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In This Issue ...

CBN's new instruction on Open-Market Operations (OMO)

A rash of new directives about barriers to participating in the OMO bills issues by the CBN. First it was banks who were not allowed to buy T/bills on behalf of borrowing customers and subsequently all Nigerian corporates and individuals have now been denied access to the market.

This was a form of moral coercion on the banks to increase their loans to the private sector. It is believed that an increase in bank credit to the private sector will lead to increased growth and employment. Total credit exposure to the private sector is now N25.47trn.

The banks are wary to rapidly grow risk assets at a time of high default risk. The implications of these guidelines is that the funding of CBN secondary market bills will be the sole prerogative of the foreign investors (hedge funds) i.e. 'hot money'. If the international investors who are volatile and jittery flee the market, the FGN debt will be funded mainly by the CBN (ways and means advances). This appears like a risky bet in terms of inflation which is already ticking upwards. Secondly, there are minimum requirements of T/Bill holdings by the pension fund portfolios as prescribed by PenCom.

Therefore, it is likely that a solution to the LDR problem could lead to a much wider systemic challenge with serious unintended consequences. There is the fear that increased naira liquidity could put pressure on the currency in the forex markets.

Implications

- Would give room for foreign portfolio investors, as OMO auctions are mostly oversubscribed. However, FPI is hot money and is not sustainable for the economy. It could fizzle out at the slightest sniff of crisis.
- Could trigger currency weakness as investors shift to the foreign exchange market
- To increase activities in the stock market. Investors are attracted to high returns and the performance of companies listed on the NSE is a function of macroeconomic variables. Currently, the YTD return is -16.14%.

Nigeria: revenue problem or a debt crisis??

When the Minister of Finance, Budget and National Planning, Mrs Zainab Ahmed, admitted that Nigeria has a revenue problem and not a debt crisis, some Nigerians nodded in agreement while others disagreed.

Nigeria's Debt Profile

In the last six years, the country's total debt has increased by 156% to N25.7trillion (as at June 2019). With every debt comes an obligation to repay both the principal and the interest agreed on the loan. According to the proposed 2020 budget, the government has earmarked N2.45trillion to service its debt, up from N2.14trillion allocated in the 2019 budget. The proposed debt service for 2020 represents 23.7% of the total expenditure of N10.33trillion.

Indicator	
Total debt (N'trn)	25.7
2020 debt service (N'trn)	2.45
Debt service as a % of GDP	1.27
Debt service as a % of 2020 budget	23.7

Restructuring Nigeria's Debt

It is important to note that government borrowing is inevitable. Most nations in the world either borrow from other countries, its citizens, banks or international agencies (International Monetary Fund, World Bank etc.). Therefore, the rise in Nigeria's debt profile is not necessarily bad for the economy. Of more importance is what the proceeds are used for.

The crucial aspect to address concerning Nigeria's debt should be the purpose and types of borrowed funds. One way to restructure Nigeria's debt is for the country to shift towards more concessionary debts as these types of loans usually have longer repayment periods, lower interest rates (e.g. 2% pa for 30 years) and lenders are more open to debt restructuring. In addition, borrowed funds must be project specific and not for general purposes. This is because borrowed funds used for infrastructure is able to have a positive multiplier effect and improve Nigeria's ability to repay the loan by the end of the loan agreement.

Nigeria's Revenue Profile

Since the 1950s when oil was discovered in Nigeria, the country's revenue profile has been largely dominated by oil revenue. Crude oil still accounts for approximately 78% of the country's total export earnings in spite of the FGN's diversification efforts. A huge exposure to the international oil market increases Nigeria's vulnerabilities to exogenous shocks. In 2020, several analysts are betting on an average oil price below $60pb owing to oil demand growth concerns and trade tensions. With a dim oil price outlook, Nigeria's fiscal position and external balance will be threatened.

To reduce its reliance on oil revenue, there has been an increased effort by the FGN to boost its tax revenue with the proposed hike in VAT, communications tax amongst others. Whilst this mounts pressures on the average Nigerian consumer and threatens their disposable income, the increase in Nigeria's non-oil revenue is important to fund the country's ambitious expenditure and investment programmes scheduled for the near to long term.

Indicator	
Total revenue (N'trn)	8.16
As a % of GDP	4.22

Addressing Nigeria's revenue problem

The days of over reliance on oil revenues for Nigeria are slowly coming to an end. With OPEC hinting at deeper output cuts of it member countries, Nigeria's output quota could likely be reviewed downwards. If this happens, Nigeria's oil revenue in 2020 would reduce.

The intensified drive of the FGN to boost its non-oil revenue should be commended. However, the drive would have limited impact without addressing some structural challenges. First, the attempt of the FGN to introduce creative ways to raise its non-oil revenue would be a futile effort without blocking inherent leakages within the system. Second, increasing the tax rate is not nearly enough without improving tax administration and collection.

USSD Deadlock, who will blink first?

The most subscribed telecommunication company in Nigeria (MTN Nigeria) recently informed its subscribers of its plan to begin the charge of N4 per 20 seconds for the use of Unstructured Supplementary Service Data (USSD). USSD is a communication service that is controlled by mobile network operators. This implies that subscribers using this platform for banking services will now be charged N4 per 20 seconds. This move by MTN Nigeria is to generate additional revenue for investment in infrastructure as USSD increases the company's cost on infrastructure.

However, the implementation which was supposed to take effect from October 21st has now been suspended following the directives from the Nigerian Communications Commission (NCC) to halt implementation.

Implications

The use of USSD code for bank transactions is very popular among Nigerians due to its effectiveness and easy access especially by non-literates. If the implementation eventually comes into play, subscribers will be the first to feel the pinch. It could also have a negative impact on the CBN's financial inclusion strategy of increasing financial inclusion to 95% by 2024[1].

Telecommunication companies provide various platforms for bank transactions such as internet banking. Therefore, subscribers will shift to the use of alternative platforms for bank transactions.

[1]CBN. Financial Inclusion Newsletter, July 2019, Volume 4 Issue 2 https://www.cbn.gov.ng/Out/2019/CCD/Q2%202019%20Financial%20Inclusion%20Newsletter_Final_08.08.19.pdf

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Multiple taxes and the Nigerian Consumer

Pressures are mounting as the Nigerian consumer could be faced by numerous taxes in the near term. The proposed re-introduction of toll gates on the highway, stamp duties on POS, excise duties, VAT, among others will stifle consumers who are already cash strapped.

Is a tax increase the right move?

On September 11, 2019, the Federal Executive Council increased the Value Added Tax (VAT) rate by 2.5% from 5% to 7.5%. The new rate, which is applicable to the supply of goods and services in Nigeria, is expected to take effect in 2020. It also applies to companies with VAT registration threshold of N25 million annual turnover.

Justifications for the increase

- To bring the VAT more in line with the continental average of 15.89%[2]. The current level of 5% is the lowest in Africa and one of the lowest in the world.
- To boost non-oil revenue. According to the proposed 2020 budget, non-oil revenue is expected to jump by 66.47% to N5.51 trillion from N3.31 trillion in 2019.
- To increase revenue for the cash strapped state governments in order to meet the obligations of the minimum wage. State and local governments will receive 85% of the revenue while the federal government will receive 15%.

[2]PwC. VAT in Africa. https://www.pwc.co.za/en/assets/pdf/vat-in-africa-2017.pdf

Impact on corporates and consumers – 'Robbing Peter to pay Paul'

It is no news that consumer demand has been relatively weak. This is evident in the consistent decline of the purchasing manufactures index and the weak performance of several consumer goods companies. An increase in the VAT will be passed on to consumers in the form of higher prices. This will further stifle the real income of consumers and undermine the boost in purchasing power anticipated from the new minimum wage. In addition, an increase in consumer price inflation is imminent and this will make the proposed inflationary target of 10% unattainable in 2020.

Addressing tax revenue shortfalls

Currently, the Nigerian tax system is generating much less than its potential. In 2018, total tax revenue from the Federal Board of Inland Revenue was N5.32 trillion ($17.39 billion), amounting to a 4.12% ratio for tax to GDP.[3] This is substantially lower than the sub-Saharan African average of 14.6% in 2018.[4]

However, the low tax revenue does not justify a VAT increase, as that is not the root of the problem. Rather, Nigeria should be focusing on addressing its inefficient tax collection system.

Proper training and equipping of tax officials would be a good first step, as it would help to reduce inefficiency and tax evasion. Improved transparency in expending the collected revenue would also help; there is the perception that the government is corrupt and will not efficiently disburse the revenue for the good of the public. This lowers people's willingness to comply with their taxation responsibilities.

Lastly, the onerous process involved in the payment of tax discourages taxpayers. According to PwC's report, "Paying Taxes 2019", Nigeria ranks 157 out of 190 countries in terms of how easy it is to pay taxes.[5] Improving the tax payment process would incentivize taxpayers to remit their tax.

