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IMF cuts Nigeria's 2020 Growth Forecast

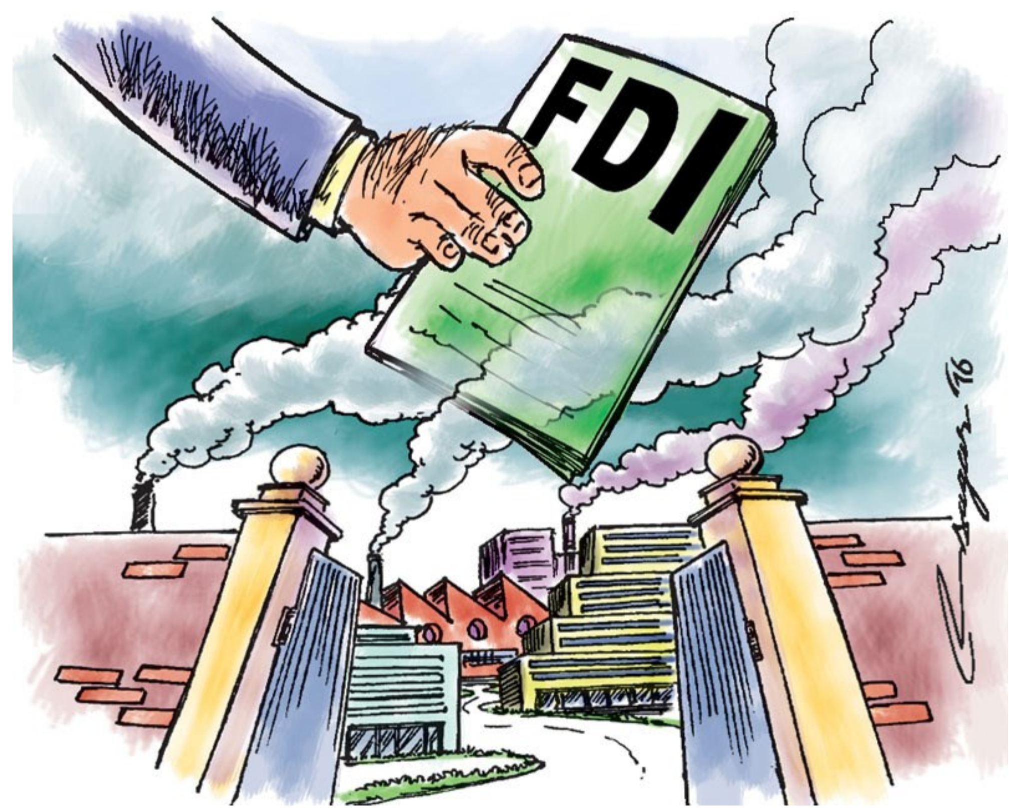
The IMF has revised downwards Nigeria's 2020 GDP growth forecast to 2.0% from 2.5%. This is 0.17% lower than the average growth of 2.17% in the first three quarters of 2019. The reduction in the growth projection is reflective of dwindling global oil prices. Brent prices declined 11.17% to $58.63pb (YTD) as a result of the coronavirus outbreak. This, at a time when OPEC is considering a cut in output, is detrimental to Nigeria's fiscal buffers and poses a huge threat to the implementation of the 2020 budget. The country's fiscal deficit could widen beyond the current level of N2.18trn (1.52% of GDP).

The Fund noted a slow pace of economic growth, rising inflation and increased external vulnerabilities and recommended the following:

- An adjustment in policies
  - Further monetary tightening – through more conventional methods
  - Adoption of a uniform and more flexible exchange rate
  - Structural reforms to boost investments
  - Removal of restrictions on access to foreign exchange
  - Resolving the issues surrounding the re-opening of the land borders
- Improvement in non-oil revenue mobilization
- Introduction of longer-term government instruments to mop up excess liquidity

Also, the Bankers Committee met on February 18. The committee's deliberation was centered on the possibility of collaborating with the Federal Government in bridging the country's infrastructure gap. The Africa Development Bank (AfDB) had earlier estimated Nigeria's infrastructure gap to cost approximately $3 trillion by 2044 (about $100billion annually). Bridging the infrastructure gap is a step towards achieving sustainable development. Hence, it is believed that this public-private partnership (PPP) model towards infrastructural development will help to stimulate growth albeit in the medium to long term.

