

LBS Breakfast Session



The Spectre of Stagflation

Presented by Bismarck Rewane
CEO, Financial Derivatives Company Ltd.
October 2nd, 2019

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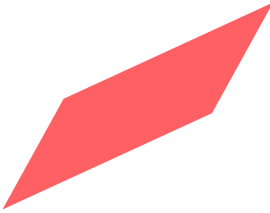
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October Outlook



September Highlights

Highlights- The Usual



- ❑ FBN PMI steeply high at 56.2 points in September
 - ❑ Indicating a likely boost to Q3 GDP
- ❑ Oil production in August up 5% to 1.88 mbpd
- ❑ Average Brent price up 4.64% in September to \$62.29 pb
- ❑ Revenue impact will be limited
- ❑ Average power output from the grid in September fell to 3,473 MW
- ❑ Average opening position of Deposit Money Banks was N185.87 bn
 - ❑ 109.5% higher than August
- ❑ FAAC shared in September was N720 bn, down 6.32%

The Usual

- ❑ Interbank interest rates swung between 3.21% pa and 33.86% pa (OBB)
- ❑ Maturing T/bills were 22.81% lower than new issues of N438 bn
- ❑ DMO bonds issued were oversubscribed by 6.69%
- ❑ Headline inflation declined for the third consecutive month to 11.02%
- ❑ MPC maintained status quo on monetary policy parameters
- ❑ Aggregate credit growth in banking industry up 5.33% to N16.397 trn on September 26 as banks comply with the 60% loan-to-deposit ratio
- ❑ US Fed lowers interest rate with no guidance for further cuts

Corporate Humour (A)



The only thing you can get in a hurry is trouble.
– *Anonymous*

It is better to travel hopefully than to arrive, cos the fun is in the journey.
- *Anonymous*



The Extraordinary

- ❑ USA manufacturing activity slows to a 10-year low
 - ❑ Contracting for the second month running
- ❑ The ISM index fell to 47.8 in September, lowest since June 2009
- ❑ The stock market fell 1.1% in reaction
- ❑ Saudi Arabia appoints new oil minister
 - ❑ A known protagonist for OPEC output discipline
- ❑ Timing coincides with ARAMCO IPO and partial privatization

The Extraordinary

- ❑ The FGN has approved an increase in VAT from 5% to 7.5%
- ❑ Still requires NEC and NASS approval
- ❑ Likely implementation in January 2020
- ❑ Total projected VAT to be collected is estimated at N2 trn

The Bizarre

- ❑ CBN raises Loan-to-Deposit Ratio from 60% to 65%
- ❑ Bank loan books and asset quality will come under pressure
- ❑ 12 banks flunking new LDR directive and CBN debiting N499bn
- ❑ There is a massive shortage of margarine across Nigeria
- ❑ Margarine is one of the 41 items on the foreign exchange restriction list
- ❑ Smugglers have been bringing it across from Benin Republic

The Bizarre- *Boris & Trump on the Ropes*

- ❑ Saudi Arabia's oil production facilities attacked by drones
 - ❑ Suspending production of 50% of oil for a few weeks
- ❑ Saudi Arabia and the US open the reserves spigot
- ❑ Prices spike 13.15% before retreating to \$61 pb
- ❑ Boris Johnson under pressure
 - ❑ 8 proposals sent to Parliament defeated
 - ❑ Supreme Court thwarts plan to undermine the legislature

The Bizarre- Boris & Trump *on the Ropes*

- Trump faces likely impeachment trial by congress
 - Destabilizing the White House and markets
 - A possible backlash could cost the democrats dearly in 2020
- The price of imported and locally produced rice spiked 30% to N22,000-
N24,000
- Turkey increased by 28.57% from N1400 to N1800 per kg

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Stagflation



Winston Churchill

Success is not final,
failure is not fatal: It is
the courage to
continue that counts

Probability & Risks of Stagflation

- ❑ Stagflation = slowing growth + rising prices
- ❑ Accompanied by high unemployment and falling investment
- ❑ There is a 25% probability of Nigeria slipping into stagflation

How will this happen?

A.

- i) Pressure on price level due to minimum wage consequential costs – N600bn (FGN + States)
 - ii) Arrears from April to November – N700bn
- ❑ i) + ii) as a percentage of money supply (N27.6trn) = 5%
 - ❑ Inflation impact = 1.5%

Probability & Risks of Stagflation

B. External imbalances & imported inflation

- i) Terms of trade deteriorating (now at 27.5)
- ii) High dependence on 'hot money' (73% of volatile capital importation)

C.

- i) Border closure plus food import restrictions hiking food inflation
- ii) Food inflation + imported inflation + wage inflation = higher inflation

Probability & Risks of Stagflation

D. Tepid growth

- i) Q3 growth estimated at 2.1% but higher than Q2
- ii) Not good enough and leaves a recessionary gap of 2.6%
- iii) Annual growth of 2% in 2019
- iv) Rate of gross capital formation is slow to negative

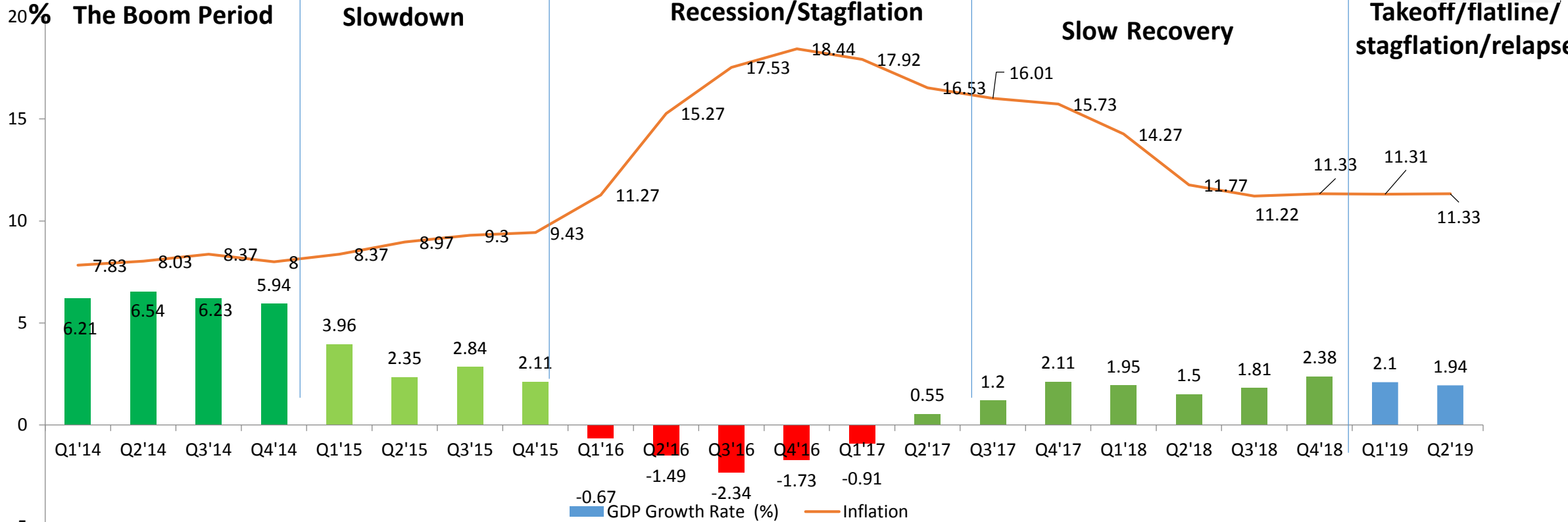
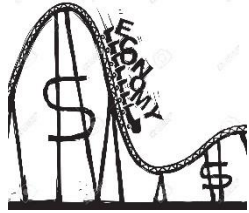
E. Unemployment

- i) No data on unemployment (latest: Q3 2018)
- ii) Anecdotal evidence points to jumping unemployment estimated at 30%

Conclusion

- ❑ Stagflation is unlikely but is probable
- ❑ Probability of stagflation is 25% in 2020
- ❑ Does Nigeria have a defensive tool kit to combat this unlikely but probable scenario?

