

A man in love is incomplete  
until he is married. Then he  
is finished  
- *Zsa Zsa Gabor*



# Corporate Humour



Relations are made by fate,  
friends by choice  
- *Abbe Jacques Delille*

The fear of one evil often leads us  
into a greater one  
- *Nicolas Boileau*

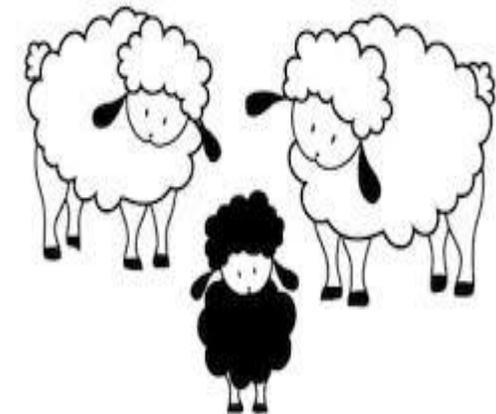


# Corporate Humour

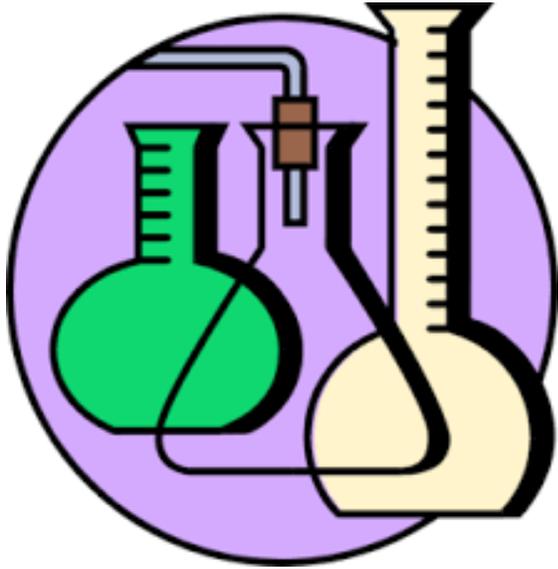


Where mass hunger reigns,  
we cannot speak of peace  
- *Anonymous*

An army of sheep led by a lion  
would defeat an army of lions  
led by a sheep  
- Alexander the great



## Corporate Humour



When Religion was strong  
and science weak, men  
mistook magic for medicine.  
Now when science is strong  
and religion weak, men  
mistake medicine  
for magic

- Thomas Szasz.1973

History is past politics and  
politics is present history  
- Edward Freeman



# Corporate Humour



The great nations have  
always acted like gangsters  
and the small nations like  
prostitutes  
- Stanley Kubrick

An ambassador is an honest  
man sent to lie abroad for the  
good of his country  
- Sir Henry Wotton



A collage of various colored envelopes (red, blue, green, purple, white) with a central cream-colored note. The note has the words "THANK YOU!" written in a bold, black, hand-drawn font. The envelopes are layered and overlapping, creating a vibrant, textured background. The entire composition is framed by a white border with a slightly distressed or torn edge effect.

**THANK YOU!**

Bismarck J. Rewane, M.D. / CEO

01 – 7739889

Financial Derivatives Company Ltd.

Lagos, Nigeria