Addressing FDI barriers to take advantage of the regional trade opportunity



Foreign direct investment (FDI) can be a catalyst for economic growth. By bringing in new inputs, technologies and knowledge to the host country, FDI increases the amount of physical capital and augments human capital. According to the United Nations Conference on Trade and Development (UNCTAD) 2019 World Investment Report, Nigeria is the third largest recipient of FDI in Africa, behind Egypt and Ethiopia.[1] This is largely thanks to its strong fundamentals such as natural resources, a large market and a young population. However, many problems,including a poor investment climate and a huge infrastructure deficit, continue to pose huge threats to long-term investors.

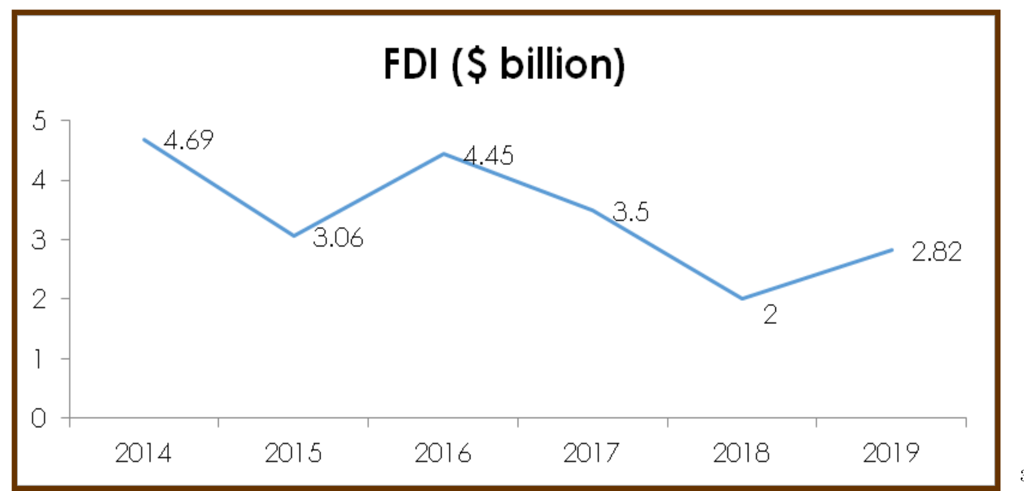
In Q3'19, not only did the value of FDI flows to Nigeria decline, its share of total capital flows fell by 0.10% to 3.73% from 3.83% in Q2'19.[2] The good news is that Nigeria has finally signed the African Continental Free Trade Agreement (AfCFTA) which creates a larger market and will facilitate the free flow of goods within Africa. Nigeria stands to gain from AfCFTA on three fronts.

[1]UNCTAD. 2019. "World Investment Report 2019". United Nations.https://unctad.org/en/PublicationsLibrary/wir2019_en.pdf
[2]National Bureau of Statistics

Firstly, its large market (accounting for roughly 17% of Africa's population and GDP) makes Nigeria an ideal place for business headquarters. Secondly, once these headquarters are established, Nigeria could see a further increase of FDI as companies invest heavily to export from within the AfCFTA and avoid tariffs. Thirdly, as the largest country in Africa, Nigeria offers a cheap labor force, which is a compelling opportunity for investors and should also contribute positively to Nigeria's unemployment problem. However, if Nigeria is to leverage these new opportunities and attract more FDI it must first address its underlying challenges.

Constraints to FDI inflows in Nigeria

Many economic and social factors have discouraged foreign investors in Nigeria, thereby reducing the flow of foreign direct investments into the country. Between 2014 and 2018, FDI flows fell by 57.36% from $4.69 billion to $2 billion. The two key factors that led to this drop are a poor investment climate and the significant infrastructure deficit.



[3]

Nigeria's stringent government policies, bureaucratic bottlenecks for securing permits, high finance costs, low foreign exchange availability, and weak legal framework continue to deter investments. The other key challenge to investments in Nigeria is the country's huge infrastructure deficit. The level of infrastructural development in a country plays a key role in attracting foreign investors. The epileptic power supply, poor road and rail infrastructure, and gridlocks at the ports have all increased the cost of doing business in the country. Manufacturers must resort to alternative energy sources and pay more on demurrage due to delays at the port.