Path to Recovery or Stagflation



Source: NBS, FDC Think Tank

□ Rigidities in the foreign exchange policy lead to supply-side disruptions

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Global Developments

US Economy: Tepid & Fragile

- ❑ Q2'19 GDP growth slumped to 2.0% from 3.1% in Q1'19
- ❑ US business investment declined by 0.1%
 - ❑ Steepest decline since Q4'15
- ❑ Consumer confidence fell by 7.41% to 125.1 in September
- ❑ Expectations index slid to 95.8 in September from 106.4 in August
- ❑ The US economy added 130,000 jobs in August
- ❑ Unemployment is steady at 3.7%
 - ❑ Has consistently remained below 4% for 18 months

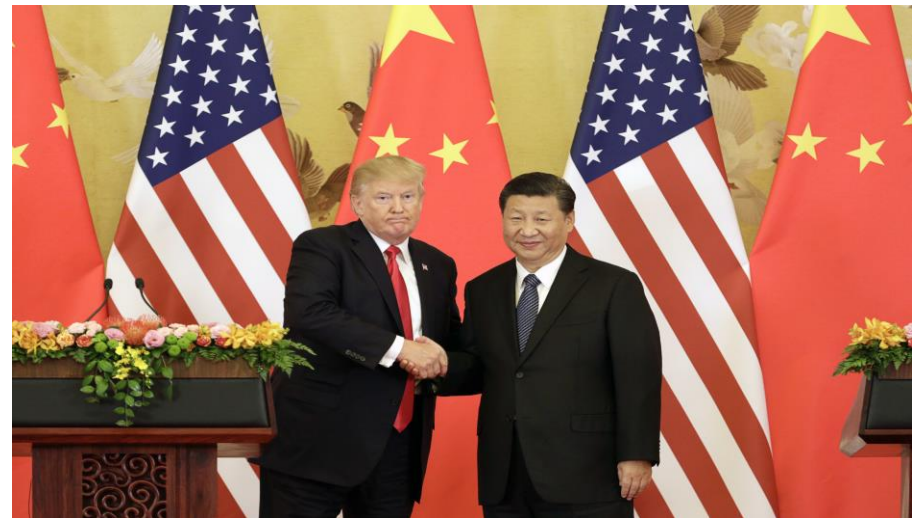
US - China Trade Talks

- US and China to resume trade talks next week

“Trade deal could happen sooner than you think” - Trump

- Trump delays tariffs on \$250 bn worth of Chinese goods to Oct 15

- Beijing has moved to increase imports of American soybeans, pork and other farm products



Fed Lowered Interest Rates

- ❑ Fed lowered its benchmark interest rates by 50 bps
 - ❑ Second rate cut in 2019
- ❑ Aimed at preventing a recession
- ❑ Refused to commit to any further cut in 2019
- ❑ Keeping an eye on the impact of trade wars



Corporate Humour (B)



A life spent making mistakes is not only more honourable but more useful than a life spent doing nothing.
- *George Bernard Shaw*

Behind every great fortune there is a crime.
- *Honore de Balzac*



ECB Cuts Rates by 10 bps

- ❑ European Central Bank votes to restart quantitative easing
 - ❑ In a bid to combat economic slowdown in the Eurozone
- ❑ Benchmark interest rate lowered by 10bps to -0.5%
- ❑ Comes at a time when the bloc's biggest economy, Germany, is on the brink of a recession
- ❑ German Sabine Lautenschlaeger quit the ECB board – effective Oct 1
 - ❑ More than two years before her tenure ends
 - ❑ A possible reaction to the latest stimulus measures
- ❑ ECB President Draghi due to handover to Lagarde on November 1

Impact on Nigeria

- ❑ Lower interest rates in the US to reduce risk of capital flight
- ❑ Failure to reach a deal could result in a hard Brexit
- ❑ A hard Brexit could trigger a recession in the UK
 - ❑ Reduce remittance flows to Nigeria
 - ❑ Depreciation in the value of the pound sterling and pound sterling domiciled assets
 - ❑ A depreciating pound sterling will reduce the cost of servicing pound sterling denominated debt

Sub-Saharan Africa



South Africa & Nigeria

- ❑ Buhari leaves for South Africa on a three-day visit

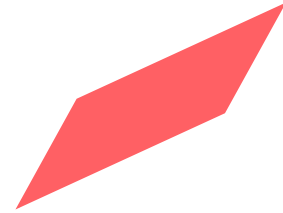
- ❑ On the invitation of Cyril Ramaphosa

- ❑ The two countries constitute 37.4% of SSA's GDP

- ❑ South Africa and Nigeria stand to benefit most from AfCFTA



South Africa & Nigeria



	South Africa	Nigeria
<i>GDP</i>	\$360.5 bn	\$482.1 bn
<i>Growth</i>	Economic growth expanded to 3.1% in Q2	Economy slowed to 1.94% in Q2
<i>Population</i>	58.7 mn	201 mn
<i>Income per capita</i>	\$6,141	\$2,399
<i>Share of SSA GDP</i>	16.0%	21.4%
<i>Economic structure</i>	Diversified economy	Commodity dependent
<i>AfCFTA</i>	Major initial beneficiary	Delayed beneficiary
<i>Inflation</i>	4.30%	11.02%

Source: Trading Economics, EIU, FDC Think Tank

Benin – Nigeria Border Closure – Smugglers Groan and Customs Perplexed

- ❑ Nigeria and Benin are embroiled in a trade dispute
 - ❑ Barely two months after signing the regional trade pact
- ❑ Benin is a key transit route for traders
 - ❑ Over 80% of West African cross-border trade is by road
- ❑ Benin's economy is heavily reliant on the informal re-export and transit trade with Nigeria
 - ❑ Approximately 20% of GDP
- ❑ Benin is Thailand's largest grain importer
 - ❑ Benin's population is barely 5% of Nigeria's population

South Africa Appoints Economic Team

- ❑ SA appoints economic advisory council to accelerate informed policy implementation
- ❑ Team comprises of renowned economists and private sector experts and is chaired by the President
- ❑ Team includes foreigners notably Harvard economist, Dani Rodrik
- ❑ Dani Rodrik is the author of the “Globalization Paradox: Democracy and the Future of the World Economy”



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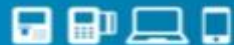


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Domestic Economic Performance

Leading Economic Indicators- Output

LEI	Aug'19	Sept'19	% Change	Oct' 19*
GDP Growth (%)	2.10 (Q1'19)	1.94(Q2'19)	-0.16	2.10(Q3'19)
Oil Production (mbpd)	1.87	1.80*	-3.74	1.75
Oil Price (\$pb; avg)	59.53	62.29	4.64	60.00
Power (MW; avg)	3,526.00	3,473.00	-1.50	3,500.00
PMI	FBN: 50.9 CBN: 57.9	56.2 57.7	10.41 -0.35	55 57.0

Source: CBN,NBS, EIU, *:FDC's forecast



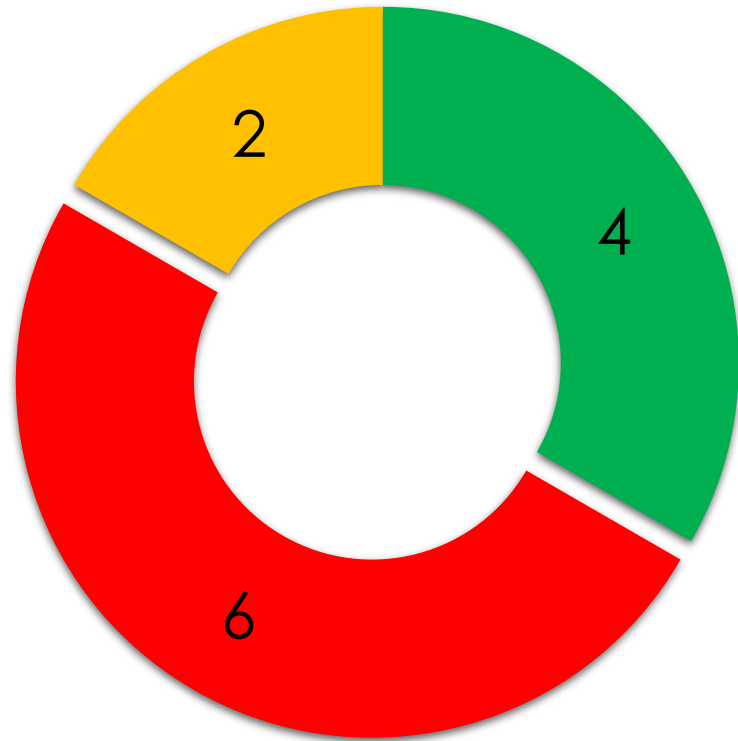
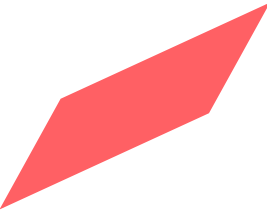
Leading Economic Indicators- Markets

Source: CBN,NBS, EIU, *: FDC's forecast



LEI	Aug'19	Sept'19	% Change	Oct'19*
Primary T Bills (%):				
91 days	11.10	11.10	-	11.00
181 days	11.59	11.75	0.16	12.00
Average Lending Rate (%)	20.00	20.00	-	20.00
Average Opening Position (N'bn)	88.72	185.87	109.50	200.00
External Reserves (\$bn; month-end)	43.61	42.11	-3.44	40.00
Exchange rate (N/\$; month-end)	IFEM: 306.95	306.95	-	307.00
	Parallel: 360.00	360.00	-	360.00
	IEFX: 362.93	362.02	-0.25	363.00
Inflation (%)	11.02	11.22*	0.63	11.25
Stock Market (N'trn)	13.39	13.47	0.60	13.50

How Did the LELs Perform?