The diversification of Nigeria's revenue from oil to a more stable source like taxes is vital. Tax is more dependent on national income, reduces the level of exposure to external shocks and boosts stability. However, an increase in VAT rate is not the solution, rather efficient tax collection, transparency in disbursement and reduced remittance time will help boost tax revenue.

[3]Federal Inland Revenue Service. ANNUAL SUMMARY OF COLLECTION FROM YEAR 2000. Federal Government of Nigeria. https://www.firs.gov.ng/TaxResources/TaxStatisticsReports
[4]AFRICA IN FOCUS. Figures of the week: Domestic revenue mobilization in Africa. https://www.brookings.edu/blog/africa-in-focus/2019/05/16/figures-of-the-week-domestic-revenue-mobilization-in-africa/
[5]PwC. 2019. "Paying Taxes 2019. Overall ranking and data tables." https://www.pwc.com/gx/en/services/tax/publications/paying-taxes-2019/overall-ranking-and-data-t4ables.html

Tackling the twin problem of poverty and insecurity in Nigeria

There is a popular saying that an idle hand is a devil's workshop. By extension, a hungry man is an angry man. Empirical findings have established an inverse relationship between poverty levels and the chances of conflicts. According to the UK's Department for International Development, there is a 15% chance of civil conflicts arising in countries with a GDP per capita of $250.[6] Meanwhile, countries with a GDP per capita of $5,000 have a 1% risk.[7] In this context, Nigeria's GDP per capita has been on a steady decline since 2014, dropping by 39% from $2,563.90 in 2014 to $2,396.30 in 2018.[8] It is therefore imperative for the Nigerian government, at all levels, to make poverty alleviation a top priority through massive investment in infrastructure, the support of small and medium enterprises (SMEs), and social protection programs. This would help to stem the tides of conflicts.

Eradicating poverty, in all its ramifications, is the first of 17 Sustainable Development Goals expected to be achieved by 2030. Where does Nigeria stand? The Northern region remains the poverty capital of Nigeria. The region had the highest intensity of poverty in the range of 41% to 45% in 2016.[9] It is also the region that is most vulnerable to incessant terrorist attacks and violence. While Boko Haram dominates the North East (specifically in Adamawa, Borno and Yobe states), the herdsmen/farmer conflicts are based in the North Central region, specifically Benue State.

[6]Rice, S.E. (2006). "The threat of global poverty". *The National Interest*. Naval Postgraduate School Research Library. http://faculty.nps.edu/relooney/00_New_1539.pdf
[7]ibid
[8]Trading Economics (2019). "Nigeria's GDP per capita". https://tradingeconomics.com/nigeria/gdp-per-capita
[9]NBS. 2016. "Computation of Human Development Indices for the UNDP Nigeria Human Development Report". file:///C:/Users/USER/Downloads/Human_Development_Indices_-_2016.pdf

The World Bank has projected that 46% of the global poor will live in countries affected by fragility, conflicts and high levels of violence by 2030.[10]

The menace of poverty and insecurity does not constitute a Nigerian factor. It is found around the globe. Somalia is another example where poverty was estimated at 73% in 2017 by the UNDP.[11] The country is currently grappling with prevalent attacks by Al-Shabab, a group similar to Boko Haram in Nigeria. A total number of 4,200 people were reportedly killed by Al-Shabab in 2016.[12] The survivors are now displaced persons and refugees in their country and in foreign lands.

Other African examples include the Central African Republic and the Democratic Republic of Congo. The Central African Republic is the poorest country in Africa, with a poverty rate estimated at 75% in 2017.[13] According to a UN Report, in early 2018, some 688,000 people were displaced while 546,000 others from the Central African Republic were refugees in neighbouring countries.[14] The Democratic Republic of Congo's estimated poverty rate was 73% in 2018.[15] It has also been vulnerable to political instability and civil conflicts.

Cross-country comparison of poverty levels across sub-Saharan Africa (SSA)			
Low poverty countries		**High poverty countries**	
Country	**Population below the international poverty line ($1.9/day) (%)**	**Country**	**Population below the international poverty line ($1.9/day) (%)[16]**
Gambia	10.1	Central Africa Republic (2017)	75
Ghana (2012)	13.3	DR Congo (2018)	73
Botswana	16.1	Malawi (2016)	70.3
Ethiopia	27.3	Zambia	57.5
Ivory Coast	28.2	Nigeria (2018)	46.4

Source: World Bank, World Poverty Clock

[10]The World Bank (2019). "Helping countries navigate a volatile environment". https://www.worldbank.org/en/topic/fragilityconflictviolence/overview
[11]Hassan, K. 2018. "Business Case Assessment for accelerating development investments in famine response and prevention: A case study of Somalia". UNDP. https://www.undp.org/content/undp/en/home/librarypage/crisis-prevention-and-recovery/accelerating-development-investments-in-famine-response-and-prev.html
[12]Counter extremism project, CEP. 2019. https://www.counterextremism.com/about
[13]World Bank Group. 2019. "Poverty and equity brief". https://databank.worldbank.org/data/download/poverty/33EF03BB-9722-4AE2-ABC7-AA2972D68AFE/Global_POVEQ_SSA.pdf
[14]World Bank. 2018. "Overview of Central African Republic". https://www.worldbank.org/en/country/centralafricanrepublic/overview
[15]World Bank Group. 2019. "Poverty and equity brief". https://databank.worldbank.org/data/download/poverty/33EF03BB-9722-4AE2-ABC7-AA2972D68AFE/Global_POVEQ_SSA.pdf
[16]All are 2015 figures except otherwise stated.

Nigeria has a lot of lessons to gain from the experiences of some sub-Saharan Africa peers with lower poverty levels. The countries in this group were able to achieve Goal 1 of the Millennium Development Goals (MDG), which was a 50% reduction in the poverty rate between 2000 and 2015.

Ways of addressing the twin problems of poverty and insecurity

Massive investment in infrastructure

Adequate provision and regular maintenance of basic social amenities is a major tool that could be devised by the government to reduce the inequality gap between the rich and the poor in Nigeria. Most rural areas, which should constitute the major source of raw materials for industrial companies, are inaccessible due to poor road networks. Rural-urban migration, with the attendant pressures on urban resources and social vices, could be reduced if necessary steps are taken to execute electrification projects in the rural communities. Most of the attacks perpetrated by the Boko Haram group in Northeastern part of Nigeria were carried out in remote areas. Two of these states, Borno and Yobe, also rank amongst the lowest states in Nigeria on the human development index (HDI). In 2016, Borno was 33rd with 0.33 out of 1 and Yobe was 34th with 0.34.[17, 18]

Prioritizing infrastructure spend could also help catapult the country on the path of strong growth and help reduce poverty levels, as Ethiopia has experienced. In 2018, the Nigerian economy grew by 1.9%, while the Ethiopian economy grew by 9.2%.[19] The Ethiopian government prioritizes social and infrastructural projects such as education and roads; these respectively accounted for 21% and 19% of Ethiopia's total expenditure ($13.16 billion), in the 2019/20 fiscal year.[20] Meanwhile, in Nigeria, education only accounted for 5% of total expenditure ($25.21 billion) in the 2019 FGN approved budget and infrastructure projects accounted for 4%.[21]

[17]The Human Development Index is an economic metric that is used to assess the quality of human capital in a country. It is comprised of three sub-indices: the per capita income index, the literacy/education index and the life expectancy index. HDI ranges between 0 and 1. The closer it is to 1, the higher the quality of human capital and the closer it is to 0, the lower the quality of human capital.

[18]NBS. 2016. "Computation of Human Development Indices for the UNDP Nigeria Human Development Report". file:///C:/Users/USER/Downloads/Human_Development_Indices_-_2016.pdf

[19]Trading Economics. 2019. "Ethiopia's GDP growth". https://tradingeconomics.com/ethiopia/gdp-growth-annual; Trading Economics. 2019. "Nigeria's GDP growth". https://tradingeconomics.com/articles/02122019092250.htm

[20]Cepheus Research and Analytics. 2019. "Ethiopia's 2019-20 Budget". https://cepheuscapital.com/wp-content/uploads/2019/01/Budget-Review-FY-2019-20.pdf

[21]Budget Office of the Federation – Federal Republic of Nigeria. 2019. "Breakdown of the 2019 FGN Approved Budget". https://www.budgetoffice.gov.ng/index.php/breakdown-of-2019-fgn-approved-budget

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Support of the SMEs

SMEs dominate the business space in Nigeria creating 80% of jobs, mostly in the informal sector. The potential for SMEs to be a major tool for economic growth and job creation can only be harnessed through regular support of the sector. It is important to note that the support of SMEs should not be the government's business alone and should not be limited to only financial assistance. The only widely known NGO that has constantly supported entrepreneurship and the growth of SMEs across Africa is the Tony Elumelu Foundation. It focuses mainly on empowering young and promising entrepreneurs across the continent. The Foundation in collaboration with the UNDP will have supported a total of 8,520 beneficiaries by the end of 2019. Northern youths constitute the main beneficiaries of this entrepreneurial scheme in Nigeria.[22] Let us imagine the number of youths that have been empowered that could have otherwise threatened Nigeria's peace and security.

