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In This Issue ...

2020 Fiscal Act comes with plenty of goodies but also some baggage **3**

Oil prices trade close to $70, thanks to rising geopolitical tensions **5**

Infrastructure investment and poverty **6**

Nigeria Faces Challenges of Politicking, Rising Debt in 2020 – **culled from Bloomberg** **14**

AI 'outperforms' doctors diagnosing breast cancer – **Culled from BBC** **17**

Macroeconomic Indicators **21**

Stock Market Review **34**

Corporate Focus: **Nigerian Breweries Plc** **37**

Economic outlook for the next month **47**

2020 Fiscal Act comes with plenty of goodies but also some baggage

President Buhari has signed the finance bill into law. This comes days after assenting to the 2020 budget. The new law amends a number of extant tax laws including the Company Income Tax (CIT), Value Added Tax (VAT), Petroleum Profit Tax, customs and excise tariff, Personal Income Tax, Stamp Duties Tax and the Capital Gains Tax.

The main objective of the finance bill is:

1. To promote fiscal equity
2. Reform the domestic tax laws to align with global best practices
3. Introduce tax incentives for investments in infrastructure and capital markets
4. Support MSMEs
5. Increase Government revenues

Key highlights

1. VAT to increase to 7.5% from 5%
2. Companies with turnover less than N25 million pa are tax-exempt from CIT (Progressive tax)
3. Companies that earn between N25 million - N100 million annually will pay 20% of their profit as CIT
4. Companies with annual income in excess of N100 million annually will pay 30% of their profit as CIT
5. To avoid double taxation, tax on dividends is no longer applicable
6. Tax Identification Number (TIN) is a prerequisite for operating a bank account
7. The threshold for stamp duty on online transactions increased to N10,000 from N1,000
8. Stamp duty removed for bank transfers below N10,000
9. Goods and services redefined to cover intangible items

The Goodies

The introduction of a bill that amends various tax laws is a welcome development in the tax system. This could boost the economy by stimulating the growth of small and medium scale enterprises and increase foreign direct investments into the country. In addition, the VAT increase is expected to help fund the minimum wage implementation by state governments. State and local governments will receive 85% of the revenue while the federal government will receive 15%.

The baggage

It is no news that consumer demand has been relatively weak, the revised VAT would have a knock-on effect on consumer disposable income due to the additional 2.5% VAT on most consumer goods.

The wage increase and higher VAT will exacerbate inflationary pressures. Inflation has increased consecutively since September 2019 and an increase in consumer price inflation is imminent. If the higher VAT leads to a spike in inflation in January, the MPC would be left with no alternative but to commence a tightening cycle and raise the MPR.

Finally, the onus is on the government to address tax revenue shortfalls, eliminate leakages and improve transparency in expending the collected revenue.

Oil prices trade close to $70pb, thanks to rising geopolitical tensions

In the wake of the Iranian General's assassination and reprisal attacks by Iran on US forces based in Iraq, the black gold (crude oil) recorded some gains albeit briefly. Brent crude touched $69pb before retreating to $65pb. Some analysts are of the opinion that the risk of a retaliation by the US and the possibility of the crisis escalating further has already been priced in. This explains why the uptick in oil prices was fleeting.

Aside from the ongoing geopolitical tensions, the fundamentals driving the global oil market remain the same. There is the risk of an oversupplied market due to large US shale oil inventories. However the deeper cuts imposed by OPEC and its allies should mitigate the risks of a supply glut. Saudi Arabia is committed to increasing its quota by another additional 167,000 bpd.

For Nigeria and any other oil producing country, struggling with low fiscal revenue, this period of high oil prices is a breath of fresh air. At $64-65pb, this is 14.04% above the 2020 budget benchmark of $57pb. Also, Nigeria may need to depend more on higher oil prices to offset the anticipated reduction in its oil production as it complies with its OPEC quota of 1.77mbpd. Currently, the external reserves level is at a 13-month low of $38.31bn (9.5 months import cover) while currency pressures are resurfacing. Also, the monthly federal statutory allocation shared in December fell by 9.43% to N635.83bn. This means that there are tough times ahead for the country and it needs all the support it can get from oil.

Infrastructure Investment and Poverty

Infrastructure is an important component of economic growth. If created and properly maintained, it increases productivity and improves the quality of life. Basic physical infrastructure includes four main categories: transportation, energy, water and sanitation, and Information and Communication Technologies (ICT). It is a key element of poverty alleviation and often acts as a catalyst to development and enhances the impact of interventions to improve the poor's access to other assets, e.g., human, social, financial, and natural assets.[1] Conversely, deficiency of infrastructure constitutes a serious hindrance to sustainable growth and development and possibly worsens the poverty level.[2] Infrastructure deficit may be in form of lack of access to infrastructure – without improved rural roads, poor regions can be cut off from participating in the market economy causing an increase in the number of people falling into poverty. This deficit can also come in form of the inability of poor people to afford infrastructure services which cost the poor people their time and money.

In the case of Vietnam, investment in rural infrastructure has proven to be the key driver of its growth. A number of strategies - including the introduction of policies and organization of programs to encourage both domestic and foreign investment have been successfully implemented, which spurred growth and reduced poverty rate. These programs have impacted many facets of households, including infrastructure investment (roads, irrigation, schools, health clinics, electricity), capacity building, skills upgrading, ensuring access to basic social services such as clean water and latrines, health services, primary and secondary enrolment.[3] This strategy has been successful in Vietnam where investment in rural roads significantly increased a household wealth index by 0.17%[4] and the poorest 40% of households benefitted the most from travel time savings. Also, investment in education has resulted in high primary school completion rates, strong gender parity, low student/teacher ratios, and a low out of school rate.

[1]Louis Pouliquen.2000."Infrastructure and Poverty," http://siteresources.worldbank.org/INTPOVERTY/Resources/WDR/Background/pouliquen.pdf

[2]Ogunlana Olarewaju Fatai,Yaqub Jemeelah Omolara and Alhassan Bello Taiwo. 2016." Infrastructure Finance and Development In Nigeria,"Arabian Journal of Business and Management Review (Nigerian Chapter) Vol. 3, No. 12,

[3]Ngo Ha Quyen. 2019." Reducing rural poverty in Vietnam: issues, policies, challenges," https://www.un.org/development/desa/dspd/wp-content/uploads/sites/22/2019/03/Reducing-rural-poverty-in-Vietnam-Issues-Policies-Challenges.pdf

[4]Nguyen *et al* (2017)


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Nigeria's infrastructure investment

Nigeria has been experiencing weak growth in recent years owing to the reduction in infrastructure investment. Infrastructure in the country is in a deplorable state due to poor government policies, which impede the country's ability to mobilize revenues, allocate them effectively and manage innovative funding model for infrastructure.

The World Economic Forum's 2019 Global competitiveness index ranks Nigeria 116 out of 141 countries, a ranking which is far below average.[5] This points to the poor state of infrastructure. According to an Asian Development Bank report, a country's infrastructure spend should amount to a minimum of 6% of GDP to attain a reasonable level of sustainable development. Over the past decade, Nigeria's infrastructure spending contributed a small percentage to GDP compared with other developing countries, particularly in Asia.

Even though the GDP of Nigeria has been increasing in recent years, this increase is far below the rapid growth in population. Recently, the World Bank predicted a further increase in the number of people living in poverty in Nigeria, if the current pace of economic growth is maintained. This can be averted if the government pays more attention to the dilapidated state of infrastructure. The need to create reforms by the government, which put investment in infrastructure at the top of the list is paramount to meeting the growing demand of the population in order to promote economic development and reduce poverty.

Why rural infrastructure investment?

More than half of Nigeria's population resides in rural areas. The population in the country has been increasing rapidly with a limited infrastructure (especially in the rural areas) not designed to sustain the masses and meet their demands. The situation is exacerbated by the bad state of existing rural infrastructure: water supply is neither clean nor adequate to meet their needs; local roads are inaccessible; power supply is non existent in some areas, and high cost of living - all contributing to the increasing rate of poverty.

Over the years, the number of people living in extreme poverty in the country has increased. Most of that increase occurs in the rural areas. According to the estimates of World Data Lab's. Poverty Clock, about 90 million people live in extreme poverty.[6]

[5]"The Global Competitiveness Report 2019,"World Economic Forum, http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf

[6]Muhammad Sani Abdullahi. 2019. "Three things Nigeria must do to end poverty," World Economic Forum, https://www.weforum.org/agenda/2019/03/90-million-nigerians-live-in-extreme-poverty-here-are-3-ways-to-bring-them-out/, https://worldpoverty.io/

These people are greatly affected by the negative impact of inadequate infrastructure, including lack of opportunity to generate income, vulnerability, and inaccessibility to good education among others. The extreme poverty in Nigeria is worrisome and demands urgent policies that will boost employment and aggregate income. Boosting the investment in rural infrastructure including creation and improvement of rural roads, development of educational and health facilities as well as water and sanitation will enhance economic activity, create jobs (indirect and direct) and remove bottlenecks in the economy. It will improve the living conditions of the poor, which will in turn contribute to the growth of the economy and go a long way in reducing the number of people living in poverty.

Vietnam's investment in rural infrastructure: a case study

Vietnam has one of the fastest growing economies in the world. It has shown significant improvement in the past thirty years in poverty reduction and economic growth, which has benefitted its citizens. Between 2002 and 2018, more than 45 million people were lifted out of poverty. Poverty rates declined sharply from over 70% to below 6%, and GDP per capita increased by 2.5 times to $2,500 in 2018.[7] An average of 1.5 million Vietnamese joined the global middle income class each year since 2014 due to the impact of these reforms.[8] Prior to this development, the country experienced extreme poverty after the war with the United States in the 1960s and 1970s. The Vietnamese were largely dependent on agriculture for survival and 80% of the country's poor lived in rural areas.[9] Linked to the high degree of rural poverty was the dilapidated state of the rural infrastructure result of the war. The reduction in poverty was as a result of the actions taken by the Vietnamese government including investment in rural infrastructure by providing and developing infrastructure, engagement of the private sector for additional investment and introduction of policies promoting foreign investment.