■ Positive ■ Negative ■ Neutral

Four positive; six negative; two neutral

Impact

- ❖ Economic challenges persist
- ❖ External imbalances are growing
- ❖ Vulnerabilities are rising
- ❖ Risks are elevated

Corporate Humour (C)

How to cross the roads in Nigeria,
look left & right for cars, look up for
planes and look down for bombs,
then you are good to go.

NB: Please look back for kidnappers!

- Anonymous

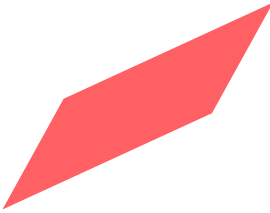


Doing business without
advertising is like winking at a
girl in the dark because she
cannot see you.

- Anonymous



Inflation Down to 42-Month Low



□ Headline inflation declined to 11.02%

□ Lowest level since February 2016

□ Due to:

□ Declining consumer disposable income

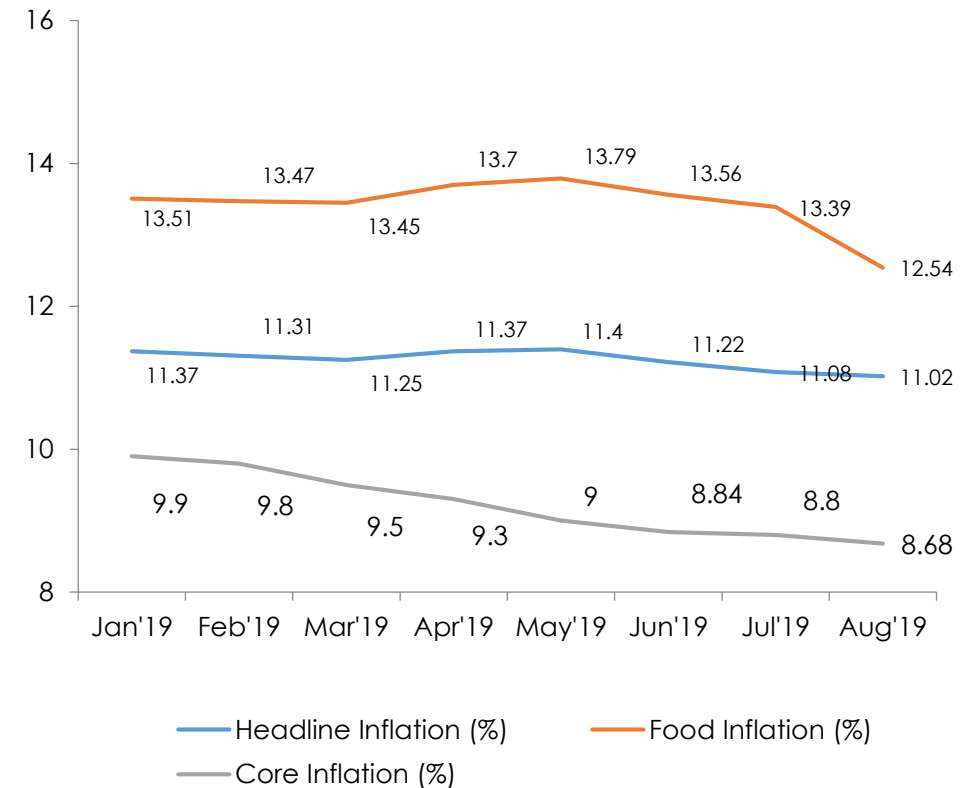
□ Increased output (harvest)

□ Food inflation down to 13.17%

□ Core inflation down 8.68%



Headline Inflation (%)



Source: NBS

Capital Importation Down 31.4% in Q2

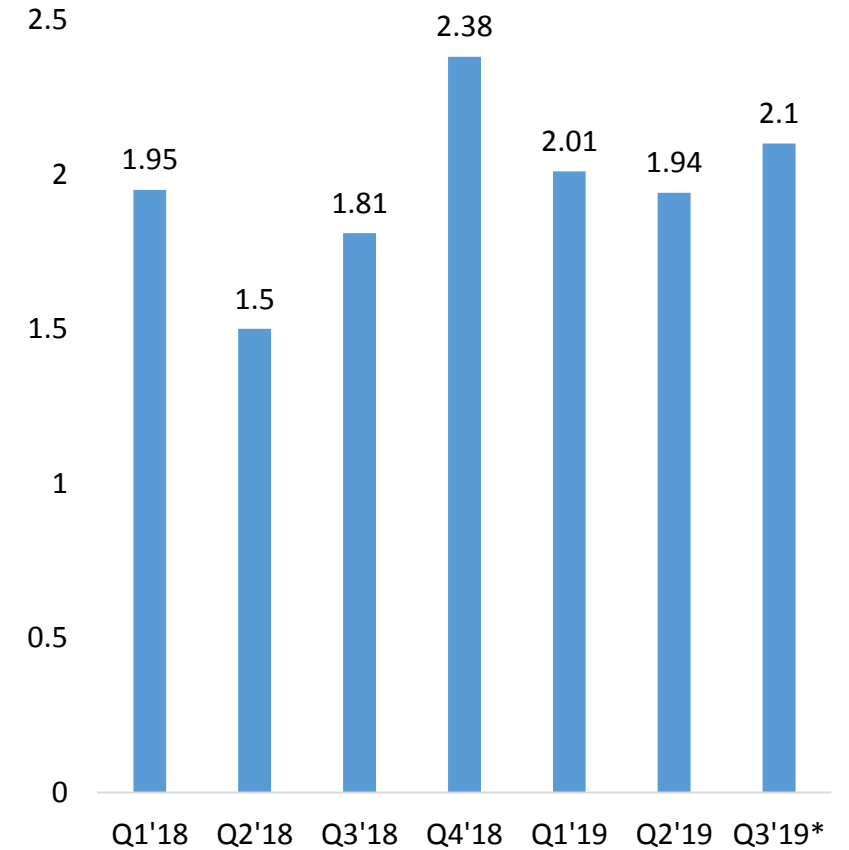
- Capital imports down ↓ 31.4% to \$5.8 bn in Q2'19
 - Portfolio investments accounted for the largest value \$4.29 bn (73%)
(hot money)
 - Other investments at \$1.30 bn (22.41%)
 - Foreign direct investment \$222.89 mn (3.83%)
- Largest source of capital investment
 - UK (\$3.13 bn)
 - US (\$1.15 bn)
 - UAE (\$344 mn)
 - SA (\$314 mn)



Economic Outlook

Q3'19 GDP

- ❑ Q3'19 growth projection to inch up to 2.10%
- ❑ Growth to remain lacklustre
- ❑ Manufacturing sector to grow at a slower pace
- ❑ Slower growth in the oil sector



Source: NBS, FDC Think Tank

Inflation Outlook

Demand drivers

- ❑ Money supply expected to grow
- ❑ Weak consumer spending

Supply drivers

- ❑ Harvest impact
 - ❑ Tomato ↓ 28.57% to N10,000 per 50 kg
 - ❑ Pepper ↓ 10% to N9,000 per 50 kg
- ❑ Full impact of the border closure
 - ❑ Rice ↑ 30% to N22,000-N24,000 per 50 kg
 - ❑ Turkey ↑ 28.57% to N1,800 per kg