Social Protection Programs

The aim of social protection programs is to restore and maintain the livelihood of the poor. These programs typically involve providing food and cash support to people who have predictable food needs. This serves as insurance against shocks that could result in food insecurity. Ethiopia's social protection program is the Productive Safety Net Program (PSNP). The PSNP is the largest in sub-Saharan Africa and has supported about eight million chronically food insecure Ethiopians. The central government also allocated 1.6% of the 2019/20 budget (or $210.6 million) to finance SDG projects across the country.[23] The majority of the beneficiaries of the PSNP (some 85%) participate in community development projects, such as rehabilitation of roads, in return for cash or food rewards. Meanwhile, seniors and people with disabilities receive direct support from the Ethiopian government.[24] Supporting the most vulnerable Nigerians in a similar manner would reduce the likelihood that they would be drawn into terrorist activities and armed groups.

[22]The Tony Elumelu Foundation (2019). "We Must Join Hands to Lift Our Young Ones from Poverty to Prosperity – Tony Elumelu Says as He Receives Honorary Doctorate Degree". https://www.tonyelumelufoundation.org/press-releases/we-must-join-hands-to-lift-our-young-ones-from-poverty-to-prosperity-tony-elumelu-says-as-he-receives-honorary-doctorate-degree
[23]Cepheus Research and Analytics. 2019. "Ethiopia's 2019-20 Budget". https://cepheuscapital.com/wp-content/uploads/2019/01/Budget-Review-FY-2019-20.pdf
[24]ibid.

Nigeria needs to lead by example when it comes to poverty reduction

SDG 1 – Eradicating poverty in all ramifications - is far from being achieved by a number of African countries, and will likely be an unattainable goal for 2030. The region is steadily becoming the poverty capital of the world. Africa's most populous nation, Nigeria, needs to lead by example by implementing measures that would help reduce the country's poverty level and douse possible threats to internal security facing the country. Addressing the twin problems would bolster investor confidence and ensure the safety of lives and properties of law abiding members of the public.

Global Perspective: culled from Financial Times

No inflation? Tell that to my landlord

Madrid isn't the only city where people have seen a big disconnect between surging property prices and wage growth. In Amsterdam, which is Europe's most extreme example, house prices rose 64 per cent in the five years to September 2018, but real disposable household income grew just 4.4 per cent in that time, despite ultra-low unemployment. Without a bigger pick-up in wages, it is unsurprising that inflation for everyday goods and services is still so low.

Still most central banks target a measure of inflation that is made up of a basket of prices for goods we consume. The Bank of England targets CPI and the European Central Bank HICP, to name two examples.

A common reason for not including housing is that methodological disputes between statisticians (which we want to return to later) means that there is no consensus on what would be the right measure of housing costs to use. Another is that buying a house represents something you invest in, rather than something you consume.

We think, however, that you can make a strong case to see housing as something that people both invest in and, at least until the mortgage is gone, pay for as they consume it. It also makes up a massive chunk of most people's spending, meaning that we would expect big changes in their economic behavior, including how they consume other goods — should the price of housing shift.

Indeed if we take the US experience, we can also see that a closer examination of property prices in the run-up to 2007 might have suggested that interest rates were way too low. So why are central bankers still choosing to target measures of inflation that do not include house prices post-crisis?

For a better grasp of the statistical problems, we need to go back in time to 1983.

Up until then the most commonly used measure of US inflation included changes in house prices, but at that point it was replaced by a measure of what was dubbed as "non market rents". In 1998, any measure of house prices was dropped altogether (though some measures still calculate changes in rents). European officials have also squabbled over how to include housing costs in their inflation measures.

When central banks were beginning to enter a new era of independence and inflation targeting in the early 1990s, this neglect of asset prices also owed more than a little to two economic theories that at that time were the flavour of the day.

The first was the belief that Robert Lucas had effectively solved the problem of how to deal with shortfalls in aggregate demand. If you can always stoke more aggregate demand, then why care about what happens to housing or other asset prices? If they fall and that leads to a general fall in consumption, then we know how to cure the problem.

The second was that the prevalence of the efficient markets hypothesis, which meant that there was a common view that asset prices largely reflected economic fundamentals. That housing costs could become unmoored from underlying conditions was not something that the pre-crisis generation of central bankers believed could happen. Former Federal Reserve Chair Alan Greenspan, for instance, described the crisis as showing a "flaw" in a worldview that emphasized deregulation that had served him well for 40 years. It therefore didn't matter whether changes in asset prices were included in inflation baskets as the changes would broadly, over time, be reflected over time in consumption goods.

After the crisis in 2008, ignoring asset prices in a belief that markets are self-stabilizing no longer looked wise. But rather than change their inflation targets, policymakers have preferred to look at things like changes in housing costs with a different hat on.

As far as most central bankers are concerned, controlling consumer prices should remain the focus of monetary policy. Controlling asset prices, meanwhile, should be done through the prism of safeguarding financial stability. This, they argue, should be done through what is known as macro prudential measures.

As far as most central bankers are concerned, controlling consumer prices should remain the focus of monetary policy. Controlling asset prices, meanwhile, should be done through the prism of safeguarding financial stability. This, they argue, should be done through what is known as macro prudential measures.

Macro prudential policies are often implemented by finance ministries and central banks together and differ from monetary policy in another respect: they tend to target specific market segments, limiting the supply of, say, riskier mortgages as opposed to influencing economic conditions through controlling the price of credit. This, they argue is a better way of dealing with problems that are often quite localized. Some countries, including the UK, have already started experimenting with them.

Which is all very neat and tidy but some central bankers are privately suspicious that these new tools actually work, with the more determined banker and borrower able to find a way around them. Seeing what's happening in cities like Madrid and Amsterdam, one can appreciate why.

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Macroeconomic Indicators October 1st – 15th

Power Sector

During the review period, the average power output stood at 3,447MWh/h, 0.97% higher than the corresponding period in September (3,414MWh/h). Grid constraint averaged 2,573.12 MWh/h during the review period, 9.30% lower than 2,837.09/MT in the relative period in September. Total revenue loss within the review period was N30.27billion (annualized at N736.57billion).[25]

A breakdown of constraints to power generation is as shown below:

Constraint (MWh/hour; total)	September 1st – September 15th	October 1st – October 14th	Change
Gas	21,498.10	26,194.50	↑
Grid	42,556.30	33,417.60	↓
Water	-	-	↔

[26]

Outlook

This decline in grid constraint suggests prospect of improved power output in the near term. Water constraint is also expected to continue being dormant in the coming weeks following the current rainy season.

The Nigerian Government at the recently concluded World Bank meetings secured a $3bn loan, to be paid in installments of $750mn, to finance power infrastructure. The government has also partnered with Siemens to increase power output to 11,000MW by 2023. These are all positive feats. However they are subject to meeting certain requirements. One of which is having cost reflective electricity tariffs. If the electricity tariffs are reviewed to become more efficient and reflective of market conditions and investments are made into the power sector to address the financing deficit of the sector, power shortages may soon become a thing of the past.

[25]FG, FDC Think Tank
[26]FG, FDC Think Tank

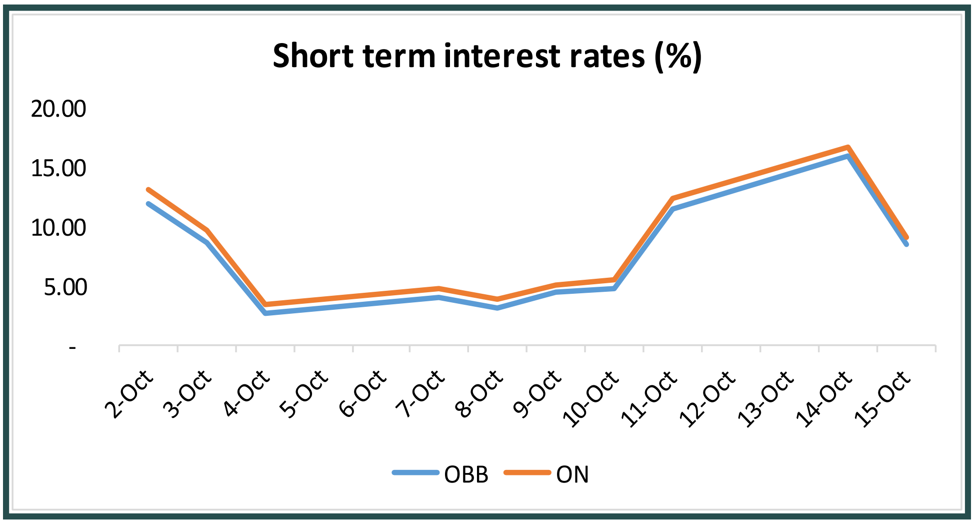
Impact

The issue of electricity in Nigeria serves as a major limitation as it results in industries having to source for alternative means of energy supply. Therefore, increased electricity supply in Nigeria could reduce cost of production thereby reducing the costs of various commodities/services.