[7]World Bank Group. 2018." World Bank in Vietnam," https://www.worldbank.org/en/country/vietnam/overview

[8]World Bank Group. 2018." World Bank in Vietnam," https://www.worldbank.org/en/country/vietnam/overview

[9]H. Satish Rao, 2010. "Viet Nam: Rural Infrastructure Sector Project,"Asian Development Bank, https://www.adb.org/documents/viet-nam-rural-infrastructure-sector-project-loan-1564-viesf

Development of basic physical infrastructure

Vietnam managed to improve its infrastructure ranking from the 95th place in 2012 to 79th (out of 141 countries) in 2016 while Nigeria's infrastructure ranking worsened from 130th to 132nd.[10] In developing infrastructure, the Vietnamese government increased spending on rural infrastructure by rehabilitating and upgrading roads and working on road connectivity and building more national road networks. The rehabilitation of the rural roads impacted the communities in terms of shortening the travel time between cities for business opportunities, enabling easier access to the markets as well as accessibility of education and health care facilities. Productivity also improved. To further increase economic growth and reduce poverty in the rural areas, the country invested in the development of its schools, hospitals, and power supply. Particularly, the government of Vietnam constructed industrial parks (e.g. the Hanoi industrial park) to promote commercial activities. This investment attracted foreign manufacturers, creating more jobs and reducing the poverty rate.

Private sector investment

Given the huge cost associated with infrastructure investment, the Vietnam government recognized the need to engage the private sector for investment. It created platforms that increased private sector participation as well as enlightenment on the need to invest in rural infrastructure. An annual meeting, coordinated by the Vietnam Committee for Commerce and Industry, was organized to advocate a liberal business environment for domestic private sector. Today, Vietnam is known for its dynamic and strong private sector. The private sector has been contributing remarkably to the development of the country.

Policies promoting foreign investment

The Vietnam government has been successful in mobilizing external resources for poverty reduction. It places high importance on financial aid from international donors. With assistance from international donors, NGOs and UN agencies, the government of Vietnam has been able to organize initiatives for development and poverty reduction. In Vietnam, there are different forums where government, donors and NGOs discuss poverty. One is the Poverty Task Force

[10]"The Global Competitiveness Report" 2012-13, 2016,World Economic Forum, http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2016.pdf

consisting of government agencies, donors and NGOs, who meet regularly to share information, policies and studies on poverty. This provides the opportunity for government agencies to discuss the causes of poverty and proffer appropriate solutions for poverty reduction. FDI has been pivotal. Vietnam's economy has attracted foreign investment from countries like Japan, China and Australia. FDI accounted for 25% of investment in Vietnam between 2011 and 2015, and contributed 20.1% of GDP in 2015. This has also made FDI a major employer of labour, with 3.5 million direct and 4 million indirect jobs created by foreign investors. This contributed to the economy's growth and development through job creation and the decreasing rate of poverty. [11]

The success in poverty reduction can be largely attributed to the adoption of effective support policies by the government and active participation of all sectors of the economy. Despite the reduction in poverty, the Vietnam government continues to work towards sustaining the increase in economic growth and reducing the rate of poverty even further.

As demonstrated by Vietnam, it is possible to address the challenges of poverty reduction through transport infrastructure. Without improved roads, it would be difficult for farmers to move beyond subsistence farming and access national and international markets with their surpluses. Improved roads connectivity reduces transaction costs due to distance and allow for easier transport of inputs, such as fertilizers. The resultant effect of better roads in rural areas is that the household wealth index in the rural area will increase.

Another key element the Vietnam government considered was the promotion of the agricultural sector. The policies put in place for promoting agriculture have proven to be an important driver of the Vietnamese development. Infrastructure such as roads, markets, irrigation system and lands were developed to promote agricultural development.

Vietnam was able to achieve its economic growth rate due to their investment made in education, health and access to amenities. This increased the number of educated labor force thus contributing to the growth of the economy through innovations and technological advancement. The Vietnam government's efforts to release these resources have proven to be a sustainable approach to reducing poverty and promoting growth.

[11]Oxford Business Group, https://oxfordbusinessgroup.com/overview/bucking-trend-foreign-direct-investment-and-trade-continue-climb

Moreover, the creation of a stable and political environment has gone a long way in attracting foreign investors as well as domestic investment for economic growth. The government recognized the need to engage the private sector and make policies that attract foreign investors who have contributed to the massive infrastructural development as well as creation of jobs. Through sound policies, the government has been able to effectively organize and redistribute resources from the rich provinces to the poor ones thus, encouraging inclusive growth.

Conclusion

Investing in infrastructure has proven to be a great tool for poverty reduction through its direct impact on incomes, and its impact on the non-income aspects of poverty by contributing to improvement in health, nutrition, education and social cohesion. It is a call for government to address the issue of deficit infrastructure through the development of programs for health and education services that take full advantage of improved access to transport services, electricity and communications, especially in rural areas. This can be achieved either through domestic investment or foreign investment.

Unlike Vietnam, which is vulnerable to natural disasters, Nigeria is blessed with abundant resources and favorable weather conditions, hence the need for frequent rehabilitation of infrastructure in Nigeria is reduced. The gains in infrastructure will have a multiplier effect and would boost productivity and output, thereby leading to economic growth and development in Nigeria.


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Nigeria Faces Challenges of Politicking, Rising Debt in 2020

Global Perspective: Culled from Bloomberg

Nigerian President Muhammadu Buhari is due to complete his second and final four-year term in 2023 and the battle over who will succeed him is already heating up, placing further pressure on an already strained economy.

Buhari has thus far shied away from endorsing his deputy, Yemi Osinbajo, for the position, twice slighting him by opting not to transfer power to him while traveling abroad. That may diminish his chances of securing the top job.

The front-runners for the post include Bola Ahmed Tinubu, a senior leader of the ruling All Progressives Congress, and Atiku Abubakar, who stood as the main opposition Peoples Democratic Party's presidential candidate in 2019.

"The year 2020 will be a year of limited governance and more focus on politicking as various groups within the ruling APC will try and position themselves in anticipation of the 2023 elections," said Cheta Nwanze, head of research at Lagos-based SBM Intelligence. "We expect that the president's close allies will fall out with one another in 2020."

Under an informal agreement between Nigeria's rulers, the presidency has rotated between the mainly Christian south and Muslim north. While it has no legal standing, any attempt to violate it could stoke political tension.

The wrangling is but one of the challenges confronting Africa's largest oil producer.

Below are some of the other key issues:

Budget Woes

The government will need to fund its 10.6 trillion naira ($29 billion) spending plans at a time when economic growth is faltering. Revenue has fallen short of target by at least 45% every year since 2015 and shortfalls have been funded through increased borrowing. In its latest credit report on the country, Moody's Investors Service warned that the state is likely to take on even more debt and the budget deficit is set to widen further..

"One of our concerns is the authorities seeking central bank financing to fund part of the deficit," Yvonne Mhango, an economist at Renaissance Capital, said in an emailed response to questions. "That would add to inflationary pressures."

Inflation reached a 19-month high in November and increases in the minimum wage and power tariffs are adding to price pressures. The West African country has also shut its land borders since August to stem smuggling of items like rice and frozen products, causing food prices to rise by 15% from a year earlier.

Currency Pressures

The risk that the naira will have to be devalued is mounting. The central bank has sought to maintain high yields as an incentive to foreigners to invest in debt denominated in the local currency, attracting large dollar inflows in the process.

While the naira remained relatively stable in 2019, the country's external reserves are down to a year-low of $38 billion. Yields on naira-denominated debt dropped to an average of 13% at the end of last year, from a peak of 18% in 2017, diminishing their attractiveness to fund managers who are concerned about a possible currency weakness.

"The Central Bank of Nigeria's de-facto naira peg will likely continue to be under pressure in the near term due to widening imbalance in the current account, which has increased external financing needs amid weaker portfolio inflows," Omotola Abimbola, an analyst with Lagos-based Chapel Hill Denham Securities Ltd., said by email. "We believe the CBN may be forced to review the market structure in the second half of 2020 to address investor concern."

Banking Blues

Banks in Africa's most populous nation ramped up lending in response to pressure from the central bank to raise their minimum loan-to-deposit ratios to 65% by the end of last year, increasing the risk of defaults. And the problem could get even worse if the regulator follows through with plans to increase the minimum ratio requirement to 70%, Abimbola said.

A high proportion of loans have already been restructured, masking the real levels of problematic debt within the banking system, according to Moody's.

AI 'outperforms' doctors diagnosing breast cancer

Global Perspective: Culled from BBC

Artificial intelligence is more accurate than doctors in diagnosing breast cancer from mammograms, a study in the journal Nature suggests.

An international team, including researchers from Google Health and Imperial College London, designed and trained a computer model on X-ray images from nearly 29,000 women. The algorithm outperformed six radiologists in reading mammograms.

AI was still as good as two doctors working together. Unlike humans, AI is tireless. Experts say it could improve detection.

How good is it?

The current system in the NHS uses two radiologists to analyse each woman's X-rays. In rare cases where they disagree, a third doctor assesses the images. In the research study, an AI model was given anonymised images, so that the women could not be identified.

Unlike the human experts, who had access to the patient's history, AI had only the mammograms to go on. The results showed that the AI model was as good as the current double-reading system of two doctors. And it was actually superior at spotting cancer than a single doctor.

Compared to one radiologist, there was a reduction of 1.2% in false positives, when a mammogram is incorrectly diagnosed as abnormal. There was also a reduction of 2.7% in false negatives, where a cancer is missed.

Dominic King from Google Health said: "Our team is really proud of these research findings, which suggest that we are on our way, to developing a tool that can help clinicians spot breast cancer with greater accuracy."

Most of the mammograms came from Cancer Research UK's OPTIMAM dataset collected from St George's Hospital London, the Jarvis Breast Centre in Guildford and Addenbrooke's Hospital, Cambridge.

It takes over a decade of training as a doctor and specialist to become a radiologist, capable of interpreting mammograms.

Reading X-rays is vital but time-consuming work, and there is an estimated shortage of more than 1,000 radiologists across the UK.

Will AI take over from humans?