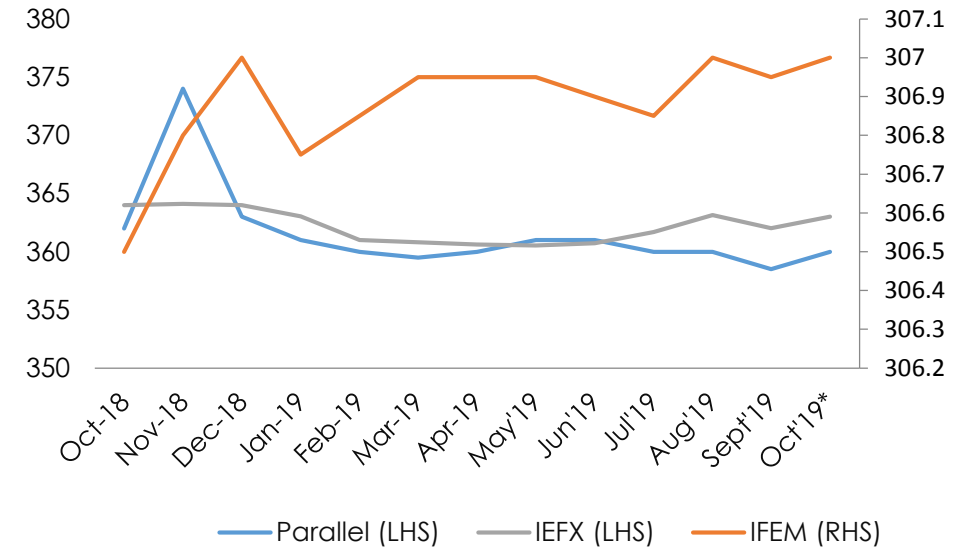
Forex Market Outlook

- ❑ Demand for dollars to increase in the coming month
 - ❑ Inventory build up ahead of Christmas
 - ❑ Will mount pressure on external reserves
- ❑ Gross external reserves level may decline to \$40 bn
 - ❑ Now at \$42.11 bn

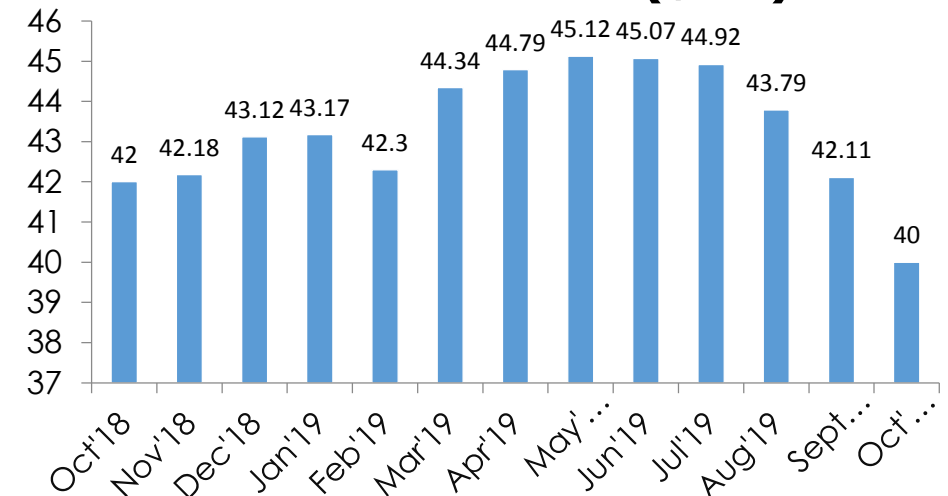


Source: FMDQ, CBN, FDC Think Tank

Exchange Rate (N/\$; end)



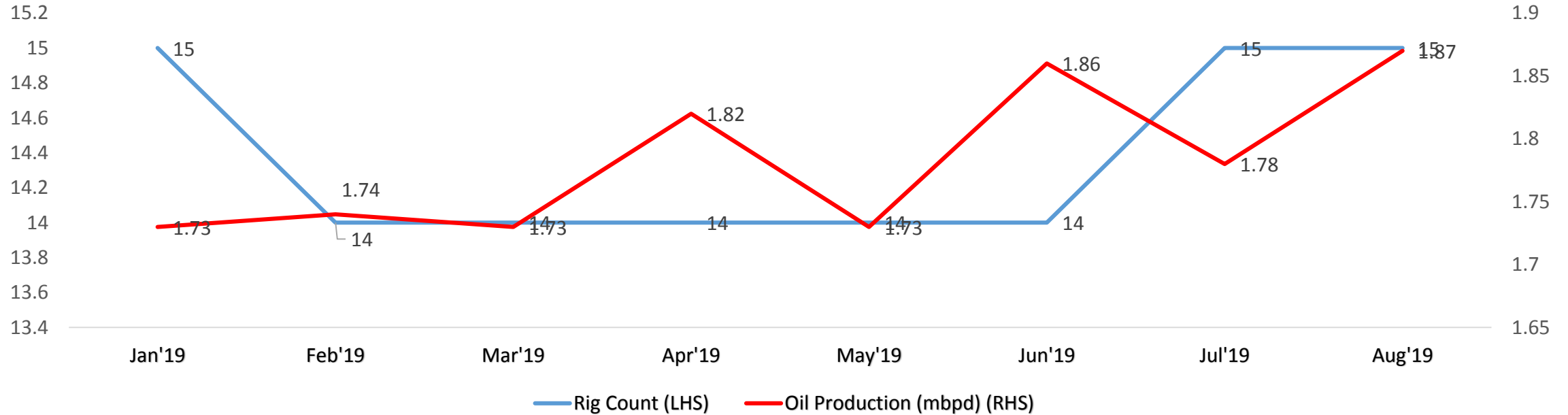
External Reserves (\$'bn)



Rig Count ↔, Oil Production ↑

Nigeria Oil Production vs Rig Count

Source: OPEC, Baker Hughes



- ❑ The number of operational rigs flat at 15 in August
- ❑ Despite increased oil production (up 5.06% to 1.87 mbpd in August)
- ❑ Oil production expected to decline in coming months
 - ❑ Nembe Creek Trunk placed under force majeure

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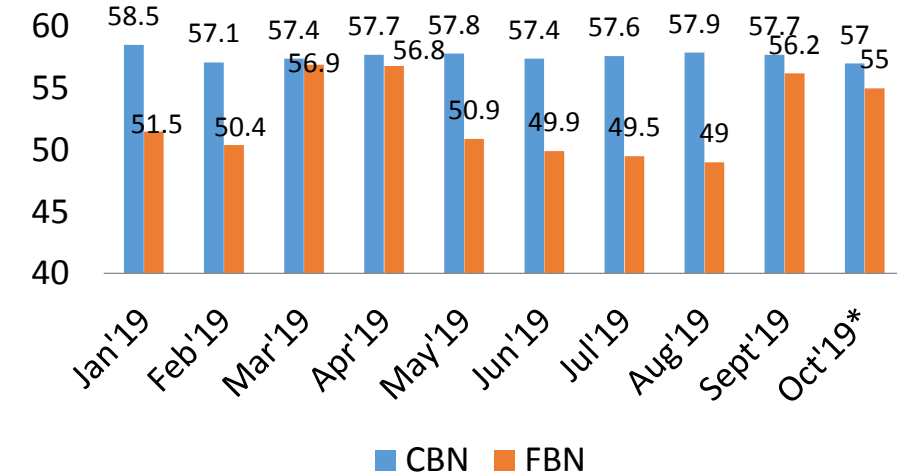
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Market Proxies



FBN PMI Up 10.41%

	August'19	September'19	October'19 Forecast
CBN	57.9	57.7 	57
FBNQuest	50.9	56.2 	55



Source: CBN, FBNQuest



- PMI up to 56.2pts in September

- All sub-indices increased

- Output index recorded the highest improvement

- Delivery time index recorded the lowest improvement

- Expected to increase in the coming months

- Inventory build up ahead of Christmas celebration

FAAC Down 6.32%

FAAC down 6.32% to N720.88 bn

Driven by:



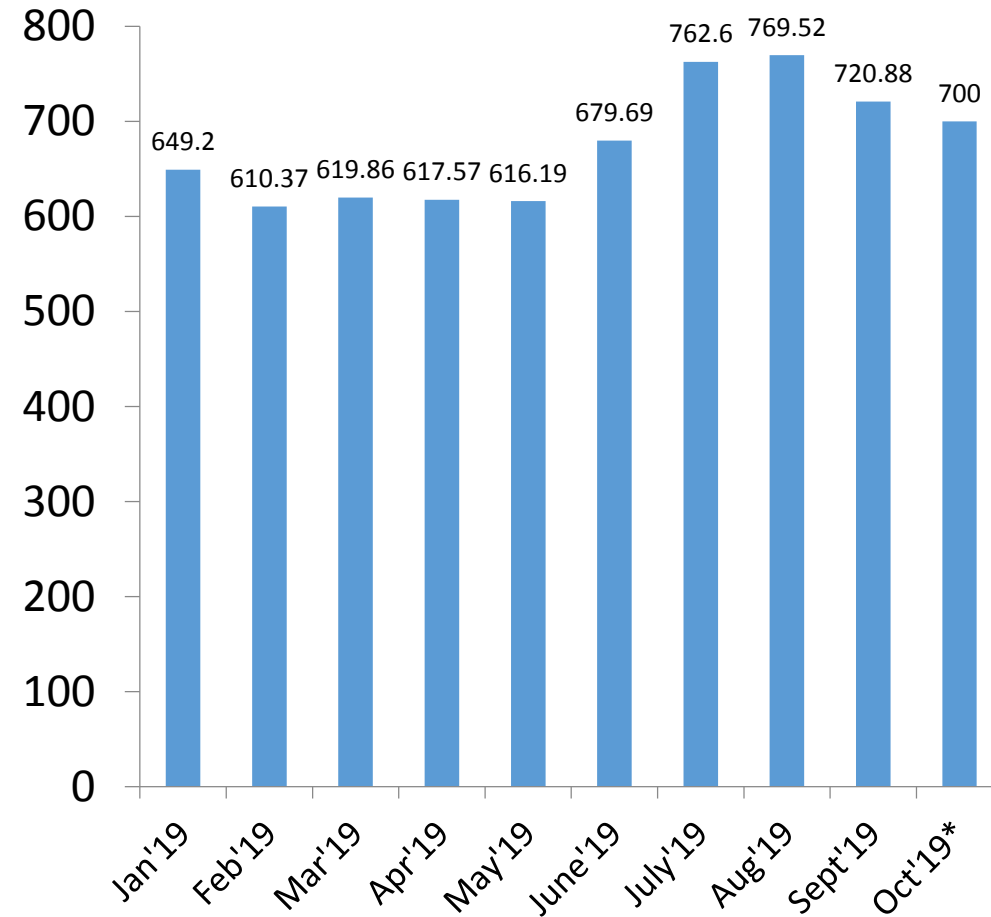
Lower oil revenue

Excess crude account now at \$328.12 mn

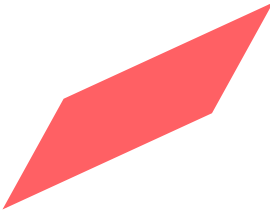
Projected to decline in subsequent months

Falling oil prices

FAAC (N'bn)



CBN's Cashless Policy

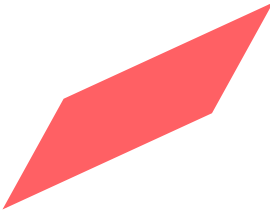


- ❑ CBN introduces a new policy on cash-based transactions in Nigeria
 - ❑ Cash deposits above N500,000 for individuals to attract 2% fee
 - ❑ Cash deposits above N3 mn for corporates to attract 3% fee
 - ❑ Takes effect in Lagos, Ogun, Kano, Abia, Anambra and Rivers states
 - ❑ Lagos is the commercial hub for the country
 - ❑ Abia is the commercial hub for the East



States	GDP (2017) – N'trn	Inflation Aug'19 (%)	Inflation Rank
Lagos	N/A	11.41	15 th
Ogun	2.81	11.63	20 th
Kano	2.97	13.27	36 th
Abia	N/A	10.62	9 th
Anambra	3.08	11.86	25 th
Rivers	5.11	11.68	21 st

Corporate Humour (D)



Early to bed and early to rise
probably indicates unskilled
labour.

- *John Ciardi*

In the business world, everyone is
paid in two coins: cash and
experience. Take the experience first,
the cash will come later.

- Harold Geneen





E-payments: Cheques Losing Traction

	Value (N'bn)	Change in Value (%; m-o-m)	Change in Volume (%; m-o-m)
Cheques	336.59	17.60	16.22
POS	245.99	0.76	4.56
NIP	7,867.47	8.92	12.96
NEFT	887.41	11.50	20.35

Source: NIBBS



□ In the first six months:

- Value of transactions through various e-payment up  103% to a N231.25 trn
- Volume of transactions  by 42% to 3.07 bn
- Convenience of PoS transactions has attracted the younger generation

The Economics of the Payment System

M= Money supply

V= Velocity of Circulation

P= Price Level

T= Volume of Transactions

- Increased velocity of money

- $M * V = P * T$

- Velocity of circulation of money up from 1.19x in Q1'19 to 1.25x in Q2'19

- Impact of banks 60% LDR

- Keeps a cap on inflation

- Could lead to structural unemployment, as cash handlers are displaced

- Boost in tax revenue as number of unreported transactions declines

- Increased CBN savings due to lower cost of printing currency notes

Ships Awaiting Berth

- ❑ FGN to link the Apapa and Tin Can ports via rail before the end of 2020
 - ❑ To implement the single window system
 - ❑ The only country in West Africa yet to implement the single window system



Average Power Output Below the 4,000 MW Threshold



4861MW

Peak Energy
Generated



3477MWH/H

Average Energy
Generated

573.6MMSCF/D



Average Gas
Delivered to
Plants



0

Total Grid
Collapses

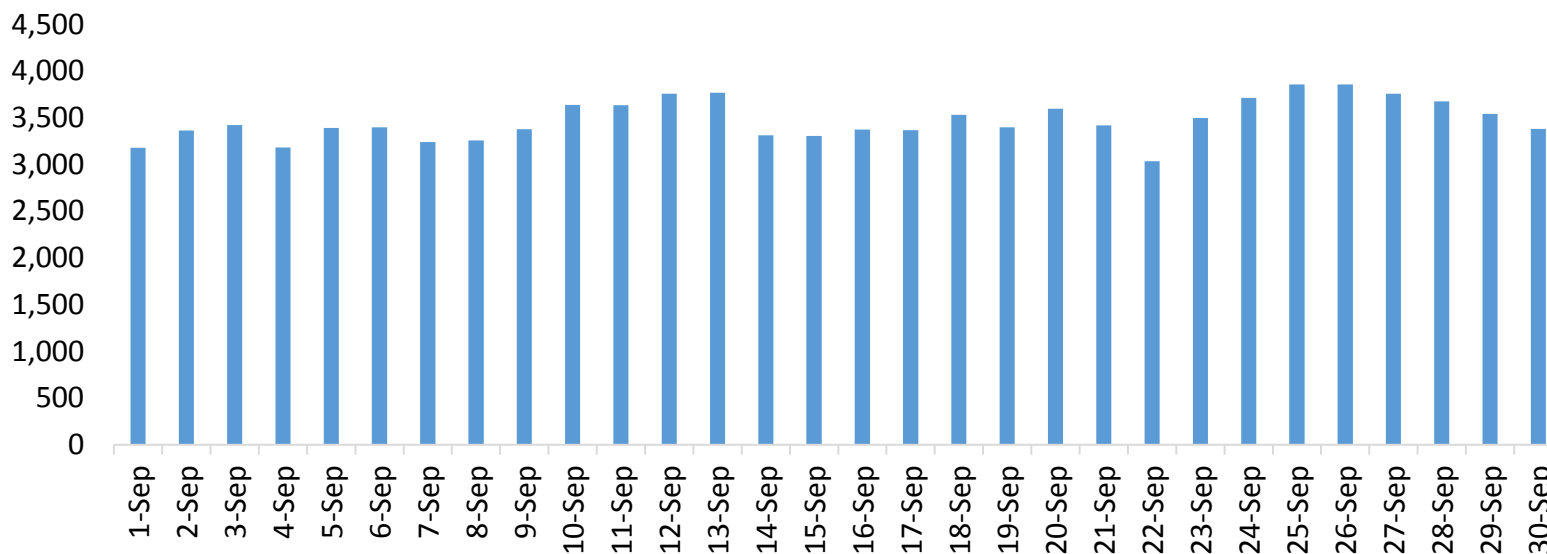


4093MW

Average
Constrained
Energy



Power Output MWh/hr



Source: Lavayo Advisors



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Power Sector News

- ❑ FGN approves N600 bn facility for power sector
- ❑ AfDB approves \$500,000 for clean energy in Nigeria
- ❑ World Bank in talks with Nigeria over new \$2.5 bn power project loan
- ❑ Nigeria targets US investors in gas flare business



Source: Lavayo Advisors

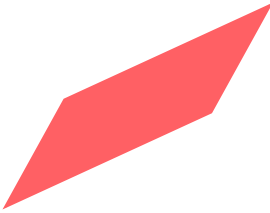


Policy Update

Monetary Policy Outlook

- ❑ Oil prices will trade at approximately \$55 - \$60 pb
- ❑ External reserves will flat line at \$41 bn
- ❑ Foreign exchange intervention will remain constant
- ❑ November MPC likely to maintain status quo
- ❑ Use OMO to push up rates to defend the naira
- ❑ If inflation remains above target range (6-9%), MPC will not lower rates
 - CBN
- ❑ Inflationary pressure to be reignited
- ❑ Increased seasonal demand, minimum wage implementation, forex restriction on food imports and 60% LDR ratio (to increase to 65% in December)