Money Markets

Average liquidity within the banking system in the period rose sharply by 32.78% to N242.77bn compared to N182.84bn recorded in the corresponding period in September. Average NIBOR (OBB/ON) was 7.95%p.a. in October, 301bps lower than the corresponding period in September (10.96%p.a). The rates reached a period high of 16.00% p.a and 16.79% p.a respectively on October14th, before declining to close the period at 8.43% p.a and 9.14% p.a respectively.

Total OMO sales during the period were N438.92bn relative to maturities of N1.02trn. This resulted in a net inflow of N577.64bn, which is 80.28% greater than the net inflow of N320.41bn recorded in the same period in September.



[27]

At the secondary and primary market, all the yields moved in the same direction. Rates declined at an average of 39bps & 43bps for the secondary and primary market respectively.

[27] FMDQ, CBN

T/bills Tenor	Secondary market rates as at October 2nd (%pa)	Secondary market rates as at October 15th (%pa)	Direction	Primary market rates as of October 2nd (%pa)	Primary market rates as of October 16th (%pa)	Direction
91	12.00	11.48	↓	11.08	10.80	↓
182	12.04	11.64	↓	11.75	11.00	↓
364	13.08	12.83	↓	13.20	12.94	↓

NITTY Tenor	Rates on October 2nd (%pa)	Rate on October 15th (%pa)	Direction
30	12.18	11.13	↓
90	12.55	11.85	↓
180	12.93	12.34	↓

[28]

The Nigerian Inter-Bank Treasury True Yield (NITTY) rates also declined across all the three tenors by an average of 78bps.

Outlook

The key driver of market liquidity will be the implementation of the new LDR threshold of 60%. Banks may be forced to lend massively to retail borrowers in order to avoid attracting sanctions by the regulatory body. This would increase naira liquidity in the market.

Impact

With the implementation of the new LDR, we expect lending rates to decline further to the range of 19% - 19.5%.

[28]FMDQ

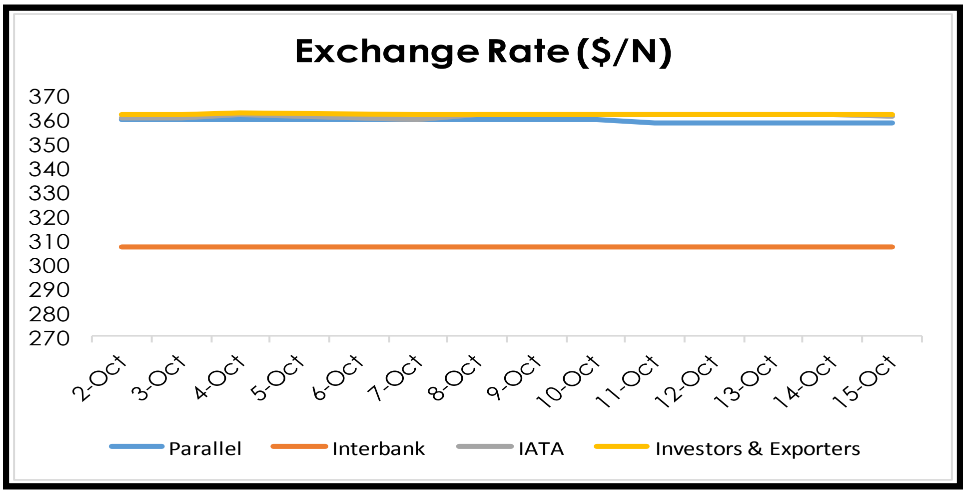
Forex Market

The Nigerian forex market is segmented with multiple exchange rates. The most important rate is the Investors and Exporters window (IEFX). No less than 55%-60% of Nigerian forex transactions are traded on this window. The CBN and most exporters and investors use this window. It serves not only as a source of price discovery but also a barometer for measuring potential and actual CBN intervention in the market. Some of the exchange rate determinants are balance of payments, capital inflows and trade balance.

Exchange Rate

The naira traded flat against the dollar at N360/$ for the first seven days in October before appreciating to close at N359/$ on October 15th. This was despite the 41.35% decrease in the CBN's forex intervention to $311.5 million when compared to $531.11 million in the first half of September. In the same vein, the currency appreciated against the pound sterling and euro to N450/£ and N392/€ from N453/£ and N395/€ respectively.

The naira appreciated by 0.02% to N306.95/$ from N307/$ at the interbank market, while it depreciated by 0.02% at the IEFX window to N362.63/$ from N362.55/$ on October 2nd. There has been a consistent decline in activities at the I&E window since August. In October, the total forex traded fell by 28.15% to $1.71billion compared to the $2.38billion traded in the corresponding period September. The International Air Transport Association (IATA) rate depreciated by 0.33% to N362/$ from N360.8/$ on October 2nd.



[29]

[29]CBN, FDC Think Tank

Outlook

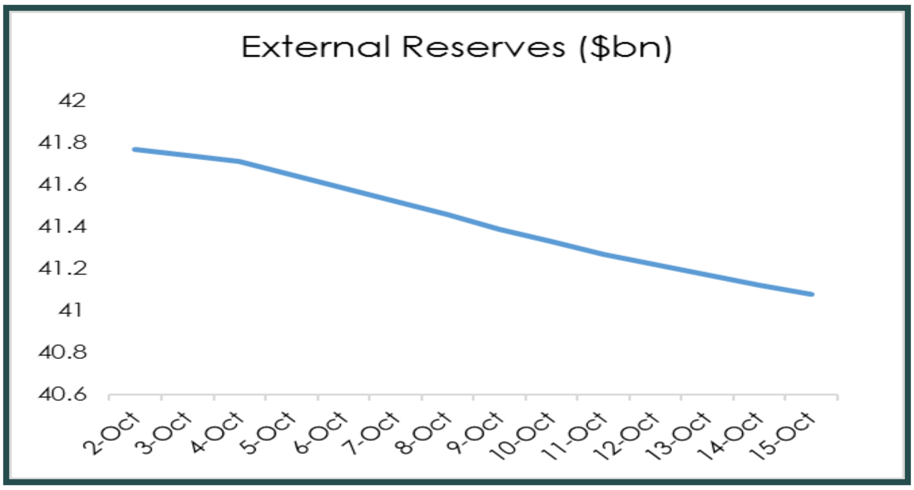
The naira is expected to trade flat at N359/$-N360/$ in the coming week as forex demand pressures remain tepid.

Impact

Nigeria is an import dependent country as industrial activities account for a small percentage of the GDP. The currency trading flat at N359/$-N360/$ is positive for commodity prices.

External Reserves

Nigeria's gross external reserves lost 0.91% to $41.08billion on October 15th, from $41.77billion on October 2nd. This could be partly attributed to the decline in oil prices below $60pb in the month. Nigeria's import cover declined to 10.22 months from 10.40 months on October 2nd.



[30]

Outlook

The CBN is expected to continue to intervene in the foreign exchange market to defend the currency against prospective demand pressures. Therefore, external reserves may maintain a downward stride in the near term.

Impact

A further decline could affect the CBN's ability to intervene in the forex market.

[30] CBN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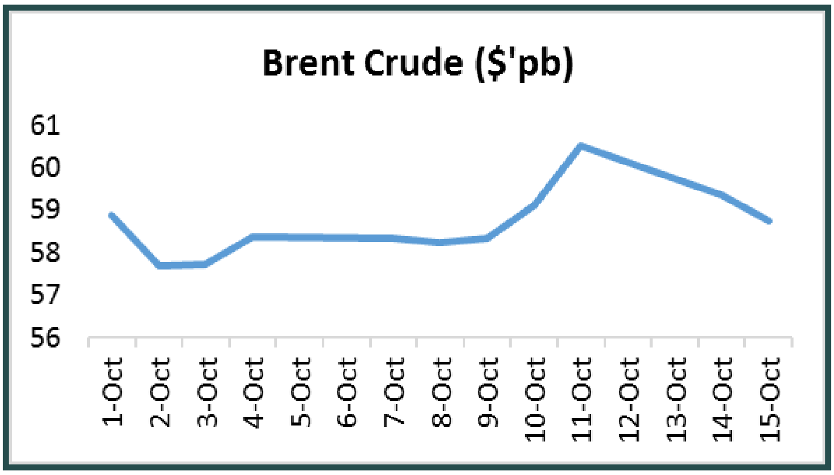
Commodities Market - Exports

Nigeria is an export dependent economy. It derives over 80%-90% of its export revenue from crude petroleum and LNG.