[3] The Economist Intelligence Unit, Country forecast, January 2020

Improving the Investment Climate

There is a need for clear and transparent policies as well as a strong legal framework to improve the investment climate. The Presidential Enabling Business Environment Committee (PEBEC) initiatives such as e-registration of business, e-filing for taxes, and the elimination of lawyer's services in registering a business, among others, have helped to save time and reduce the cost of registering a business. In Kano for instance, businesses can now be registered in less than two days compared to months, previously. However, the PEBEC programming is currently limited to Lagos and Kano. Expanding these programs across the country is a crucial next step.

In addition, foreign exchange policies are vital to attracting foreign investors. It enhances easy entry and exit. Nigeria currently adopts a multiple exchange rate system which creates room for arbitrage, increases transaction costs, and douses investor confidence. For Nigeria to attract more investment flows, an efficient forex market priced in line with market fundamentals is imperative. This will make transaction settlement seamless, reduce transaction costs, promote transparency in the forex market and boost investor confidence.

Vietnam, in a bid to attract more FDI flows, provided a legal framework suitable for both domestic and foreign investors. Its foreign investment law makes the investment environment favorable and narrows the policy gap between domestic and foreign investors. With this policy, foreign trade restrictions were relaxed gradually, regulations on registration procedures, access to land, capital and foreign exchanges were improved, and tax incentives were initiated to promote greater presence of foreign-invested enterprises. The impact of these initiatives was massive on FDI flows into the country. FDI flows jumped to $4billion in 2005 from $320 million in 1988.[4]

Reducing the Infrastructure Deficit

Finally, Nigeria needs to reduce its huge infrastructure deficit, specifically roads, rail, and power supply. In Vietnam, the government inaugurated the DoiMoi reform in 1986 which was committed to creating and improving the country's infrastructure facilities to attract FDI flows. Some of these facilities included: providing electrical power grids, road networks, telecommunications and

[4]Nguyen Phi Lan, November 2006. "Foreign Direct Investment And Its Linkage To Economic Growth In Vietnam: A Provincial Level Analysis"

water lines. By 2010 the country's power supply had increased by 3.76 times to 100 billion KWh, up from26.6billion KWh in 2000.[5] The country's massive investment in roads, between 2000 and 2010 increased road density to 0.77km per km^2 by 2010, up from 0.66km per km^2 in 2000. These had a positive impact on the ease of doing business as cost of doing business reduced and productivity improved. Annual FDI flows into Vietnam skyrocketed to approximately $4billion in 2005 from $830 million in 1988,with an annual growth rate of 28 percent.[6]

Nigeria's prospects with AfCFTA

Nigeria has a huge deposit of human and natural resources that are capable of attracting FDI flows into the country. However, for Nigeria to maximize its potential, especially with the signing of AfCFTA, it is important that the government addresses the underlying structural bottlenecks that make Nigeria such a difficult country for business investment.

[5]Vo, T T and Nguyen, A D., 2012. "Experiences of Vietnam in FDI Promotion: Some Lessons for Myanmar." In Economic Reforms in Myanmar: Pathways and Prospects, edited by Hank Lim and Yasuhiro Yamada, BRC Research Report No.10, Bangkok Research Center, IDE-JETRO, Bangkok, Thailand.,

[6]Vo, T T and Nguyen, A D., 2012. "Experiences of Vietnam in FDI Promotion: Some Lessons for Myanmar." In Economic Reforms in Myanmar: Pathways and Prospects, edited by Hank Lim and Yasuhiro Yamada, BRC Research Report No.10, Bangkok Research Center, IDE-JETRO, Bangkok, Thailand.

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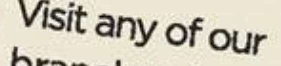

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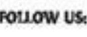
FOLLOW US: 

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Is Nigeria ready for a health epidemic?

The recent global health scares - coronavirus (Covid-19) in Asia and Lassa fever in Nigeria - give a sense of déjà vu, reminding us of the days of Ebola, SARS and other health scares in the past. The more Nigeria is integrated with the global markets, the higher the risk of these viruses penetrating the economy. In fact, the first case of Lassa fever outbreak was confirmed in Lagos state this month.