No. It took humans to design and train the artificial intelligence model.

This was a research study, and as yet, the AI system has not been let loose in the clinic. Even when it is, at least one radiologist would remain in charge of diagnosis. But AI could largely do away with the need for dual reading of mammograms by two doctors, easing pressure on their workload, say researchers.

Prof Ara Darzi, report co-author and director of the Cancer Research UK (CRUK) Imperial Centre, told the BBC: "This went far beyond my expectations. It will have a significant impact on improving the quality of reporting, and also free up radiologists to do even more important things."

Women aged between 50 and 70 are invited for NHS breast screening every three years - those who are older can ask to be screened. The use of AI could eventually speed up diagnosis, as images can be analysed within seconds by the computer algorithm.

Sara Hiom, director of cancer intelligence and early diagnosis at CRUK, told the BBC: "This is promising early research which suggests that in future it may be possible to make screening more accurate and efficient, which means less waiting and worrying for patients, and better outcomes."

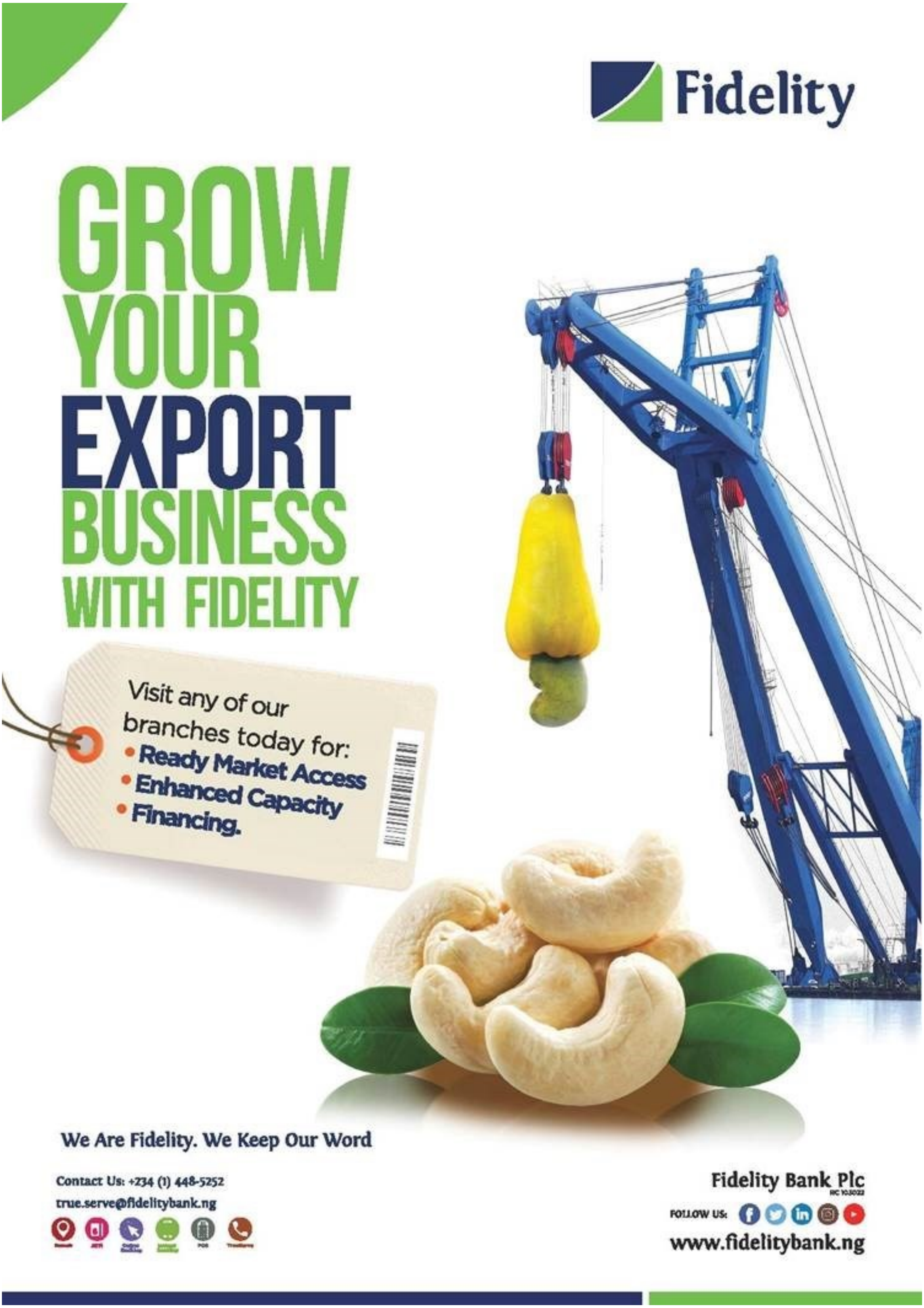
Helen Edwards, from Surrey, was diagnosed with breast cancer at the age of 44, before she was eligible for screening. She required surgery, chemotherapy and radiotherapy, but has been cancer-free for more than a decade.

She was a patient representative on the CRUK panel, which had to decide whether to grant Google Health permission to use the anonymised breast cancer data.

Helen told the BBC: "Initially I was a bit concerned about what Google might do with the data, but it is stripped of all identifiers.

"In the long term this can only benefit women.

"Artificial intelligence machines don't get tired... they can work 24/7 whereas a human being can't do that, so to combine the two is a great idea."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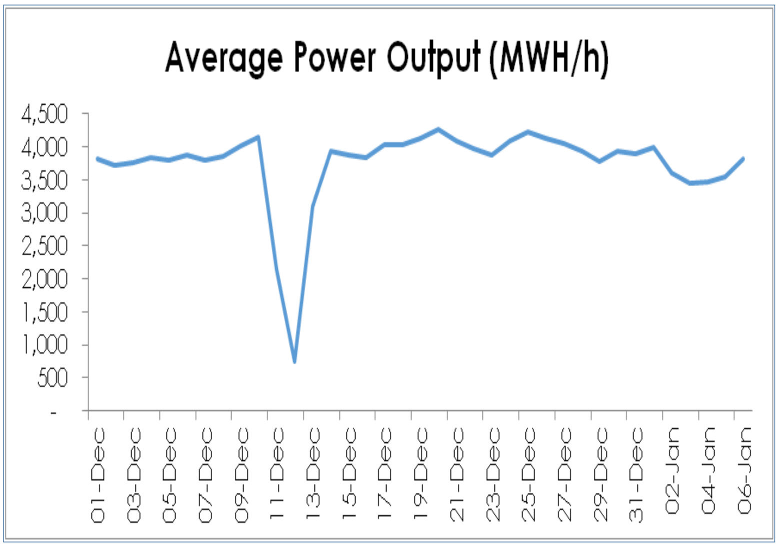
Macroeconomic Indicators (December 1st, 2019- January 6th, 2020)

Power Sector

Power output steady as gas constraint declines

In December 2019, the average power output was down 1.21% to 3,763MWh/h from 3,809MWh/h in November. So far in January, power output has averaged 3,647MWh/h. Gas was the major constraint to power output during the period, constituting 72.12% of total constraints. Afam VI and Sapele NIPP plants were the most affected by the gas constraints. Total constraints for the period averaged 3,744MWH/H. On December 12, average power output fell to 753MWh/h, its lowest level in 2019, due to a system collapse on December 11 following the strike of the National Union of Electricity Employees.



[12]

Outlook

We expect average power output to increase in coming weeks due to a decline in gas constraints. The decline in gas constraints will be partly driven by increased gas supply to electricity generating companies.

Impact

An increase in average power output would cause spending on alternative sources of power supply to decline. This applies primarily to businesses that are heavily dependent on power for production.

[12]https://datastudio.google.com/u/0/reporting/1AdNVGt4smtyfL3h8tqUTUTsAb3DiB_Kb

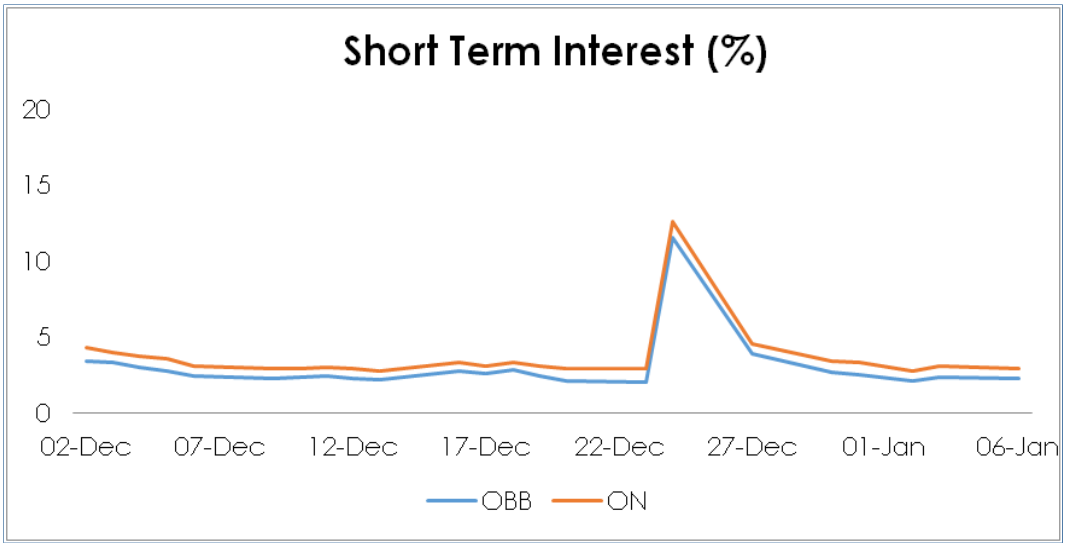
Money Market

Liquidity spikes to N1.45trn

Average liquidity in the banking system increased by 74.70% in the month of December to close at N512.1bn from N293.13bn at the end of November 2019. On January 3, 2020, the opening position of DMBs in the system rose above N1trn for the first time since June 2016 to N1.45trn. The130.06% increase in liquidity was partly due to OMO repayments of N446.80bn as well FAAC disbursements of N635.83billion .