Oil Prices

Brent price averaged $58.55pb in the review period, 3.28% lower than the average of $60.54pb in the corresponding period in September. This was largely driven by the restoration of Saudi Arabia's output and an increase in U.S inventories, which resulted to a boost in global supply of crude oil.



[31]

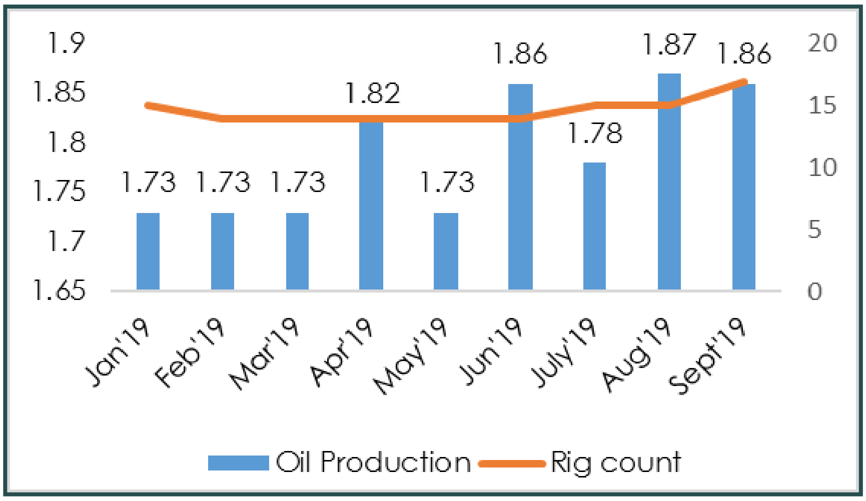
Outlook

Oil prices are expected to decline further in the coming weeks amid a weakening global economic outlook and the expected boost in global oil supply.

Oil Production

Nigeria's oil production was 1.86mbpd in September, down 1.06% from 1.88mbpd in August. This was in spite of an increase in the country's rig count to 17 from 15 in August.[32] Meanwhile, OPEC's crude oil production increased by 1,318tb/d to an average of 28.49mbpd. This was due to an increase in output in Saudi Arabia, Venezuela, Iraq and Iran

[31]Bloomberg
[32]OPEC



33

Outlook

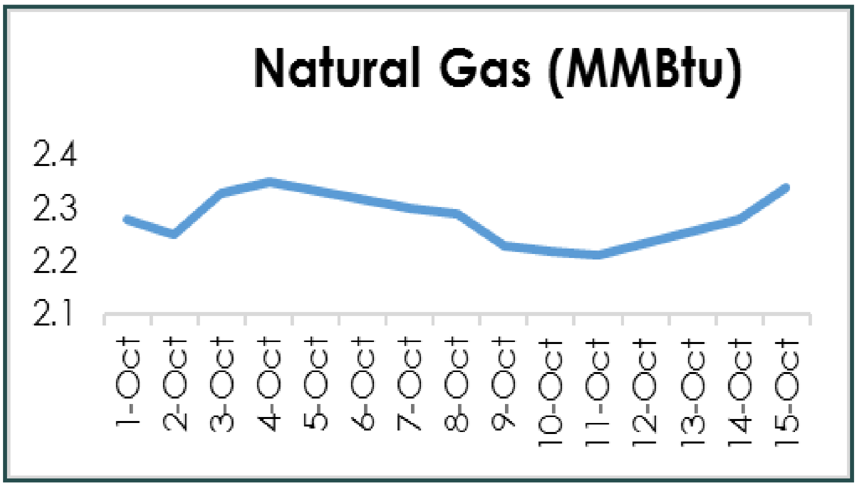
Nigeria's oil output in September was approximately 10.71% higher than its OPEC quota of 1.68mbpd. We expect Nigeria to intensify its efforts in complying with the quota in the coming months. Therefore, we expect the country's oil output to decline to 1.8-1.82mbpd in October.

Impact

Crude oil accounts for approximately 90% of Nigeria's export revenue. A decline in output would weigh on the country's weak fiscal and external buffers. This would have a negative trickle-down effect on proxies such as FAAC disbursements, external reserves and exchange rate stability.

Natural Gas

The average price of natural gas fell by 9.52% to $2.28/MMBtu during the review period from the average price of $2.52/MMBtu in the corresponding period in September. This was due to a surge in global supply.



34

[33]OPEC and Baker Hughes
[34]Bloomberg

Outlook

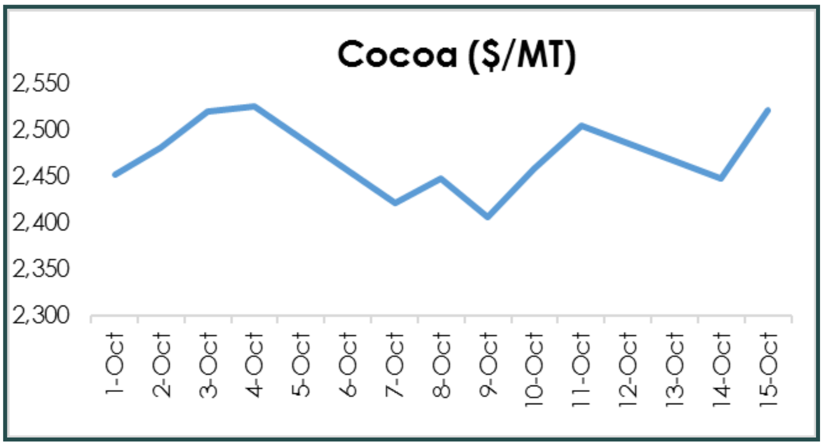
We expect LNG prices to rise in subsequent weeks due to expectations of a robust global demand as the winter season approaches.

Impact

Nigeria's second-biggest export is LNG, accounting for approximately 12%[35] of the country's export revenue. An increase in its global price will positively affect the country's export revenue and fiscal balances.

Cocoa

Cocoa prices averaged $2,470/MT during the review period, 8% higher than $2,287/MT in the relative period in September. This is due to the measures taken by top global exporters to increase farmers' incomes alongside the unfavorable weather conditions in Ivory Coast.



[36]

Outlook

The unfavorable weather conditions in Ivory Coast are likely to increase prices in the coming weeks.

Impact

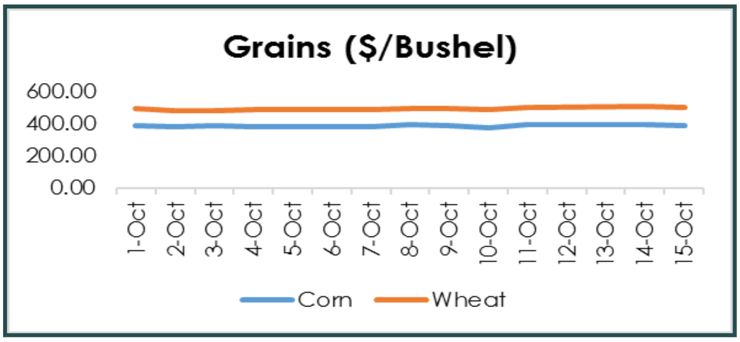
Nigeria is the fourth largest producer of cocoa globally, producing 245,000 tonnes annually. An uptick in the price of cocoa bodes well for the country's non-oil export earnings.

[35]EIU
[36]Bloomberg

Commodities Market - Imports

Grains (wheat & corn)

The global prices of wheat and corn followed a similar trend during the review period. The average wheat price rose by 5.52% to $497.77/bushel from the average price of $471.75/bushel recorded in the corresponding period in September. In the same vein, the price of corn averaged $391.11/bushel in the review period, 8.46% higher than the average price of $360.60/bushel recorded in August. The increase in prices was driven by falling grain supply in the US.



[37]

Grains- Outlook

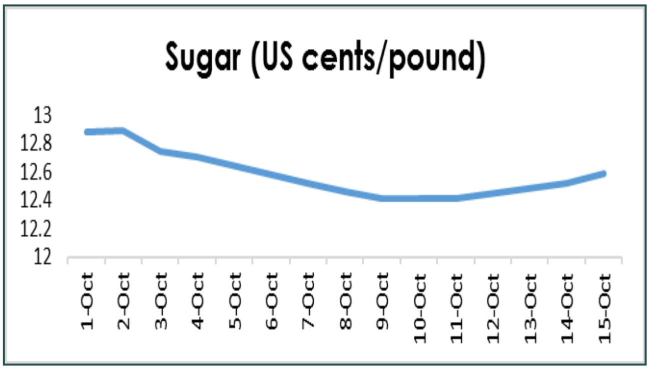
Lower than expected harvest from the U.S would push up grain prices in the near term.