The last time Nigeria had a health scare of this magnitude was back in 2014 when a Liberian citizen flew into Nigeria with the Ebola virus. Fortunately, late Dr Stella Adadevoh isolated the patient and successfully prevented the scare from becoming a crisis. Six years later, Nigerians face the risk of two major health scares – covid-19 and Lassa fever- developing into a crisis if not properly managed. Key stakeholders - the first responders at the airports, the public, the federal and state governments as well as the medical professionals at the hospitals - must be properly equipped and ready to handle the crisis.

Is Nigeria ready?

Since the outbreak of the virus, the World Health Organization (WHO) has listed Nigeria and 12 other African countries as 'high risk' due to their close ties to China. With the high volume of travel by Nigerians to China and the increasing number of Chinese businesses located in the country, Nigeria must be particularly vigilant for the virus. With the first case of the virus in Africa confirmed in Egypt, Nigeria can assess its preparedness in dealing with the novel Coronavirus using the parameters below:

- **Active surveillance:** The 2014 Ebola scare in Nigeria occurred primarily because a foreigner carrying the virus was erroneously allowed into Nigeria. Therefore, the first point of action in protecting Nigerians from health risks is to upgrade the health screenings and quarantine procedures in our local and international airports. With regards to the coronavirus, passengers from China and other Asian countries are naturally the biggest threats to their destination countries. For Nigeria, the Federal Government has assured Nigerians of the country's effort to strengthen surveillance at five international airports – Enugu, Lagos, Rivers, Kano and the FCT. To strengthen its surveillance tactics Nigeria can adopt techniques being adopted by global airports in dealing with the inbound threat of the coronavirus. Take for instance, the Hong Kong International Airport: planes flying from Wuhan are parked at a special designated area where passengers are cleaned and disinfected. Airports in India have also installed thermal cameras and signage informing the public of steps to take if they feel ill.

- **Early detection:** Six years ago, there were only a handful of Ebola diagnosis centers in Nigeria. The ability of any country to manage a health crisis depends on the quality of its health care and medical professionals. The accelerated rate of the medical brain drain in Nigeria, suboptimal health infrastructure and lack of research facilities could threaten a timely detection of these health scares in Nigeria.

- **Isolation:** Once diagnosed, patients suspected to carry life-threatening diseases must be properly isolated. China has also successfully built a 1,000-bed hospital in ten days in response to the accelerated spread of the Coronavirus. On the domestic front, Kwara state government has committed to set up an isolation centre for Lassa fever patients in the state. This example must particularly be replicated in the 'Golden Triangle' states – Lagos, Abuja and Port Harcourt owing to the high influx of passengers into these states. State governments must adopt proactive responses if Nigeria is to avert these crises.

A call to revive Nigeria's health sector

Before the health threats, there was a persistent call for the federal government to increase its budgetary allocation to the health sector, which is currently at a miserly 4.4%.[7] The low allocation to the sector has resulted in a dilapidation of hospital infrastructure across the Federation, demoralized health workers and increased rate of brain drain. The system is plagued with incessant industrial actions, low doctor to patient ratio, brain drain and poor health infrastructure.

Addressing these challenges will involve increased government allocation and public-private partnerships that could bridge the infrastructure and manpower deficit. An increase in the budgetary allocation of the health sector will allow the government to respond quickly to any threat as well as have a ripple effect on improving the health infrastructure, attracting both domestic and foreign investment as well as slowing the pace of medical brain drain in Nigeria.

[7]Budgit. 2020. "2020 Approved Budget Analysis". https://yourbudgit.com/wp-content/uploads/2020/01/2020-Approved-Budget-Analysis.pdf

Singapore's empty airport highlights impact of coronavirus on Asia

Outbreak is hitting some of the world's busiest aviation and maritime trade corridors

The Xin Wang Hong Kong Café, overlooking the west runway at Singapore's Changi international airport, seems like a fitting place to write a Trade Secrets briefing as China's coronavirus crisis rumbles on.

For one thing, it is quieter than most libraries, even during Monday lunch hour at what is usually one of the world's busiest international airports. So too are the nearby Terminal 3 departure and arrival halls. It is all a reminder of one of the most remarkable aspects of the coronavirus epidemic and the subject of today's post —the drastic impact the disease outbreak has had on what are usually some of the world's busiest aviation and maritime trade corridors connecting Singapore, Hong Kong and Taiwan.

South China Sea or Bermuda Triangle?