Average short term rates (OBB, O/N) closed at 3.44% in December, reflecting a decline of 348bps from 6.92% in November. OBB and ON closed at 2.29% and 2.93% on January 6 from 3.43% and 4.29% respectively on December 2.

In December, total OMO sales increased to N1.29 trillion, while OMO repayments fell to a four-month low of N1.16trillion. As a result, net outflow stood at N130 billion as against a net inflow of N1.05 trillion in November. So far in January, total OMO sales have amounted to N481.38 billion while OMO repayments totaled N446.8 billion.



[13]

Yields across all tenors declined in both the primary and secondary markets. Primary market rates declined by an average of 30bps while rates in the secondary market declined by an average of 218bps. Similarly, the Nigerian Inter-bank Treasury True Yield (NITTY) rates for all tenors declined from 13.52%, 13.87% and 10.93% on December 2 to 3.65%, 3.99% and 4.83% as at January 3 for the 30-day, 90-day and 180-day tenors respectively.

[13]FMDQ, FDC Think Tank

Primary Market

T/bills Tenor	Rate on Dec 18th (% pa)	Rate on Jan 2nd (% pa)	Direction
91	4.00	3.50	↓
182	5.00	4.90	↓
364	5.50	5.20	↓

Secondary Market

T/bills Tenor	Rate on Dec 2nd (% pa)	Rate on Jan 6th (%)pa	Direction
91	7.00	4.00	↓
182	7.00	5.10	↓
364	7.50	5.88	↓

[14]

Outlook

We expect short-term interbank interest rates to remain low in coming weeks as banks increase efforts to comply with the CBN's directive of maintaining a loan-to-deposit ratio of 65%.

Impact

Increased naira liquidity in the system would sustain the current declining interest rate environment and reduce the cost of borrowing.

Foreign Exchange 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 as not only 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 Rates

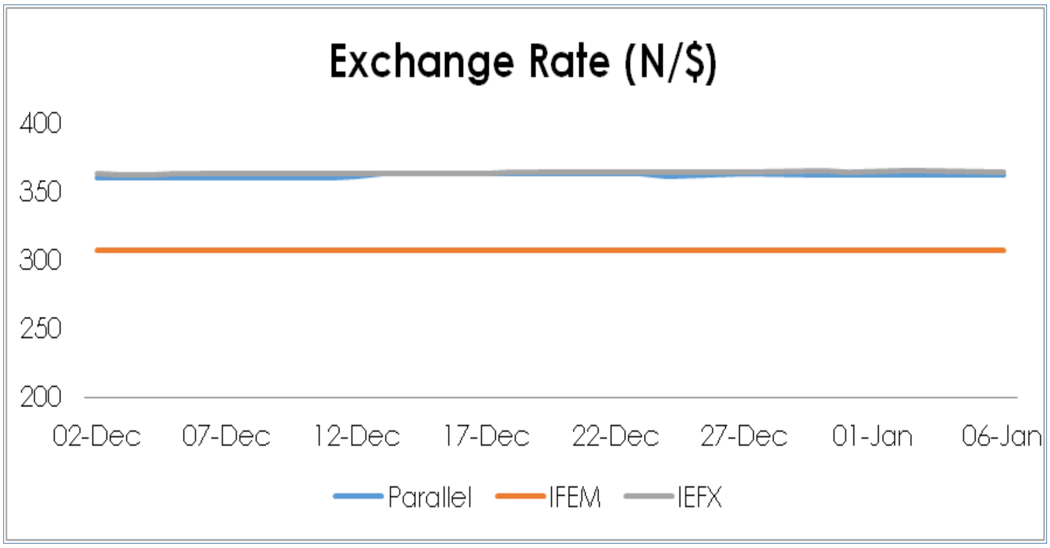
Naira dips to 1-year low at the parallel market

In the parallel market, the currency fell to N362/$ on January 6 from N360/$ on December 2. The naira depreciated to N363/$ during the review period, its lowest value since January 30

[14] CBN, FMDQ

2019. At the interbank market, the naira traded between N306.9/$-N307/$ from December 2 to January 6. The currency lost 0.51% of its value at the investors and exporters' window to close at N364.57/$ on January 6 from N362.71/$ at the beginning of the period. In December, activities in the IEFX window increased to $6.45 billion, 23.33% higher than $5.23billion recorded in November. There was no intervention by the CBN during the review period.

The CBN's directive to restrict local corporates and banks from the OMO market could be partly responsible for the increased forex demand pressure. This is due to the fact that investors are exploring other investment outlets including the equities market and forex market.



[15]

Outlook

Further depreciation of the naira is likely considering the steady depletion of the gross external reserves level and the effect of increased demand for forex as production activities pick up pace from a slowdown during the holidays.

Impact

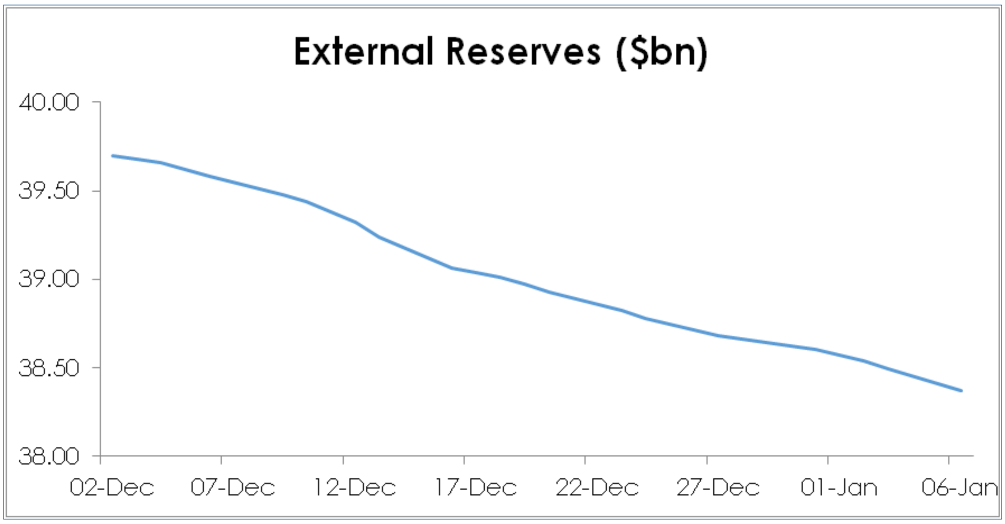
An increase in exchange rate has a negative impact on import dependent businesses such as companies in the manufacturing sector.

[15] FMDQ

External Reserves

Reserves fall below $39bn

External reserves declined by 3.02% to close at $38.6bn on December 31 compared to $39.80bn at the end of the previous month. On December 19, the gross reserves balance declined below $39bn for the first time since April 2018. So far in January, external reserves has maintained its steady depletion to $38.37bn on January 6. Nigeria's import cover stands at 9.58 months as against 9.91 months at the end of November 2019.



[16]

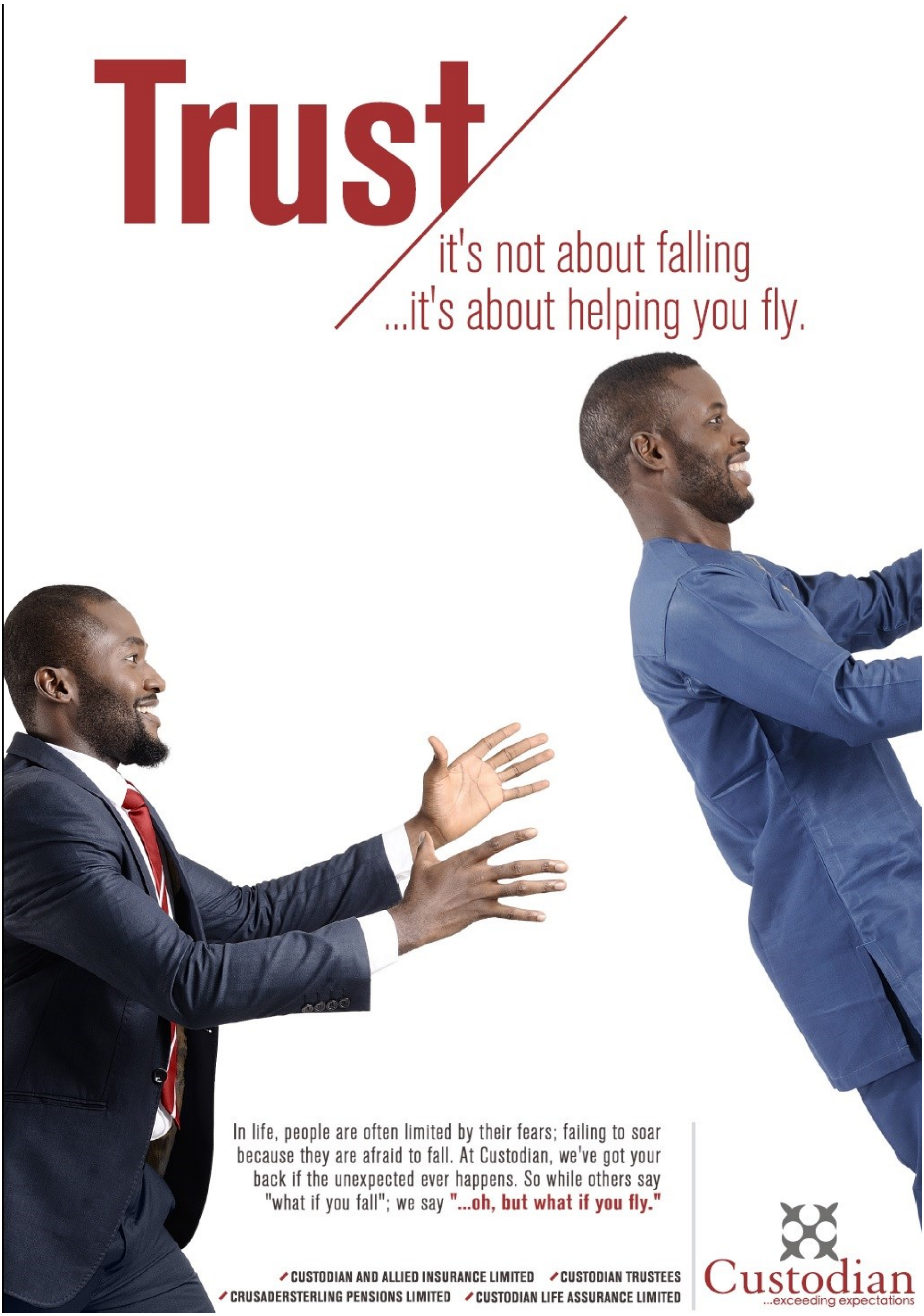
Outlook

The external reserves level is expected to decline further as the CBN pursues its aim of a stable exchange rate to support economic activities.