Impact

A high percentage of the manufacturing industries are dependent on grain imports. Hence, the increase in prices could result in higher cost of production for these companies, which would lead to cost push inflation in the economy.

Sugar

The average price of sugar during the review period rose by 10.44% to $12.59/pound from $11.40/pound in September partly due to lower sugar supply from India.



[38]

Outlook

We expect sugar prices to rise owing to growing global demand and decline in India's supply. This increase would be limited by the increased health awareness and risks associated with consuming too much sugar (e.g obesity and diabetics).

Impact

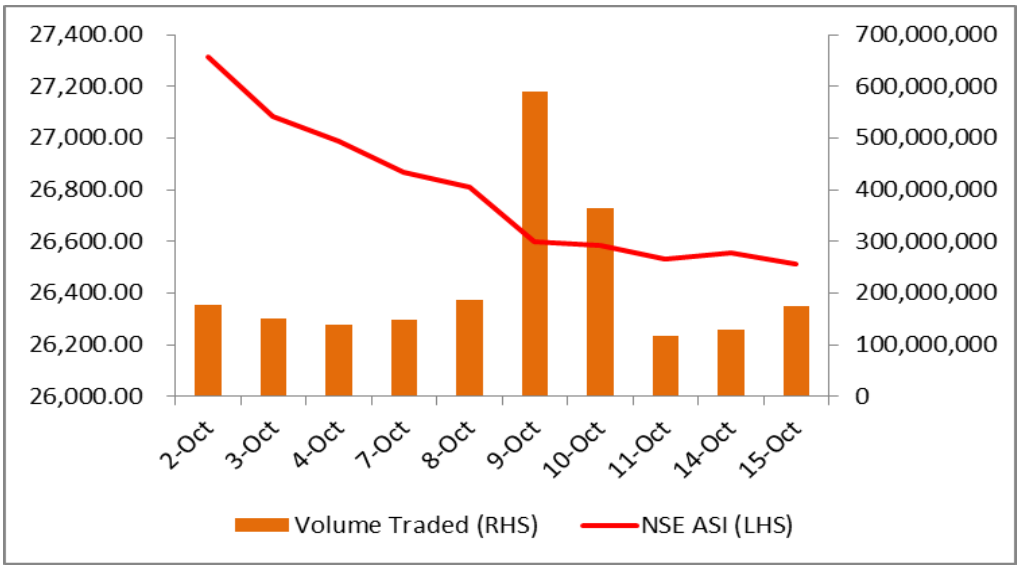
Increasing sugar prices is expected to have a negative impact on Nigeria's trade balance, as the country is a main importer of the commodity (10th largest importer globally). This negative shift in the trade balance would result in the reduction of government revenue and external reserves.

[37]Bloomberg
[38]Bloomberg

Stock market Update

The Nigerian stock market continued its losing streak in the first half of October. The NSE ASI lost 4.56% to close at 26,513.65 points on October 15, 2019 compared to the end of the first half of September (27,779 points). Over the review period, the market recorded 9 negative and 1 positive trading days. The bearish performance was driven by declining investor confidence as reflected in persistent sell-off pressures on the NSE over the review period. Similarly, market capitalization declined by 4.51% to N12.91 trillion.

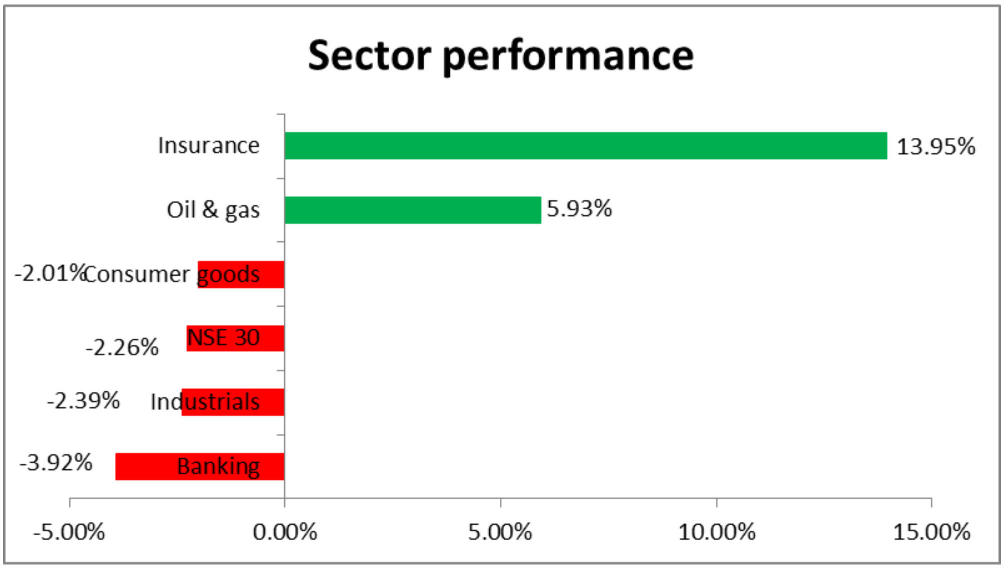
The price to earnings (P/E) ratio stood at 7.0x, 3.31% lower than the close of 7.24x on September 13. The market breadth was negative at 0.67x, as 34 stocks gained, 81 stocks remained unchanged, while 51 stocks lost.



[39]

Meanwhile, the market saw a mixed movement in activity level. Average volume traded declined by 4.24% to 215.26 million units compared to the first half of September. Meanwhile, average value of trades was 28.62% higher at N4 billion in the first half of October.

[39] NSE, FDC Think-Tank



[40]

All indices lost except the insurance and oil & gas sectors. The banking sub-index is the worst performing at -3.92%. Meanwhile, the insurance and oil & gas sectors gained 13.95% and 5.93% respectively.

Associated Bus Company Plc led the gainers' list with a 29.41% increase in its share price, followed by Law Union & Rock Insurance Plc (12.82%), Continental Reinsurance Plc (11.11%), Jaiz Bank Plc (11.11%) and NASCON Allied Industries Plc (10.82%).

TOP 5 GAINERS (N)				
Company	**Sep 30'19**	**Oct 15'19**	**Absolute Change**	**% Change**
ABCTRANS	0.34	0.44	0.10	29.41
LAWUNION	0.39	0.44	0.05	12.82
CONTINSURE	2.07	2.3	0.23	11.11
JAIZBANK	0.45	0.5	0.05	11.11
NASCON	13.4	14.85	1.45	10.82

[41]

The laggards were led by Cutix Plc (-13.75%), followed by Guinness Nigeria Plc (-13.68%), Nestlè Nigeria Plc (-12.89%), Nigerian Breweries Plc (-12.38%) and PZ Cussons Nigeria Plc (-12.14%).

[40]NSE, FDC Think-Tank
[41]NSE, FDC Think-Tank

TOP 5 LOSERS (N)				
Company	Sep 30'19	Oct 15'19	Absolute Change	% Change
CUTIX	1.60	1.38	-0.22	-13.75
GUINNESS	34.00	29.35	-4.65	-13.68
NESTLE	1394.90	1215.10	-179.80	-12.89
NB	52.50	46.00	-6.50	-12.38
PZ	7.00	6.15	-0.85	-12.14