Even someone blissfully unaware that a highly contagious respiratory disease had been spreading across China and beyond since mid-January would realize something was amiss upon entering the Xin Wang café. Aside from the almost complete absence of patrons, those few that do arrive are required to clean their hands with an antiseptic gel. And while at most airports you do not normally encounter the phrase "your safety is our priority" until boarding an aircraft, it appears at every table alongside the assurance that "the table has been sanitized before each dining session".

Outside on Changi's west runway, planes arrive at seemingly busy two-minute intervals. But the sparsely populated terminal reflects the fact that many of those planes are almost completely empty, especially if they are arriving from Hong Kong or other cities in southern China's Pearl River delta, such as Shenzhen or Guangzhou.

There is simply no point booking business-class seats on these routes any more. On two recent flights between Hong Kong and Singapore, your Trade Secrets correspondent and perhaps 20 other passengers shared the entire economy-class cabin. Flights between Hong Kong and Taiwan

are even more sparsely populated, after the latter banned most visitors from the former for fear that they would be carrying more than just a few bags.

Coronavirus infections have been slowly but steadily climbing in both Singapore (77 cases) and Hong Kong (61 cases). It is not inconceivable that, should the virus take off in either or both cities over the coming weeks that they too might move to cut off visitors from each other.

The importance of Singapore, southern China and Taiwan to global supply chains and international finance is so great that it is hard — in the event that these regions are soon forced to completely sever aviation links with each other — to think of a reasonable parallel in North America or Western Europe. But one might imagine what the US would look like if the flow of people, services and air cargo between New York, Washington and Chicago were to brought to an abrupt halt by, say, a pandemic emanating from the heart of the People's Republic of China.

As it is in the air, so it is at sea. Before touching down at Changi, aircraft fly low over one of the most remarkable maritime vistas in the world: the hundreds upon hundreds of container ships, oil tankers and bulk carriers anchored off the city state's southern shore, an anchorage also known as the "Singapore Roads".

The Singapore Roads, as one veteran Hong Kong shipping executive puts it, are by far "the layman's easiest optic on the state of the shipping industry". The more vessels moored there awaiting charters, noted Tim Huxley, chairman of Mandarin Shipping, the more sluggish the global economy.

Clear-cut statistics for the coronavirus epidemic's impact on regional aviation and shipping services will not be clear until mid-March when figures for the first two months of the year are available. January figures released over recent weeks give only a hint of the real damage being done, as the epidemic did not erupt in full force until the end of last month. The variable Chinese lunar New Year holiday, which fell in January this year but February last year, also muddies available year-on-year comparisons.

But it is not hard to imagine how awful those statistics are likely to be when they are finally available, Mr Huxley notes, when one considers that China accounts for about 25 per cent and 35 per cent of global crude and dry-bulk imports respectively, as well as 30 per cent of total container exports. "This crisis," he added, "has made people so much more conscious of just how fragile global supply chains are."

Over recent weeks there have been at least 31 "blank sailings" — sailor-speak for cancelled services — from China to either the US or Europe. And aside from the inevitable year-on-year falls in air passenger, air cargo and maritime cargo, there are other impacts from the epidemic looming. These include an estimated 200 vessels stuck in Chinese shipyards awaiting installation of new exhaust "scrubbers" that they require to comply with stricter environmental emissions standards — and the approximately 860 new ships China's boat builders are supposed to deliver this year.

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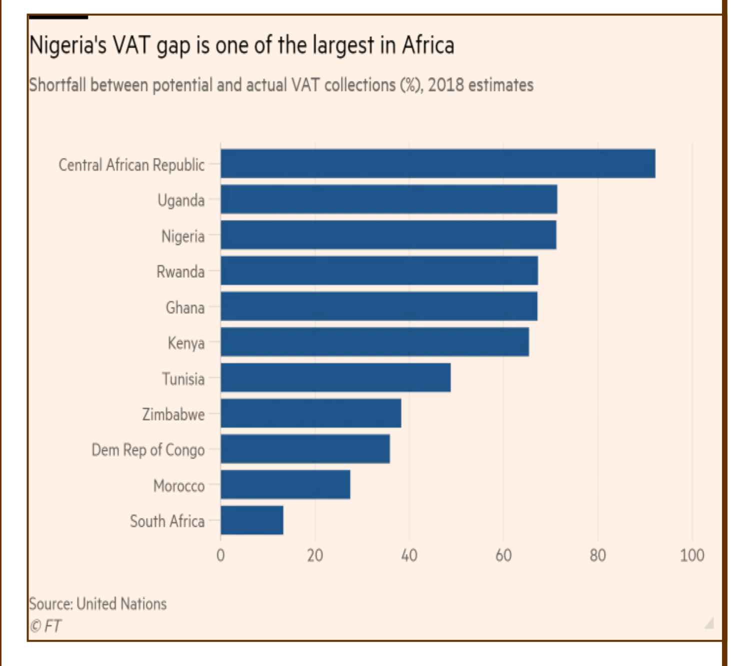
Nigeria grapples with formidable tax collection challenge