Impact

The continuous decline in external reserves has raised concerns over the CBN's ability to defend the naira. Interventions by the apex bank in the forex market to maintain a stable exchange rate could result in reserves falling below $38bn.

[16]CBN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Commodities Market

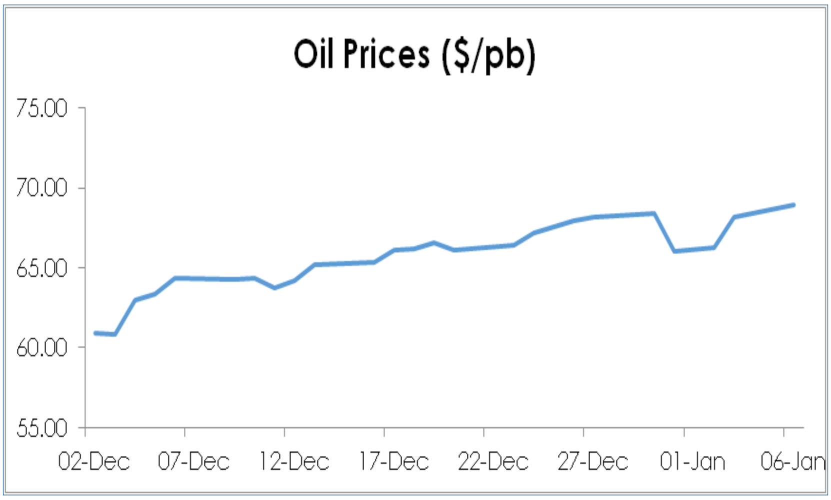
Exports

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

Oil Prices

Middle East crisis supports oil price

On the average, oil prices increased by 3.92% to $65.17pb in December from an average of $62.71pb in November. Oil prices closed at $66.00pb on December 31 as OPEC's agreement on deeper production cuts, positive sentiments on US-China trade deal and draw-downs on US crude inventories supported prices during the month. Oil prices soared to a high of $68.91pb on January 6 largely driven by escalating tensions in the Middle East.



[17]

Outlook

We expect oil to trade between $65 - $70 per barrel as the effect of rising Middle East tensions as well as supply cuts from OPEC members supports prices in the near term.

Oil Production

Oil output falls to 6-month low

Nigeria's oil production declined for the second consecutive month by 0.55% to 1.80 million barrels per day in November from 1.81 million barrels per day in October. However, the rig count for the month increased to 20 from 18 in October, the highest level since June 2013. Total

[17]Bloomberg, FDC Think Tank

OPEC crude oil production declined in November by 193,000 barrels per day to an average of 29.55 million barrels per day. Crude oil output increased mostly in Ecuador, Kuwait and Libya, while production declined in Saudi Arabia, Angola, Iraq and Iran.

Outlook

Barring any disruptions in major oil producing countries, global oil output is expected to remain stable in the near term as the effect of possible increases in US crude inventories is moderated by reduced OPEC supply. Consequently, Nigeria's oil output is expected to decline as the country intensifies efforts to comply with the OPEC quota.

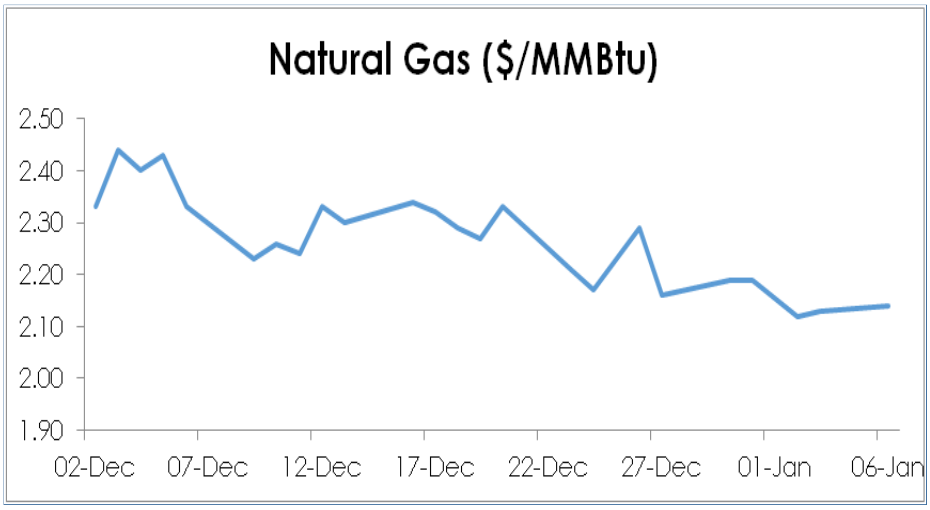
Impact

A decline in oil production translates to lower export earnings for Nigeria. This will have a negative impact on Nigeria's quarterly oil revenue, FAAC disbursements and fiscal position.

Natural Gas

LNG down to $2.14/mmbtu

Natural gas prices averaged $2.29/mmbtu in the month of December, down 12.93% compared to $2.63/mmbtu in November. Prices declined by 6.14% during the review period to close at $2.14/mmbtu on January 6 from $2.28/mmbtu at the end of November 2019. The decline in price was as a result of warmer than expected temperatures during the winter season in the US.



[18]

[18] Bloomberg, FDC Think Tank

Outlook

Natural gas price is expected to decline further in the near term as forecasts show warmer temperatures in the US in coming weeks. This would cause the demand for LNG to fall.

For Nigeria, the recent final investment decision (FID) on the Train 7 project is a step towards boosting the country's NLNG production capacity. The completion of the project would result in increased export earnings for the country.

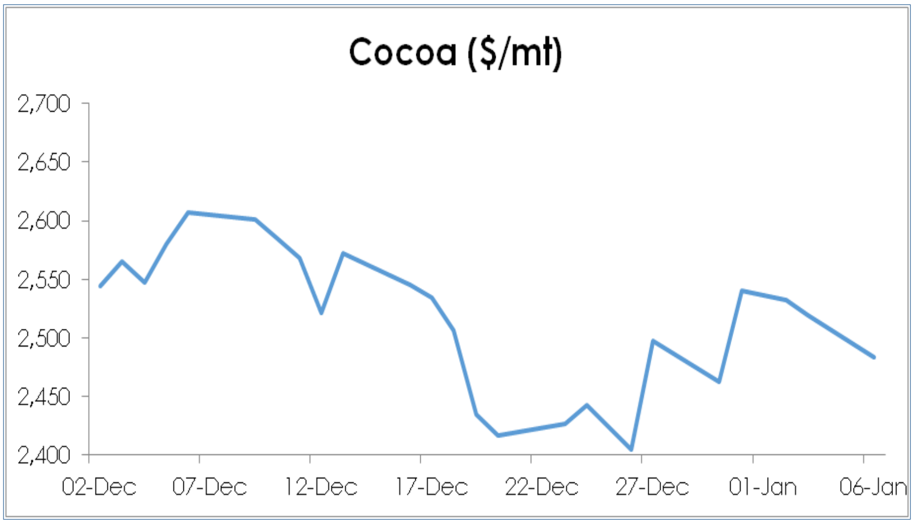
Impact

Lower natural gas prices would cause a decline in Nigeria's export earnings as the commodity is one of the country's main exports (14.2% of total exports).

Cocoa

Ivory Coast and Ghana form cocoa cartel, COPEC

The average price of cocoa fell by 2.55% to $2,519/mt in December from $2,585/mt in November. Cocoa price closed at $2,540/mt on December 31, a decline of 1.09% from $2,568/mt at the end of November. On January 6, prices fell by 1.41% to $2,484/mt, driven by increased global production especially from Ivory Coast despite unfavorable weather conditions in West Africa. Ivory Coast and Ghana have joined forces to form a cocoa cartel. COPEC as the new cartel is called is aimed at seeking to establish a price leadership role of the 2 West African nations. The cartel is expected to charge a premium of $400 per tonne to the spot price by October, 2020.



[19]

[19]Bloomberg, FDC Think Tank

Outlook

Cocoa prices are expected to rise in the near term supported by strong global demand as well as expectations of reduced supply from major producers, Ivory Coast and Ghana.

Impact

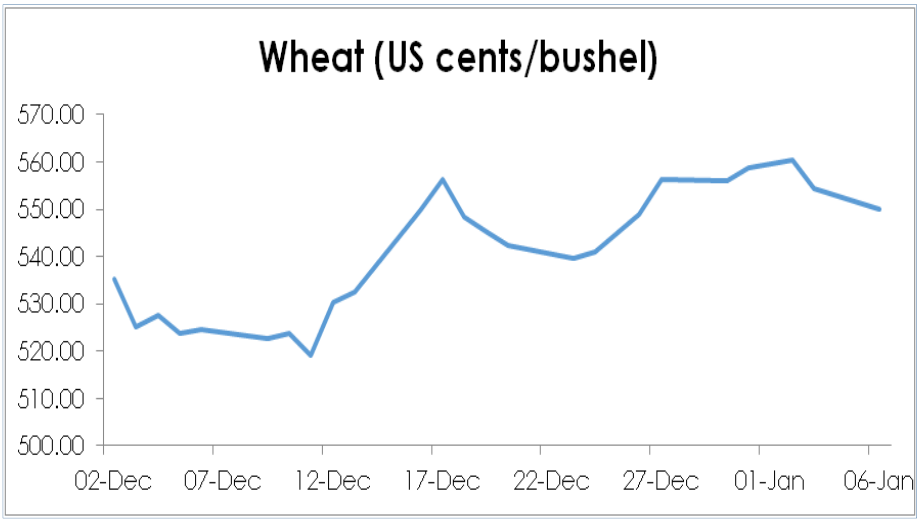
The establishment of the cocoa cartel is aimed at supporting cocoa prices in the long run. As a result, Nigeria's export revenue from cocoa is expected to increase as the commodity is one of the country's major non-oil exports.