Monetary Policy Outlook



- ❑ If US-China trade tensions and Brexit fears persist
 - ❑ Uncertainty about global recession will heighten
 - ❑ Compelling the US Fed and other central banks in advanced economies around the world to lower interest rates further
 - ❑ This increases the interest rate differential between US and Nigerian bonds
 - ❑ Reducing the probability of capital outflows

Corporate Humour (E)

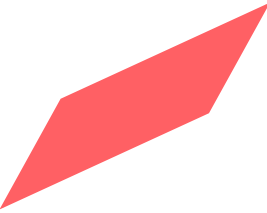


The only person who listens to both sides of a husband and wife argument is the woman in the next apartment.
- *Sam Levenson*

Be true to your teeth or they'll be false to you.
- *Anonymous*



Fiscal Policy



- ❑ If oil prices slide to \$50-55 pb & OPEC quota is tightly enforced – oil production will fall to 1.69 bpd
- ❑ Fiscal deficit to widen and borrowing to increase – likely eurobond issuance of over \$5 bn
- ❑ Aggressive tax drive to raise revenues
- ❑ States to start repayment of bailout loan from CBN

Investment Policy

❑ In the agricultural sector:

❑ Provision of high-yielding seedlings

❑ Fertilizer subsidy

❑ Single-digit loans by government agencies



❑ Nigeria now one of the “top 20 improvers” in Doing Business 2020

❑ Has made major improvements by operationalizing a new electronic platform that integrates the tax authority and the Corporate Affairs Commission (CAC)



Commodities


Commodities Update

Export Commodities	September	%Change (Aug-Sept)	Outlook (October)	Import Commodities	September	%Change (Aug-Sept)
Oil (\$/b)	62.29	4.64% ↑	60	Wheat (\$/bushel)	478.75	0.05% ↑
Liquefied Natural Gas (\$/mmbtu)	2.53	16.59% ↑	2.60	Sugar (\$/pounds)	11.88	2.77% ↑
Cocoa (\$/mt)	2,372.00	5.66% ↑	2,400	Rice (\$/cwt)	12.16	1.67% ↑
				Vegetable oil (25 liters)	11,000	10% ↑



Stock Market Review

Nigerian Stock Market in September

Market cap  0.45% to N13.45 trn

NSE ASI  0.38% to 27,630.56

Eight days positive, 12 days negative

Average volume traded  9.1% to 227,778,327

Negative market breadth of 1.22x




44 stocks gained

86 stocks remained neutral

36 stocks lost



Peer Comparison

Exchange	YTD Return	Driver
NSE ASI	 0.38 %	<ul style="list-style-type: none"> Bargain hunting especially in the oil & gas space Tier 1 banks' H1 '19 results and interim dividend declarations
JSE ASI	 1.56 %	<ul style="list-style-type: none"> Bargain hunting <ul style="list-style-type: none"> Traded at the biggest discount to US stocks Strength in global tech investor (Naspers) and mining stocks
GSE	 4.1%	<ul style="list-style-type: none"> Increase in FPI outflows Negative sentiment driven by lingering banking concerns

Sub-Index Performance in September

- Oil & gas recorded highest gain
 - Due to bargain hunting after emerging as the worst performing sector in August

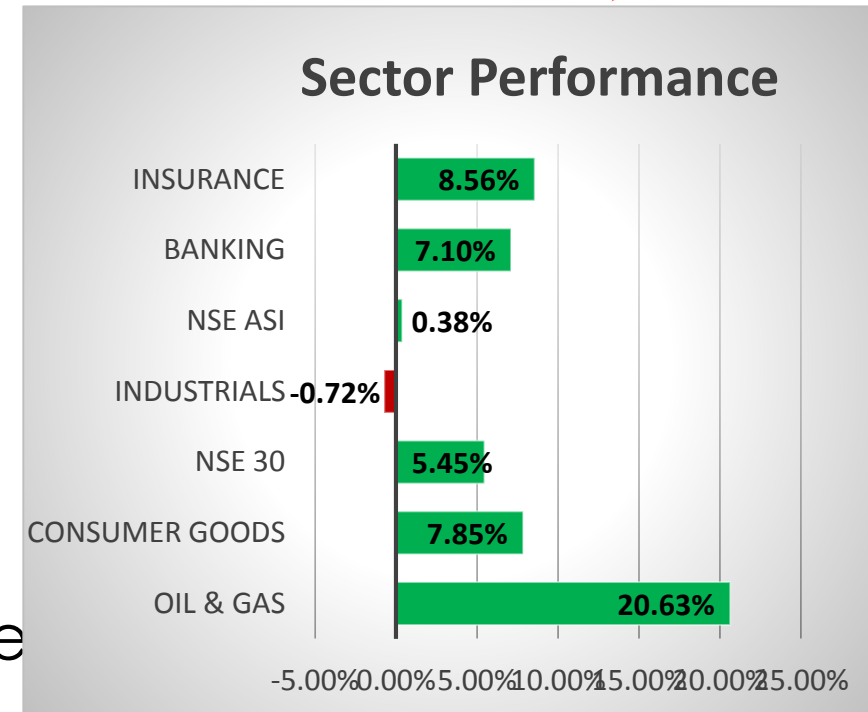
Industrials recorded the worst performance

- Due to sell-off in Dangote cement

Gains in consumer goods driven by gains in Nestle

Gains in banking driven by H1 '19 result by tier one banks and dividend declaration

Gains in insurance driven by bargain hunting as investors expect industry consolidation



Corporate Humour (F)



Give a civil servant a good case and he'll wreck it with clichés, bad punctuation, double negatives and convoluted apology.

- Alan Clark

Balancing the budget is like going to heaven. Everybody wants to do it, but nobody wants to do what you have to do to get there.

- Phil Gramm

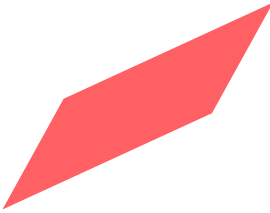
BUDGET



Corporate Actions

- ❑ NSE announced the commencement of its hackathon and idea innovation contest designed to improve the Nigerian capital market
- ❑ AGLEVENTIS notifies of an offer for the proposed buyout of other shareholders of the company
- ❑ NAICOM confirms 26 insurance companies recapitalization plans out of the 57 listed insurance companies
- ❑ Wapic Insurance Plc launched a new capital raising program aimed at raising about N5.93 bn