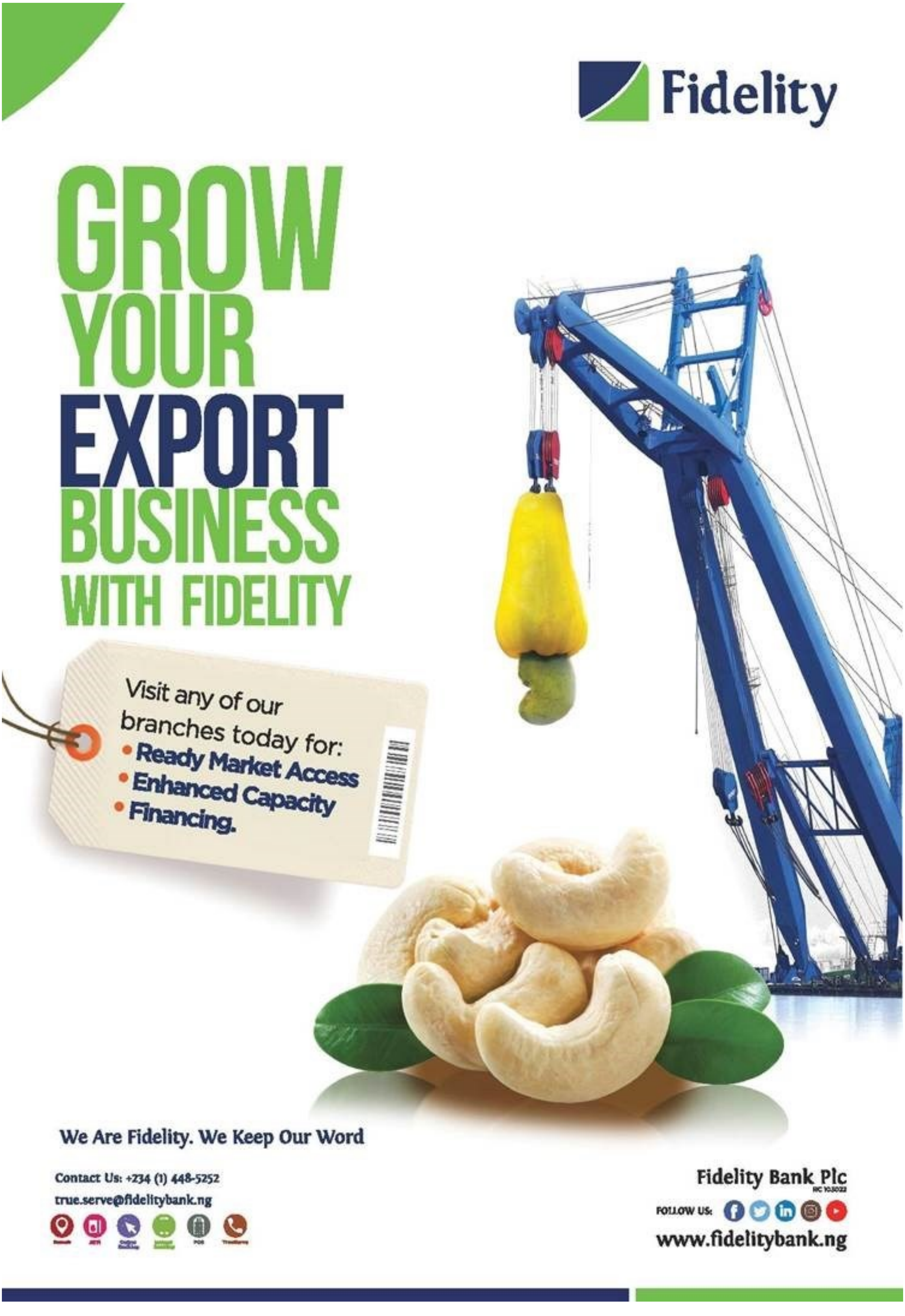
Corporate Disclosures

Below is a snapshot of some companies that have released their 9M'19 earnings.

Sector	Company	Revenue (N'bn)	Profit before tax (N'bn)	Profit after tax (N'bn)	EPS (N)
Banking	Guaranty Trust Bank	219.35 ↓ 6.15%	170.65 ↑ 3.9%	146.99 ↑ 3.35%	5.19
	Zenith	491.27 ↑ 3.51%	176.18 ↑ 5.31	150.72 ↑ 4.54%	4.80
	FBNH	327.47 ↓ 2.99%	60.03 ↑ 16.93%	51.84 ↑ 15.33%	1.38
	UBA	297.9 ↑ 10.77%	98.23 ↑ 24.17%	81.63 ↑ 32.3%	2.32
FMCG	Cadbury	28.91 ↑ 7.23%	0.925 ↑ 266.21%	0.648 ↑ 276.87%	34.5

Outlook

We expect investors to continue their profit-taking activities on the NSE, pending the release of more corporate earnings for Q3'19/9M'19.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Equity Report: Dangote Cement Plc

Analyst Recommendation: BUY

Market Capitalization: N2.49trn

Recommendation Period: 365 days

Current Price: N146.2

Industry: CEMENT

Target Price: N207.32

Analyst Note

Fall in volume sales dampen revenue

Macroeconomic headwinds during the first half of the year dampened Dangote Cement's revenue in H1'19. Its top line fell by 3.05% to N467.73 billion from N482.44 billion in H1'18. This was largely driven by a 4.60% decline in Nigeria's revenue. Although there was an increase of 1.01% in the revenue generated in the Pan Africa segment, it however was not enough to offset the lower revenue recorded in Nigeria. This affirms that Nigeria remains the main driver of profit. The cost of sales also moved in line with the topline, as it declined by 2.24% to N193.17 billion in H1'19 from N197.60 billion in H1'18.

Unimpressive operating performance

DangCem's operating performance during the review period was unimpressive. The company's operating profit during the period fell by 14.97% to N170.50 billion relative to N200.52 billion in the same period in 2018. This decline in the operating profit could be partly attributed to the spike in the sales and distribution expenses, which rose sharply by 29.22% to N80.31 billion in H1'19 compared to N62.15 billion in the corresponding period in 2018. The increase in the sales and distribution expenses was due to a surge in the haulage expenses during the period. The haulage expenses soared by 33.46% to N55.80 billion. Also, in the bid to remain the market leader in the cement industry, DangCem intensified its marketing strategies. This resulted in a spike in the company's advertisement and promotion expenses. It rose sharply by 141.09% during the period to N3.10 billion.

Fall in taxation offsets the unimpressive operating performance

The company's profit before tax declined by 16.20% to N155.49 billion during the period. Although, the company's finance cost declined by 8.88%, the 29.61% fall in the finance income limited the impact of the lower finance cost. However, Dangote Cement's profit after tax (PAT) was impressive. PAT increased to N119.24 billion in H1'19, 5.37% higher than N113.16 billion in H1'18. This was due to a 49.92% decline in taxation during the period.

DangCem's Marketing Strategy to boost performance in coming quarters

There is usually a slowdown in construction activities in Q3 which is mostly driven by climatic conditions (rainy season). Due to this, we expect a drag in the earnings growth of DangCEM in Q3'19. However, various activities such as promotion and discounts geared towards increasing penetration into the market, boost sales and maintain its position as the market leader, will increase earnings in subsequent quarters. Also, continuous improvement in the Pan-African business will support a bullish performance. In addition, Nigeria's 2020 budget has been submitted to NASS. If the budget is approved early, it would have a positive impact on the financial fortunes of the company due to its increased focus on infrastructure development. Hence, in determining DangCem's intrinsic valuation, we considered its current financial performance, growth prospects, expansion plans, competitive positioning and macroeconomic fundamentals. We believe that the company's current share price is undervalued. Accordingly, we place a **BUY** rating on the company's stock.

Industry and Company Overview

With a population of about 194 million people and a population growth rate of approximately 2.6% per annum, the demand for cement is expected to increase.

This will be driven by infrastructure, commercial, and residential real estate developments. The government, especially at the federal level, is usually the major driver of cement demand in Nigeria, accounting for an estimated 50% of total cement demand. The frequency of road and bridge reconstruction as well as rehabilitation of social infrastructure emphasizes the government's continued patronage of the industry. If the 2020 budget is properly implemented, the projected capital expenditure (CAPEX) of N2.46trn should result in an increase in demand for cement. Private sector construction is highly positively correlated with government expenditure on infrastructure. The increase in government expenditure on infrastructure will spur private construction.

Nigeria is currently the largest cement producer in Africa and in light of optimizing utilization of products, the producers of cement have identified an opportunity in the existing infrastructure gap, estimated at $300bn[42]. The use of cement roads has a higher initial cost but lower maintenance cost and relatively longer life span (27 years vs 17 years for asphalt roads).

[42]African Development Bank (AfDB)

On the market development front, many players in the industry have invested in capacity expansion with the aim of benefiting from economies of scale and improved margins. Top players such as Dangote Cement, WAPCO Lafarge Nigeria and Cement Company of Northern Nigeria (CCNN) have expanded capacity by consolidating smaller plants through acquisition and greenfield expansion, as the top three players account for over 95% of the industry's capacity. This has made competition in the industry intense, ultimately resulting in a price war and the development of new markets.

Company Overview

Dangote Cement is a subsidiary of Dangote Industries, which was founded by Aliko Dangote in 1981 as a trading business with an initial focus on importation of bagged cement and other commodities such as rice, sugar, flour, salt and fish. In the 1990s the group made a strategic decision to transition from a trading-based business into a fully-fledged integrated manufacturing operation.

Dangote Cement was incorporated as Obajana Cement Plc by Kogi state government in November 1992. The name was changed to Dangote Cement Plc in July 2010 just before the company listed on the Nigerian Stock Exchange (NSE) in October 2010. Prior to 2007, Lafarge WAPCO dominated cement production in Nigeria with a market share of about 60%. Dangote Group was initially the largest importer of cement. However, its backward integration, which culminated in the commissioning of the Obajana Plant in 2007, pushed its dominance to local production, hence displacing Lafarge WAPCO.

Price leader in the Cement industry

Dangote Cement is the leading cement company in the manufacturing and distribution of cement and related products in Nigeria. It accounts for at least 60% of total market share. This is due to its capacity, low operation costs and pricing strategies, establishing it as the price leader in the market. This ability to determine the price of cement in Nigeria has been key to the successes recorded in the last decade.