Imports

Wheat

Wheat prices steady above $550/bushel

The average price of wheat rose by 3.99% to $538.43/bushel in December from $517.79/bushel in November. On January 2, wheat prices rose to $560.25/bushel – the highest price since August 2017- before declining marginally to close at $550/bushel on January 6. The increase in price during the review period was supported by progress on US-China trade negotiations despite ample global supplies.



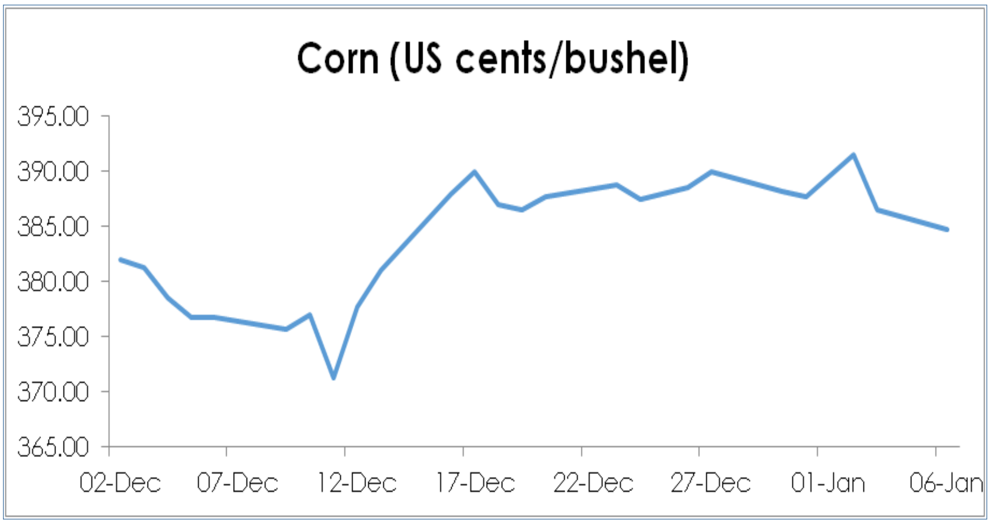
[20]

[20]Bloomberg, FDC Think Tank

Corn

US-China trade agreement drives corn prices up

Corn prices recorded an increase of 1.04% to average $383.24/bushel in December from $379.31/bushel in the preceding month. On January 2, corn price rose to a 10-week high of $391.50/bushel. The phase one trade agreement between US and China as well as reduced supply from the US supported prices during the period.



[21]

Outlook

Grain prices are expected to increase as the terms of the phase one trade deal between US and China increase the prospects for higher demand in the near term.

Impact

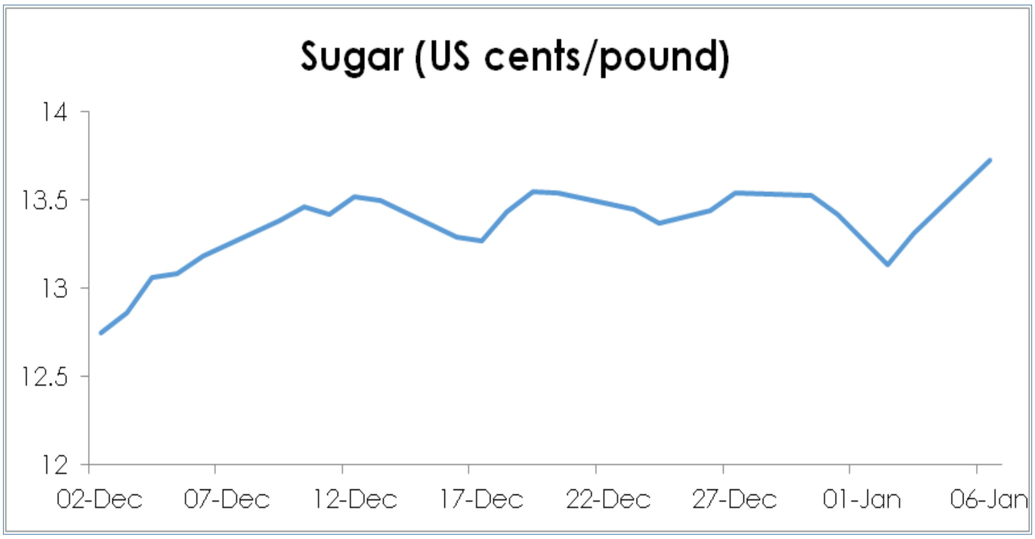
An increase in grain prices would cause Nigeria's spending on imports to rise. This translates to a higher import bill for Nigeria as the country is a net importer of grains.

[21]Bloomberg, FDC Think Tank

Sugar

Lower output from Australia, Brazil and India supports prices

Sugar prices increased by 5.12% to an average of $13.34/pound in December from $12.69/pound in November. Prices rose by 7.69% to $13.73/pound on January 6 from $12.75/pound at the beginning of the review period. The increased in price was driven by lower production in major sugar-producing countries, India and Brazil.



[22]

Outlook

We expect sugar prices to increase further due to reduced exports from India as well as reduced production due to climate conditions in Australia, which draws down global supply.

Impact

An increase in the price of sugar would increase the input cost incurred by companies that depend on the commodity. In addition, Nigeria being a major sugar importing country would experience higher import bill to meet demand.

[22]Bloomberg, FDC Think Tank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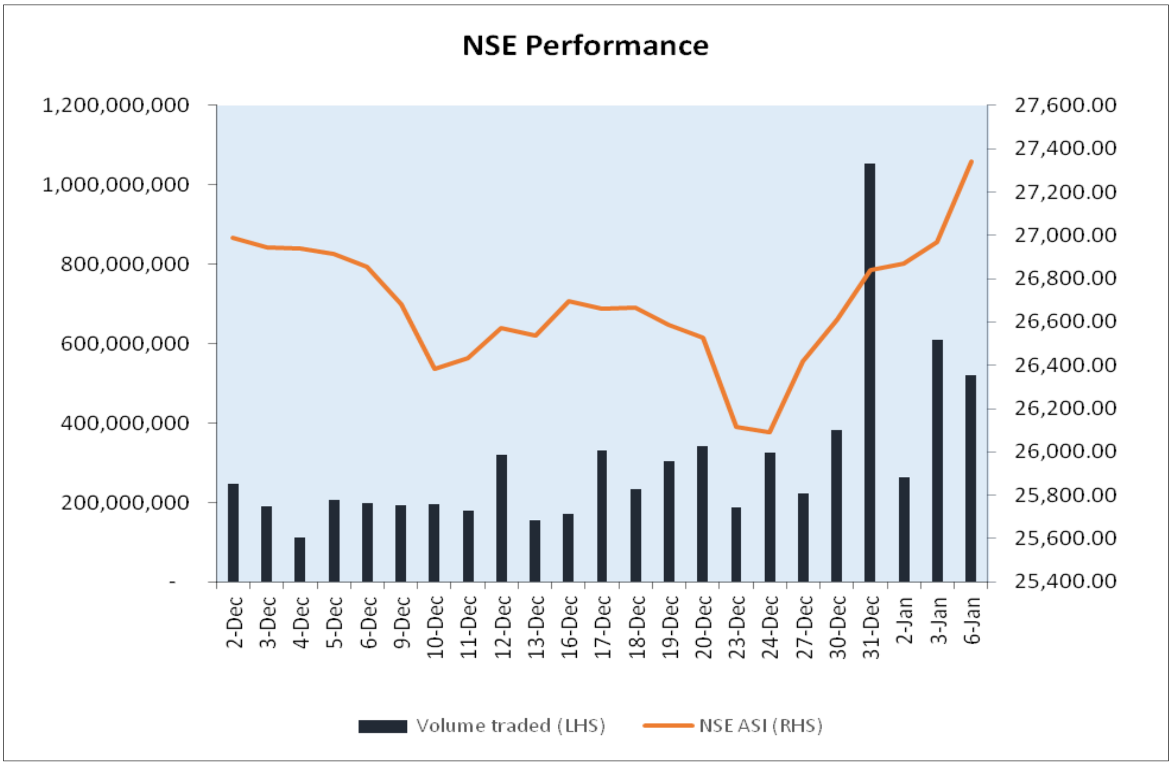
Stock Market Review

The NSE ASI gained 1.29% between December 2nd 2019 and January 6th 2020 to close at 27,339.68 points on January 6th. In the same vein, market capitalization rose 1.30% (N170bn) to N13.20trn. In the 23-trading day period, the market gained in 10 days and lost in 13 days.