Outlook for October

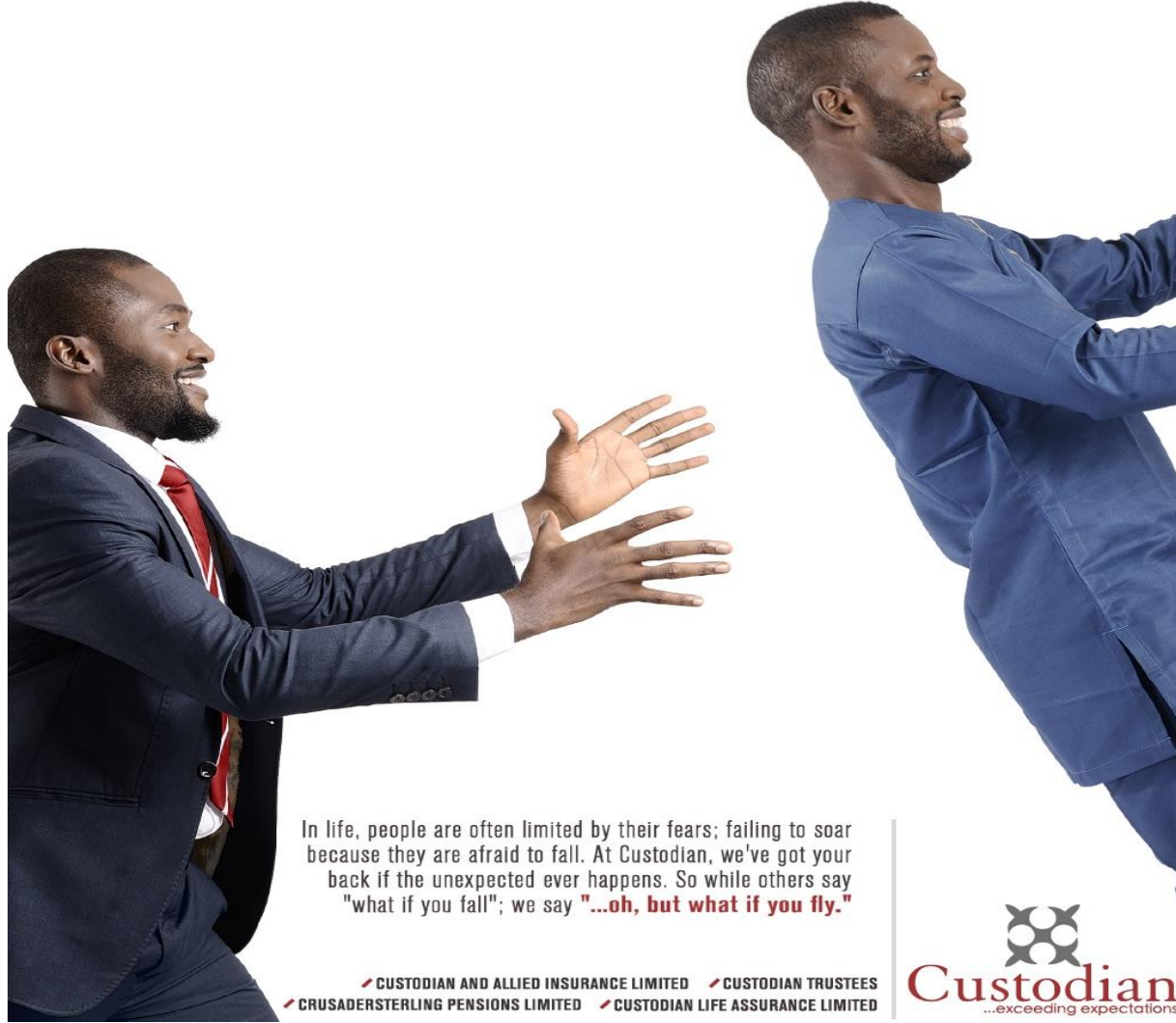


- ❑ Likely increase in FPI driven by
 - ❑ Declining interest rates in major economies
 - ❑ Stable foreign exchange as CBN commits to support the naira
- ❑ Foreign investment in money market instruments to outweigh foreign investment in equities
- ❑ Portfolios to benefit from both short and long term strategies
 - ❑ Short-term: value in riding the volatility
 - ❑ Long-term: value in positioning with healthy companies in high growth industries
- ❑ In a stagflation environment – investors should stick to a strong long-term strategy



Trust

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

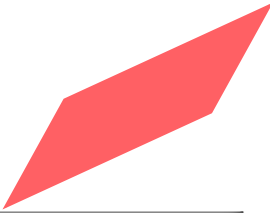


In life, people are often limited by their fears; failing to soar because they are afraid to fall. At Custodian, we've got your back if the unexpected ever happens. So while others say "what if you fall"; we say "**...oh, but what if you fly.**"



Corporate Earnings

Banking Industry - H1'19



	GTB	Zenith	Access	UBA
Gross Earnings	↓ 2.1% to N221.9 bn	↑ 2.9% to N331.6 bn	↑ 28% to N 324.37 bn	↑ 10.3% to N131.7 bn
Interest Income	↓ 8% to N149 bn	↓ 6.2% to N214.6 bn	↑ 83.6% to N110.8 bn	↑ 9% to N98.6 bn
Profit After Tax	↑ 3.7% to N99.1 bn	↑ 8.7% to N88.9 bn	↑ 86% to N41.2 bn	↑ 21.1% to N28.7 bn
Impairment	↑ 7.9% to N2.19 bn	↑ 41% to N13.7 bn	↓ 32% to N3.4 bn	↑ 17.9% to N1.7 bn
EPS	↑ 3.5% to N3.5	↑ 7.7% to N2.83	↑ 80.5% to N1.39	↑ 34% to N0.82
Dividend Yield	9.89%	15.01%	6.99%	13.82%
P/E Ratio	4.13x	3.07x	1.82x	2.63x
YTD Change	-15.2%	-18.9%	8.09%	-21.79%

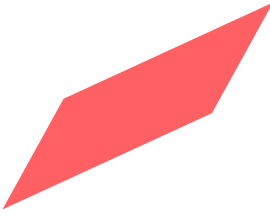
❑ Mixed earnings result

❑ Increasing regulatory risk

❑ Increasing financial disintermediation

❑ Expanding sources of revenue a significant determinant for future performance

Banking Industry Outlook



- ❑ Financial service architecture to witness significant shift
- ❑ Fintech disruption
 - ❑ Erosion of transaction revenue for banks
 - ❑ Banks to heavily invest in technological upgrades & better customer experience
 - ❑ Pressure on margins
- ❑ Larger banks appear to have an advantage in the application of technology
 - ❑ Efficient use of technology by larger banks with economies of scale to reduce their cost
 - ❑ Resulting in decline in cost-to-income ratio
- ❑ Likely consolidation of the industry – increase in merger and acquisition deals
- ❑ To benefit from expected increase in trade among African countries from current level of 16% to 60% by 2022 as a result of AfCFTA

Oil & Gas Industry - H1'19

	TOTAL	Oando	Forte Oil	11PLC (Mobil)	Seplat
Revenue	↓ 3% to N150.8 bn	↑ 6.1% to N315.4 bn	↑ 34% to N82.8 bn	↑ 8% to N92.80 bn	↑ 4% to N109 bn
PAT	↓ 98% to N130 mn	↓ 5.7% to N7.2 bn	↑ 387% to N5.4 bn	↓ 23% to N4.17 bn	↑ 153% to N37.5 bn
Free cash flow	↓ 68% to -N11.8 bn	↓ 92.5% N1.3bn	↑ 701% to N13.2 bn	↑ 43% to N11.06 bn	↑ 4% to N77.7 mn
PE	17.27x	1.71x	2.45x	6.87x	3.59x
DY	13.49%	24.39%	31.72%	5.97%	7.7%
YTD Change	-36.2%	-24.8%	-44.9%	-17.2%	-13.3%



- Most players in the down stream reported decline in PAT
- About \$11.6 bn worth of investment made so far in 2019
 - Mainly offshore investments
- Q3'19 performance expected to be better than Q2'19
- Local players trading at a discount to global players

FMCG Industry (Breweries) ~ H1'19

	Guinness Nig. PLC	Nigerian Brew. PLC.	Int' Breweries PLC
Revenue	↓ 8% to N131.498 bn	↓ 1% to N170.2 bn	↓ 29% to N68.630 bn
PBT	↓ 29% to N7.103 bn	↓ 30% to N19.4 bn	↑ 101% to N10.526 bn
FCF	↓ 51% to N3.13 bn	↓ 141% to N2.4 bn	↓ 60% to N15.4 mn
EPS	↓ 24% to N2.50	↓ 28% to N1.66	↓ 142% to N(80)
PE	13.59x	28.98x	-
Dividend Yield	4.47%	4.63%	2.92%
YTD	-52.8%	-38.6%	-58.7%

□ Underwhelming H1'19 result

□ Inability to pass cost of excise duty to consumers

□ Weak demands


□ Stiff operating environment

□ Weak expectations for Q3'19 result


Telecom Industry - MTN H1'19



- 2nd largest company by market capitalization

- Revenue  by 12% to N566.9 bn

- Driven by a 32% increase in data revenue

- PBT  35% to N98.9 bn

- Free cash flow down 146% to N72.76

- Due to regulatory fine of N110 bn

- PE of 15.1x

- Share price YTD gain of 31.8%

- Granted a full Super-Agent licence by the CBN

- The license enables MTN Nigeria to convert existing airtime agents and recruit other small businesses to distribute financial services

- To be operated on cash basis till mobile wallets are created

- MTN to raise N100 bn in tranches of N25 bn

- Bringing the CPs by non-banks in 2019 to N425 bn

Corporate Humour (G)



First rule to leadership:
everything is your fault.
- *Anonymous*

Religion is like a blind man
looking in a black room for a
black cat that isn't there,
and finding it.
- Oscar Wilde



PSB - Potential to Deepen Financial Inclusion & Transactions

- ❑ CBN introduced the framework for PSB's
 - ❑ To promote financial inclusion
 - ❑ Enhance access to financial services for the unbanked and underserved segments of the population
- ❑ PSB operate on an asset-light premise
 - ❑ Through digital platforms and physical access points (agents)
 - ❑ Drastically reducing customer acquisition and servicing costs
 - ❑ Telcos at the forefront due to existing capability and infrastructure
- ❑ Telcos boast of an active subscriber base of 169.1mn
 - ❑ More than 5x the number of BVNs (33.5mn)

Population -
190mn

Critical Success Factors of PSBs

□ Key considerations:

- Leverage on existing businesses
- Flexible cost structure
- Customer-centric approach
- Leverage on innovation
- Follow your customer is the KYC
- Form alliance with traditional banks
- Merchant acquisition to be as central as adding new customers

New 6Cs for PSBs

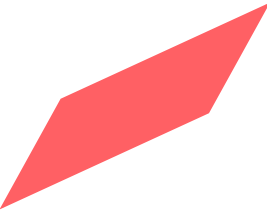
	Payments banks	Commercial banks
Customers	 Higher customer engagement	
Channels		 Branches
Culture	alternative, innovative, collective, new, enterprising, dynamic, interesting, different	corporate, rigid, bureaucracy, official structure, tradition, governance, workforce
Costs		
Capital		 Capital Intensive
Collaboration	 Many	 Few

Source: KPMG analysis



Aviation Update

Aviation Update - IATA



- ❑ Airline industry profitability in North America improved in Q2
- ❑ Europe and Asia Pacific margins were lower
- ❑ Economy passenger yields were higher for summer season peaks
- ❑ Global load factors were at seasonal highs of 82.7%
- ❑ Asia Pacific passenger demand is affected by trade wars and slow economic growth
- ❑ Industry wide free cash flow fell to 5% of revenues
- ❑ Jet fuel prices spiked 11% after the Saudi oil fields attack in September

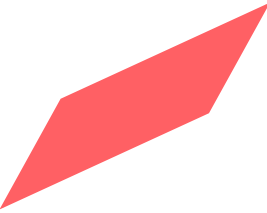
Aviation Update - IATA

- ❑ Global passenger yields are 3% below September 2018
- ❑ Premium class traffic of origin-destination traffic fell from 4.1% to 3.9% in 2019

Aviation Update ~ Regional Markets

- ❑ Only 28 of the 55 African countries are implementing the Single African Air Transport Agreement (SAATM)
- ❑ ASky remains the dominant carrier in the West African region
- ❑ Ethiopian Airlines and RwandAir are jostling for market share
- ❑ Border closure has increased demand for air travel within West Africa
- ❑ Royal Air Maroc has joined the One-World alliance along with British Airways
- ❑ Royal Air Maroc has discount fares
 - ❑ But departure from Lagos is 5.30a.m checking in at 3 am

Aviation Update - Domestic



- ❑ Enugu Airport shut for runway maintenance
- ❑ Ethiopian Airlines to operate out of Port-Harcourt
- ❑ Port-Harcourt may become more lucrative than Enugu
- ❑ Air Peace scored a major PR coup with the evacuation of returnees from Johannesburg
- ❑ It has commenced daily flights to Warri
- ❑ International network carriers are offering mouth watering discounts

Aviation Update - Domestic

- ❑ Load factors outbound from Lagos are down to 70% premium and 85% economy
- ❑ British Airways is aggressively competing on pricing into Heathrow and North Africa



**LAGOS
BUSINESS
SCHOOL**
PAN-ATLANTIC UNIVERSITY

EXECUTIVE PROGRAMMES

ALL OUR PROGRAMMES ARE NOW MODULAR TO FOSTER WORK-LIFE BALANCE

4 MONTHS
4 DAYS PER MONTH
₦995,000

MANAGEMENT ACCELERATION PROGRAMME

Overview

To gain a competitive advantage in today's talent-driven economy, organisations must build a sustainable talent pipeline. They need to develop their early-career high potential talent into tomorrow's leaders.

LAGOS	April 23 - June 14, 2019 August 5 - October 11 2019	995,000
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OWNER-MANAGER PROGRAMME

Overview

The Owner-Manager Programme (OMP) is designed for owners/managing directors of small and medium scale organisations

6 MONTHS
5 DAYS PER MONTH
₦2,500,000

LAGOS	March 4 - August 9, 2019 Sept. 2, 2019 - Feb. 14, 2020	2,500,000
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6 MONTHS
5 DAYS PER MONTH
LAGOS: ₦2,550,000
ABUJA: ₦2,675,000

SENIOR MANAGEMENT PROGRAMME

Overview

The Senior Management Programme is designed to help senior executives build personal skills that will help them contribute significantly to their organisations.

LAGOS	MARCH 11 - AUGUST 23, 2019 JULY 1 - December 6, 2019 September 16, 2019 - February 21, 2020	2,550,000
ABUJA	May 27 - September 26, 2020	2,675,000

AGRIBUSINESS MANAGEMENT PROGRAMME

Overview

This intensive programme is for agribusiness managers and players in the agriculture value chain who seek practical skills and solutions to challenges in their organisations/businesses.

3 MODULE
5 DAYS EACH
5 MONTH
LAGOS: ₦1,100,000
ABUJA: ₦1,200,000

LAGOS	March 18 - July 26, 2019	1,100,000	APPLY FOR 50% DISCOUNT
ABUJA	August 6 - December 7, 2019	1,200,000	

Modules are delivered over one week, in each month, for these programmes at LBS



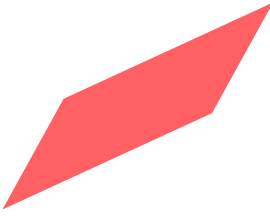
Lagos Business School is ranked with the world's top business schools in open enrolment executive education (2017-2018) and custom executive education (2016-2018). Financial Times, London.

Contact Details: Efosa Ajogbor: 07019900758; Vivian Akere: 07086095194; excedsales@lbs.edu.ng



Real Estate Update

Area Under Focus - Ikeja



- ❑ Supply of land in the area is fixed
- ❑ Bound by the rail line and Bank Anthony Way
- ❑ Multi-use developments

Price Watch

	Sale	Rent
Flats (3-bedroom serviced apartment)	N80-N100 million	N3.5-N4 million
Duplex (detached house)	>N150 million	N8-N10 million



❑ The GRA is becoming highly commercial

❑ Ikeja is a traffic nightmare

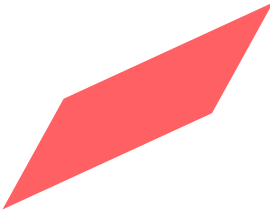
❑ Attraction to the area include:

- ❑ Proximity to the airport (local and international)
- ❑ Proximity to government offices
- ❑ Entertainment (malls, cinemas)

Political Update



Political Update



- ❑ Buhari dismisses third term amendment
- ❑ President confirms that he will not propose it
- ❑ The Bayelsa election is a political flashpoint
- ❑ Internal squabbling within the PDP is now violent
- ❑ The state may flip if the PDP does not close ranks
- ❑ The PDP machine run by Jonathan and company are unable to discipline the factions
- ❑ Kogi state is the direct opposite



Corporate Humour (H)



Money is like manure, If you spread it around it does a lot of good, but if you pile it up in one place it stinks like hell.
- *Clint Murchison*

Luck, like a Russian car,
generally only works if you
push it.
- Tom Holt



Political Update

- ❑ Salary arrears are a very touchy issue
- ❑ The state is fiscally vulnerable especially on the minimum wage
- ❑ Depending on the opposition candidates' ground game, the state could flip
- ❑ The election will show if incumbent parties can lose
- ❑ At the federal level, attempts to distant the administration from 2023 is evident
- ❑ Candidates and their protégés are likely to be ostracized



Political Update

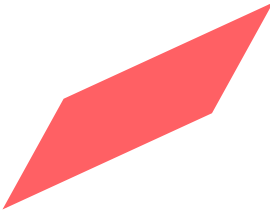
- ❑ The P&ID stay of execution judgment is welcome relief
- ❑ Out of court settlement is likely to be pursued aggressively
- ❑ The case is looking better for Nigeria now
- ❑ A settlement could be very expensive
- ❑ The two major parties, APC & PDP are likely to go through major reorganizations



October Outlook



October Outlook



- ❑ September inflation will show a slight uptick
- ❑ External reserves will fall marginally below \$42 bn
- ❑ Oil price will trade flat at \$60-62 pb
- ❑ Stock market will trade horizontally ahead of Q3 results
- ❑ OMO rates may increase by 100-150 basis points to mop up liquidity
- ❑ Border closure likely to continue through October
- ❑ Cashless penalty will remain in force in the six states and Federal Capital Territory
- ❑ PMI will increase as inventory builds up
- ❑ There will be more C.P. issues by FMCGs in Q4



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

A collage of various colored envelopes (red, blue, green, purple, white) with a central cream-colored note that reads "THANK YOU!". The envelopes are scattered and overlapping, creating a vibrant, textured background. The central note is slightly tilted and has a soft shadow, making it stand out from the other envelopes. The overall composition is dynamic and celebratory.

THANK YOU!