The company also remains one of the largest quoted company by market capitalization on the Nigerian Stock Exchange (NSE), with a market capitalization in excess of N2.49trn.

The Pan African cement company

Dangote Cement is geographically diversified across Africa, it operates 39 subsidiaries in 28 African countries. In its financial report, these counties are categorized into two reporting segments based on location – Nigeria and Pan African operations. The pan African operating segment has contributed remarkably to Dangote Cement's top line and we expect this performance to continue. This is mainly because the company intends to embark on massive expansion projects within Africa and South Asia.

Dangote Cement has a wide economic channel from favorable markets, efficient scale, cost efficiency, access to capital at a competitive rate, access to raw material and large infrastructure. All of these attributes are difficult to replicate.

Income statement for Dangote Cement Plc					
N'000	**2014**	**2015**	**2016**	**2017**	**2018**
Revenue	391,639,000	491,725,000	615,103,000	805,582,000	901,213,000
Cost of sales	(143,058,000)	(201,808,000)	(323,816,000)	(351,290,000)	(383,311,000)
Gross Profit	**248,581,000**	**289,917,000**	**291,287,000**	**454,292,000**	**517,902,000**
Administration expenses	(24,084,000)	(32,546,000)	(36,669,000)	(45,380,000)	(52,501,000)
Selling and distribution expenses	(41,004,000)	(53,500,000)	(82,667,000)	(109,917,000)	(136,925,000)
Other income	3,609,000	3,951,000	10,542,000	5,213,000	10,222,000
Operating Profit	**187,102,000**	**207,822,000**	**182,493,000**	**304,208,000**	**338,698,000**
Finance income	30,565,000	34,819,000	43,817,000	38,093,000	11,886,000
Finance cost	(32,978,000)	(54,347,000)	(45,381,000)	(52,711,000)	(49,778,000)
Profit Before Tax	**184,689,000**	**188,294,000**	**180,929,000**	**289,590,000**	**300,806,000**
Tax credit/(Tax expense)	(25,188,000)	(6,971,000)	(38,071,000)	(85,342,000)	89,519,000
Profit After Tax	**159,501,000**	**181,323,000**	**142,858,000**	**204,248,000**	**390,325,000**

Balance sheet for Dangote Cement Plc					
N'000	2014	2015	2016	2017	2018
Property, plant and equipment	747,794,000	917,212,000	1,155,711,000	1,192,140,000	1,171,864,000
Intangible assets	3,699,000	2,610,000	4,145,000	6,355,000	5,969,000
Investments	-	1,582,000	1,582,000	3,749,000	4,312,000
Deferred tax asset	16,633,000	14,465,000	51,306,000	30,625,000	40,622,000
Prepayments and other assets	79,491,000	9,094,000	13,196,000	22,715,000	42,858,000
Receivables from subsidiaries	-	-	-	-	-
Non-Current Assets	**847,617,000**	**944,963,000**	**1,225,940,000**	**1,255,584,000**	**1,265,625,000**
Inventories	42,687,000	53,118,000	82,903,000	94,594,000	106,998,000
Trade and other receivables	9,803,000	11,544,000	26,279,000	30,155,000	44,468,000
Due from related parties	-	-	-	-	-
Prepayments and other assets	64,020,000	60,526,000	78,280,000	117,104,000	104,263,000
Current income tax receivable			9,000	59,000	6,213,000
Cash and bank balances	20,593,000	40,792,000	115,693,000	168,387,000	166,896,000
Current Assets	**137,103,000**	**165,980,000**	**303,164,000**	**410,299,000**	**428,838,000**
Total Assets	**984,720,000**	**1,110,943,000**	**1,529,104,000**	**1,665,883,000**	**1,694,463,000**
Ordinary share capital	8,520,000	8,520,000	8,520,000	8,520,000	8,520,000
Share premium	42,430,000	42,430,000	42,430,000	42,430,000	42,430,000
Capital contribution	2,877,000	2,877,000	2,877,000	2,877,000	2,877,000
Currency translation reserve	(3,837,000)	(22,366,000)	78,964,000	75,441,000	72,605,000
Employee benefit reserve	(16,000)	(1,007,000)	-	-	-
Retained earnings	537,750,000	620,501,000	605,662,000	639,462,000	848,695,000
Equity Attributable to Owners of the Company	**587,724,000**	**650,955,000**	**738,453,000**	**768,730,000**	**975,127,000**
Non-Controlling Interest	4,161,000	(6,235,000)	(12,925,000)	12,630,000	11,486,000
Total Equity	**591,885,000**	**644,720,000**	**725,528,000**	**781,360,000**	**986,613,000**
Deferred tax liabilities	20,473,000	24,504,000	103,162,000	116,898,000	83,350,000
Loans and borrowings	131,942,000	208,329,000	152,475,000	242,894,000	125,725,000
Provisions for liabilities and other charges	4,011,000	3,283,000	3,344,000	3,416,000	2,753,000
Retirement benefit obligations	2,070,000	3,992,000	-	-	-
Deferred income	1,390,000	975,000	1,072,000	839,000	516,000
	-	24,442,000	17,730,000	-	-
Non-Current Liabilites	**159,886,000**	**265,525,000**	**277,783,000**	**364,047,000**	**212,344,000**
Bank overdrafts					
Trade and other payables	94,308,000	127,597,000	268,966,000	270,721,000	230,970,000
Income tax					
Current Income tax payable	2,481,000	1,289,000	18,220,000	63,901,000	9,223,000
Borrowings	117,263,000	47,275,000	220,300,000	144,783,000	220,128,000
Other current liabilities	18,897,000	24,537,000	18,307,000	41,071,000	35,185,000
Due to related parties					
Current Liabilites	**232,949,000**	**200,698,000**	**525,793,000**	**520,476,000**	**495,506,000**
Total Liabilites	**392,835,000**	**466,223,000**	**803,576,000**	**884,523,000**	**707,850,000**
Total Equity and Liabilites	**984,720,000**	**1,110,943,000**	**1,529,104,000**	**1,665,883,000**	**1,694,463,000**

Management & Government Overview

Dangote Cement's management has successfully operated the company since inception as evidenced by the firm's continuing record of excellent returns on invested capital. Management has done remarkably well in maintaining the firm's reputation as a force to contend with in the industry.

We find most of the qualities of the board to be in line with best practices. The board is made up of 15 members of which four are independent directors. The board members have the necessary skills and vast experience across regions that make them more than capable to implement sound decisions. The role of the Chairman is separated from the CEO's and the board looks at risk and strategy on both short and long-term basis.

Alhaji Aliko Dangote is the Chairman of the Board of Directors. He holds a BSc in Business Studies from the Al-Azahar University, Egypt. He is the founder and Chief Executive Officer of the Dangote Group. He serves on various boards, foundations, institutes and committees of the Federal Government of Nigeria.

Mr Joseph Makoju became the Group's CEO in April 2018. He has a BSc and an M.Phil in Mechanical Engineering. He has worked in several world class corporations including Shell BP, Blue Circle (UK) and WAPCO (now Lafarge Africa), which he led as Managing Director/CEO for a decade before taking up the appointment as Managing Director/CEO of National Electric Power Authority. He also served as Special Adviser (Electric Power) to the President, Federal Republic of Nigeria, under two separate administrations.

Chairman

Alhaji Aliko Dangote

Chief Executive Officer

Mr. Joseph Makoju

The Bulls Say and the Bears Say

Bulls say:

- Reputable company with a proven track record and strong brand recognition
- The wide infrastructure gap in the Nigerian economic space presents an opportunity for growth
- Better regional presence in Nigeria compared to peers
- Presence across Africa

Bears say:

- Government delay in the implementation and release of funds for capital projects
- Nigerian economy still remains the major driver of revenue
- Low purchasing power of African consumers

Risks and Outlook

The major risks that could prevent DangCem from achieving its goals of boosting earnings, increasing sales and managing costs is its exposure to credit, liquidity and market risk (currency and interest rates) arising from financial instruments.

The company manages foreign currency risk by monitoring its financial position in each country where it operates. Also, the company manages credit risk by ensuring that it transacts with only credit worthy counterparties.

DangCem manages liquidity risk by managing adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecasts and actual cashflows and also matching the maturity profiles of financial assets and liabilities.

APPENDIX - Valuation

We derived our valuation for Dangote Cement Plc by using the Discounted Cash Flow (DCF) methodology. Our fair value estimate per share for DangCem stood at **N207.32**, which is a 41.81% upside on its current share price of N146.2 as at October 24, 2019. The discount rate [weighted average cost of capital (WACC)] of 21.5% is derived using a 14.55% risk free rate, a beta of 1.2022, and a market risk premium of 7.64%. The calculated long-term cash flow growth rate to perpetuity is 3.5%.

We therefore place a **BUY** on the shares of the company at the current market price.