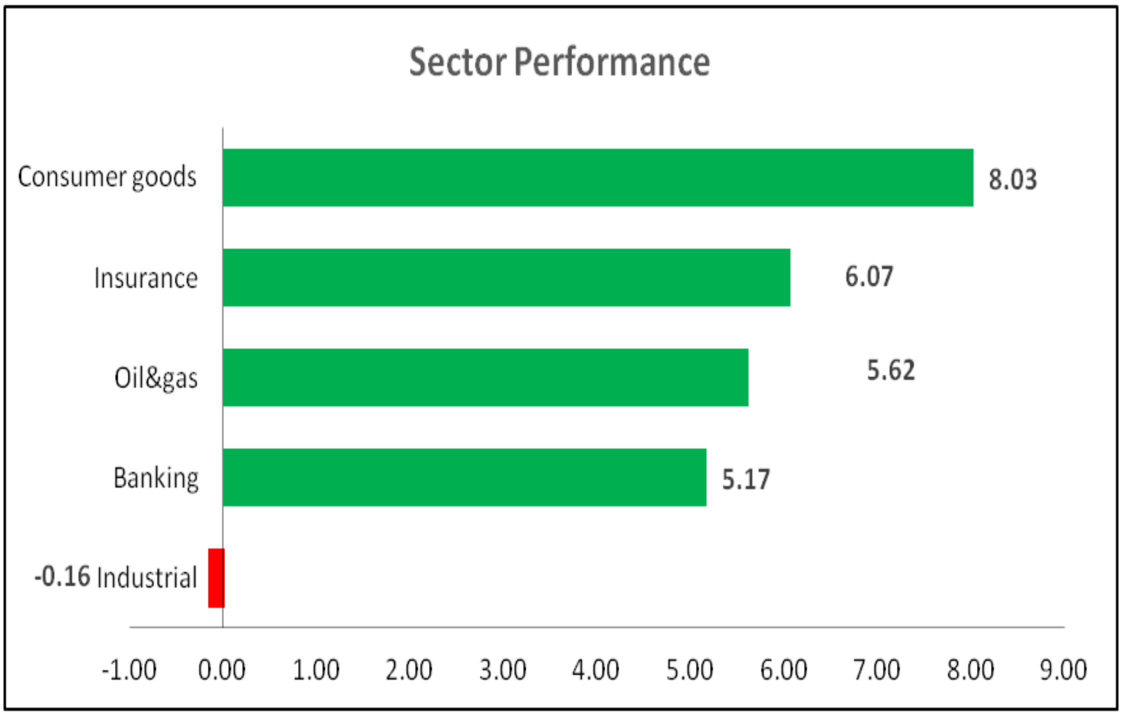
The NSE traded at a price to earnings (P/E) ratio of 7.07x as of January 6th, 0.70% lower than the close of December 2nd (7.12x). The market breadth was positive at 1.04x as 47 stocks gained, 45 lost while 73 stocks remained unchanged.



[23]

In the same vein, the market saw an increase in activity level. The average volume traded rose by 90.04% to 5.15mn units, while the average value of trades rose by 97.91% to N52.98mn. According to Stanbic IBTC stockbrokers, the rally is not sustainable as there has been limited participation from local institutional investors. The low interest rate environment appears to be driving demand for equities with bellwether stocks such as DANGCEM, MTNN and ZENITH registering strong growth.

[23]NBS, FDC Think Tank



[24]

The sector indices were broadly positive during the review period. The consumer goods sector gained the most with 8.03%, followed by the insurance sector (6.07%), the oil and gas sector (5.62%) and then the banking sector (5.17%). The industrial sector lost 0.16%.

Niger Insurance Plc topped the gainers' list with a 1710.00% increase in its share price. This was followed by UAC Property Development Company Plc (825.00%), AG Leventis &Co Plc (52.78%), Royal Exchange Plc (37.50%) and Eterna Plc (28.57%).

TOP 5 GAINERS (N)				
Company	Dec. 16'19	Dec. 24'19	Absolute Change	% Change
Niger Insurance PLC	0.20	3.62	3.42	1710.00
UAC Property Development Company PLC	1.00	9.25	8.25	825.00
AG Leventis &Co PLC	0.36	0.55	0.19	52.78
Royal Exchange PLC	0.24	0.33	0.09	37.50
Eterna PLC	2.80	3.6	0.80	28.57[25]

[24]NBS, FDC Think Tank
[25]NBS, FDC Think Tank

The laggards were led by Nigerian-German Chemicals Plc (-94.48%), UAC of Nigeria Plc (-86.30%), Fidson Healthcare Plc (-32.00%), Law Union & Rock Insurance Plc (-28.17%) and Arbico Plc (-26.72%).

TOP 5 LOSERS (N)				
Company	**Dec. 02'19**	**Jan. 06'20**	**Absolute Change**	**% Change**
Nigerian-German Chemicals PLC	3.62	0.2	-3.42	-94.48
UAC of Nigeria PLC	7.30	1	-6.30	-86.30
Fidson Healthcare PLC	3.75	2.55	-1.20	-32.00
Law Union & Rock Insurance PLC	0.71	0.51	-0.20	-28.17
Arbico PLC	4.79	3.51	-1.28	-26.72[26]

Outlook

According to Stanbic IBTC stockbrokers, a market correction is likely in the near term because the rally is not based on strong fundamentals. Most listed companies are yet to release their financial results, therefore, there is no basis for the bullish trend. Stanbic expects the market to crash before the end of January.

[26]NBS, FDC Think Tank

Equity Report: Nigerian Breweries Plc

Analyst's note

Excise duty expense weighs on revenue

Nigerian Breweries reported revenue of N259.92 million in its 9M'19 financials, 1.93% higher than N255 million reported in the corresponding period in 2018. However, the company's excise duty increased sharply by 43.24% to N24.25 million, up from N16.93 million. This led to a decline in the company's net revenue. Nigerian Breweries reported a marginal increase in its gross profit to N96.16 million from N94.72 million due to a decline of 2.68% in its cost of sales. Cost of sales declined to N139.51 million in Q3'19 from N143.35 million in Q3'18.

Intense competitiveness weighs on operating income

In order to remain the market leader and maintain its market share, the company reported an increase of 11.72% in its 9M'19 marketing and distribution expenses to N57.48 million, up from N51.45 million in 9M'18. This was due to increased competition within the industry. Although, there was a decline of 11.68% to N14.29 million in its administrative expenses, it was not enough to offset the increase in marketing and distribution expenses. As a result, the company's operating income declined by 9.3% to N25.17 million relative to N27.75 million in 9M'18.

High Finance cost dampens bottom-line

The company reported a sharp decline of 23.4% in its profit before tax to N17.22 million from N22.48 million in 9M'19. This could be partly attributed to the increase of 48.46% in the company's finance cost. Subsequently, the company's profit after tax fell to N12.27 million relative to N14.8 million in 9M'18.

Although, Nigerian breweries remains the market leader in the industry, competition is deepening and the leadership gap is closing. Putting this into consideration and using intrinsic valuation, we place a HOLD rating on Nigerian Breweries Plc.

Analyst Recommendation: HOLD

Market Capitalization: N408.64bn

Recommendation Period: 12 months

Current Price: N51.10

Industry: Food, beverage and tobacco

Target Price: N64.72

Industry and company overview

The brewery industry in Nigeria dates to the pre-independence era when beer from assorted brands was imported into the country before World War II. Nigerians acquired a taste for continental European beer, leading to a great increase in the quantity of imported beer during and after the war. This created an opportunity for a brewery to be set up in Nigeria.

The local brewery industry is the largest subsector of the food, beverage and tobacco sector in Nigeria, and the second-largest beer market in Africa. It has evolved over the years from a duopoly, to an oligopolistic market structure with a strong multinational presence.[27] The Nigerian brewery sector has also evolved from solely bottling activities to a diversified industry also involved in the production of canned drinks. The government has incentivized growth and investment with a ban on the commercial importation of bottled/canned beer and a seven-year tax holiday for pioneer companies engaged in brewing hops.

Nigerian Breweries Plc was incorporated in November 1946 as Nigerian Breweries Ltd and was converted to a public limited company in 1990. It started trading on the Nigerian Stock Exchange on September 5, 1960 and is currently the second-largest capitalized stock on the NSE. Heineken NV, one of the largest brewing companies in the world, currently owns a majority shareholding (55.19%) in Nigerian Breweries. Its primary business activities involve the brewing, marketing, and selling of alcoholic and non-alcoholic beverages (lager, stout, non-alcoholic malt drinks and soft drinks).

Nigerian Breweries is Nigeria's largest brewing company, accounting for over two-thirds of the brewery industry's market. The company pioneered brewing in Nigeria, starting with its first bottle of STAR lager brewed in June 1949 from its premier brewery, Lagos Brewery. Over the years, it has undergone several development processes to improve efficiency.

[27] An oligarchy is a state of limited competition in which a small number of brewing multinationals battle for position in the Nigerian beer market space

The company has since expanded its footprints across the country by the construction of new breweries and the acquisition of existing ones. Ever since its commissioning in 2003, the Ama Brewery (Enugu State) maintained its position as the biggest and most modern brewery in Nigeria. The company also acquired majority shares in Sona Systems Associates Business Management Ltd and Life Breweries Company Ltd in 2011. Following its merger with Consolidated Breweries Plc in 2014, it bought Imagbon (Ogun State), Awo-Omamma (Imo State) and Makurdi Breweries (Benue State). Nigerian Breweries currently has an extensive facility of 11 breweries and two malting plants across the country.

The company has a rich portfolio of high-quality alcoholic and non-alcoholic products that cater to the needs of different segments of the market. These include Heineken, Star, Gulder, “33” Export, Goldberg, Legend Extra Stout, Maltina, Amstel Malt, Hi-malt, Star Radler and Star Lite. Most of its brands are leaders in their segmented markets. Nigerian Breweries also has a growing export business that dates to 1986. While the domestic market remains the dominant market for these brands, some of the products are exported to over 13 countries including the UK, South Africa, and the US, and across West Africa, and the Middle East.

To ensure efficient and seamless distribution of its products, Nigerian Breweries has 26 sales depots across the country. These are complemented by an extensive network of key distributors, wholesalers, bulk breakers, and retail stores scattered nationwide.

The company’s growth can be seen through increases in its total assets and revenue. Between 2012 and 2016, revenue increased by 6% and total assets by 10%. A snapshot of Nigerian Breweries’ latest annual financials is shown below.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Income Statement for Nigerian Breweries Plc					
N'000	2014	2015	2016	2017	2018
Revenue	266,372,475	293,905,792	313,743,147	344,527,216	324,388,500
Cost of Sales	(130,788,296)	(149,736,072)	(178,218,528)	(201,034,636)	(197,484,694)
Gross Profit	**135,584,179**	**144,169,720**	**135,524,619**	**143,492,580**	**126,903,806**
Other Income	1,717,491	483,910	615,662	2,239,867	885,364
Marketing and Distribution Expenses	(42,200,086)	(58,454,978)	(61,312,319)	(66,863,604)	(70,052,363)
Administrative Expenses	(28,240,685)	(23,969,498)	(21,924,801)	(21,747,783)	(20,785,259)
Operating Profit/EBIT	**66,860,899**	**62,229,154**	**52,903,161**	**57,121,060**	**36,951,548**
Finance Income	697,320	503,607	416,503	172,074	361,923
Finance Cost	(6,096,398)	(8,217,788)	(13,645,146)	(10,663,076)	(7,891,519)
Profit Before Tax (PBT)	**61,461,821**	**54,514,973**	**39,674,518**	**46,630,058**	**29,421,952**
Income Tax Expense	(18,941,568)	(16,458,850)	(11,257,553)	(13,581,499)	(9,984,008)
Profit After Tax (PAT)	42,520,253	38,056,123	28,416,965	33,048,559	19,437,944

Balance Sheet for Nigerian Breweries Plc					
N'000	**2014**	**2015**	**2016**	**2017**	**2018**
Non-Current Assets					
Property, Plant and Equipment	193,800,450	197,298,847	191,181,700	195,230,394	203,492,850
Intangible Assets and Goodwill	97,969,253	100,612,728	99,477,826	98,277,166	97,135,708
Investment	150,000	150,000	150,000	150,000	150,000
Other Receivables	189,710	321,509	623,331	551,862	662,022
Prepayments	187,889	354,394	1,154,399	525,831	538,187
Total Non-Current Assets	**292,297,302**	**298,737,478**	**292,587,256**	**294,735,253**	**301,978,767**
Current Assets					
Inventories	28,478,459	28,409,703	31,244,703	42,728,862	32,506,824
Trade and Other Receivables	16,357,156	16,511,648	19,974,024	20,384,112	35,153,451
Prepayments	1,822,499	1,041,780	301,169	1,038,885	1,356,282
Deposit for Imports	364,674	2,233,797	8,429,048	7,474,027	2,474,279
Cash and Cash Equivalents	5,700,257	5,106,891	12,156,432	15,866,954	14,793,266
Assets Held For Sale	4,208,816	4,177,379	2,453,836	-	-
Total Current Assets	**56,931,861**	**57,481,198**	**74,559,212**	**87,492,840**	**86,284,102**
Total Assets	**349,229,163**	**356,218,676**	**367,146,468**	**382,228,093**	**388,262,869**
Equity					
Share Capital	3,781,353	3,964,551	3,964,551	3,998,451	3,998,451
Share Premium	4,567,967	64,950,103	64,950,103	73,770,356	73,770,356
Share Based Payment Reserve	241,676	365,702	571,106	748,450	750,534
Retained Earnings	102,726,500	102,959,007	96,343,708	99,692,668	88,216,674
Equity Contribution Reserve	60,565,334	-	-	-	-
Total Shareholders' Equity	171,882,830	172,239,363	165,829,468	178,209,925	166,736,015
Non-controlling Interest	81,433	82,140	84,300	88,502	92,437
Total Equity	**171,964,263**	**172,321,503**	**165,913,768**	**178,298,427**	**166,828,452**
Non-Current Liabilities					
Loans and Borrowings	24,670,000	-	17,000,000	8,000,000	41,127,565
Deferred Tax Liabilities	27,833,732	31,914,564	29,876,508	13,209,837	16,056,953
Employee Benefits	10,735,596	11,903,504	10,101,065	26,666,864	24,554,471
Total Non-Current Liabilities	**63,239,328**	**43,818,068**	**56,977,573**	**47,876,701**	**81,738,989**
Current Liabilities					
Loans and Borrowings	-	3,000,000	-	-	-
Trade and Other Payables	83,283,072	85,246,002	111,184,310	127,947,023	114,151,861
Bank Overdraft	230,380	19,214,988	870,611	470,930	1,469,810
Dividend Payable	7,563,291	12,399,599	12,676,038	8,028,742	7,931,759
Current Tax Liabilities	22,948,829	20,218,516	19,024,168	19,606,270	14,579,020
Provisions	-	-	500,000	-	1,562,978
Total Current Liabilities	**114,025,572**	**140,079,105**	**144,255,127**	**156,052,965**	**139,695,428**
Total Liabilities	**177,264,900**	**183,897,173**	**201,232,700**	**203,929,666**	**221,434,417**
Total Equities and Liabilities	**349,229,163**	**356,218,676**	**367,146,468**	**382,228,093**	**388,262,869**

Major competitors in the brewery industry include Guinness Nigeria (a subsidiary of Diageo) and International Breweries (a subsidiary of ABInBev).

International Breweries is the biggest threat to Nigerian Breweries. International Breweries' cheap pricing strategy, strong mainstream products (Trophy and Hero) and new capacity of 2.5 million hectoliters, enable it to gain market presence in major regions in the country.[28] Guinness' introduction of spirits in the beer market will help boost its financial performance. Although Nigerian Breweries may lose some market share, it is likely that it will remain a market leader in the brewing industry.

[28]FSDH

Management

Capable of capitalizing on potential growth opportunities in the food industry

Nigerian Breweries management's ability to remain a major player in the brewery industry in a period of slow economic growth can be attributed to its series of acquisitions and capacity enhancement projects.

To further drive growth and improve earnings, management intends to consolidate its earnings and profitability through market penetration with innovative products. The team launched Stella Lager Beer into the market on December 7, 2017, targeting young Nigerians. The product is just gaining market acceptance and is expected to have a positive impact on the company's 2019 sales.

Management plans to mitigate foreign exchange challenges by intensifying its local sourcing of raw materials. The company's current sourcing level of local materials is at 50%. The company's management is optimistic that it will achieve its 60% target before 2020 through aggressive investments in the cassava and sorghum value chain. It also plans to deploy a new hybrid of sorghum varieties and make considerable progress with its partners - International Fertilizer Development Centre and Psaltry International (a local agricultural processing company) - on the extraction of maltose syrup derived from cassava for the company's production. In a bid to further manage its costs efficiently, management continues to assess its price adjustment strategy to ensure a balance in minimizing input costs and the price consumers are willing to pay.

Mr. Jordi Borrut Bel has served as the Managing Director and Chief Executive Officer of Nigerian Breweries since January 22, 2018. His career started with Heineken (Spain) in 1997 as the sales representative/wholesale manager. He has since gained over 20 years of experience in the brewing industry across France, Slovakia and the Netherlands. He was also the managing director of Brarudi SA, a subsidiary of Heineken in Burundi. He successfully led the company through turbulent periods by strengthening the company's route-to-market and launching successful innovations. He is also currently a board member of Bralirwa Ltd, a subsidiary of Heineken in Rwanda.

Chief Kolawole B. Jamodu has been the chairman of the board of directors, since January 1, 2008. He was appointed to the board as a non-executive director in 2006. Chief Jamodu is a chartered accountant, an industrialist, and a former minister of industry of the federal government of Nigeria. He previously worked as the chairman and group chief executive of the PZ Group. He has also led organizations such as Universal Trust Bank Plc, the Manufacturers' Association of Nigeria, and United Bank for Africa Plc. He served as part of the national economic management team under former president, Goodluck Jonathan.

The management team is expected to be more proactive in managing its controllable cost items, which are growing at a rate faster than the revenue growth rate.

MD/CEO

Mr. Jordi Borrut Bel

Chairman

Chief Kolawole B. Jamodu

What the bulls and bears say

Bulls say

* Large market size and market leadership
* Continuous product innovation
* Rich product portfolio for both alcoholic and non-alcoholic drinks
* Portfolio of leading brands
* Strong and effective channels to the market
* Relative stable exchange rate and improvement in access to foreign exchange
* Upward review of minimum wage could bolster consumer spending

Bears say:

* Intense competition from new and existing players such as Guinness, ABInBev
* Aggressive competition by way of discounts and promotions
* Shift of market preference to low-priced products
* Congestion at the port
* Unfriendly business environment

Risk and outlook

The major risks that could prevent Nigerian Breweries from achieving its goals of boosting earnings, increasing sales and managing costs are its exposure to credit, liquidity, and market risk (currency and interest rate) arising from financial instruments as well as persistent macroeconomic challenges. The board established the risk management committee to develop and monitor the company's risk management policies in co-operation with its internal audit.

In managing foreign currency risk, the company participates in financial instruments provided by the Central Bank of Nigeria including forward contracts and futures.

In managing interest rate risk, the company aims to reduce the impact of short term fluctuations on earnings by opting for a mix of fixed and variable interest rates in its financing operations, coupled with the use of other financial instruments such as commercial papers.

The security challenges that have affected the company's sales in the northern part of the country may continue to have a negative impact on growth projections and market penetration. The company mitigates capital risks by maintaining an efficient capital structure through adjusting its debt to equity ratio.

The shift of consumers to value products instead of premium brand products poses a threat to Nigerian Breweries' sales prospects. While the company's effective sales team is ensuring that its products are available at every location possible, consumers view alcohol and soft drinks as luxury goods and may significantly cutback spending on such items.

The risks facing Nigerian Breweries could limit the achievement of its long term objectives. Even though management has put structures in place to ensure sales growth and cost efficiency, the macroeconomic headwinds facing the company may be beyond the control of its competent management.

Appendix- Valuation

We derived our valuation for Nigeria Breweries Plc by using the Discounted Cash Flow methodology. Our fair value estimate per share for Nigerian Breweries Plc stood at **N64.72**, which is a 26.65% upside on its current share price of N51.10 as of January 15, 2020. The discount rate (weighted average cost of capital) of 1.0168% is derived using a 14.55% risk-free rate, a beta of 1.0730, 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 **HOLD** on the shares of the company at the current market price.

Economic outlook for the next month

Typically, there is a lull in economic activities in January following the Christmas festivities. Manufacturers and traders often reduce their inventory build-up in anticipation of a fall in consumer demand. Therefore, we expect the Purchasing Manufacturers' Index, a measure of activities in the manufacturing sector, to decline to 54-56 points in January. The decline in consumer demand could slow the rate of increase in headline inflation (currently at 11.85%).

In addition, we expect external sector vulnerabilities to persist in January. External reserves will continue its steady decline (could fall below $37bn) and naira could come under pressure due to increased demand at the forex market for international school fees payment.

On the bright side, the CBN's reduction in bank charges as well as the implementation of the new minimum wage across other states will reduce the pressure on consumer disposable income.