Government seeks to increase revenue as debt repayments balloon

Improving crumbling infrastructure and poor services in Africa's largest economy is one of the top priorities for Nigeria's government. But with debt repayments ballooning to nearly two-thirds of revenues, it has struggled to find the money to tackle the problems and is ramping up efforts to boost tax collection.

However, the challenge will be formidable in a country with one of the lowest tax-to-GDP ratios in the world, analysts say.

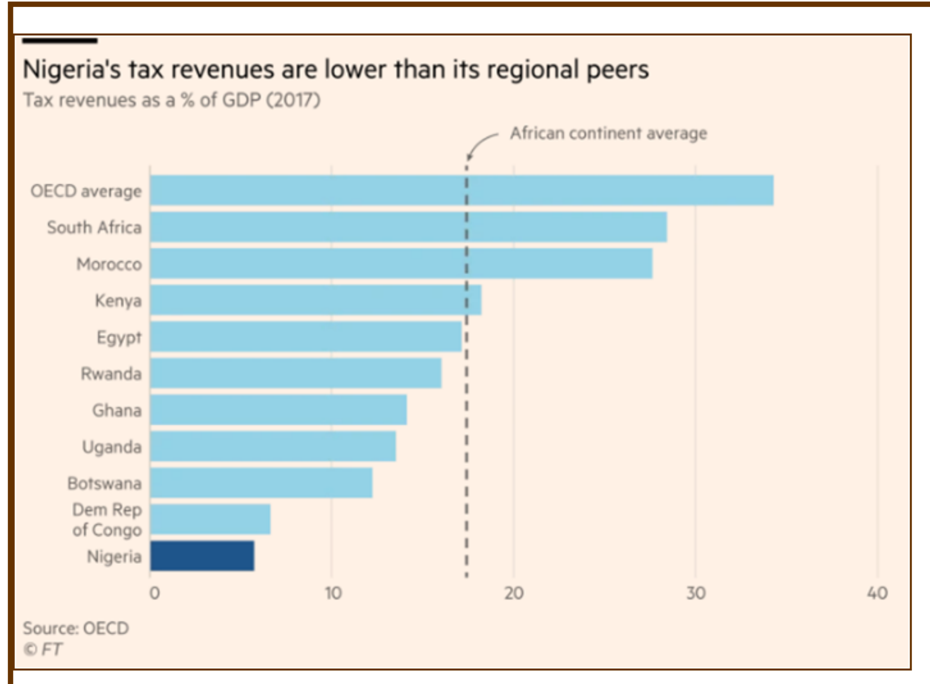


Economists point out that Nigeria's public debt — which at 20 per cent of gross domestic product is low by emerging market standards — is not the issue. "It is not that interest payments are too high; it is government revenue that is too low," Yvonne Mhango, sub-Saharan Africa economist for Renaissance Capital, said in her 2020 outlook report for the region. The Federal Inland Revenue Service has said it loses $15bn annually to tax evasion and that it has roughly doubled the tax base since 2015, when President Muhammadu Buhari was first elected.

With the senate set to approve Mr Buhari's plan to borrow $30bn for infrastructure projects in the coming months, the government wants to raise its tax take from roughly 6 per cent of GDP in 2017 to nearer 15 per cent, the threshold the World Bank says is necessary for economic growth and poverty reduction.

Despite being Africa's biggest oil exporter, Nigeria is among the world's poorest countries, with 87m of its 200m people living on less than $1.50 a day. Economic growth is stagnant at about 2 per cent, below the country's population growth rate of about 2.6 per cent. Meanwhile interest payments swelled last year to 62 per cent of the revenues retained by central government after it distributed funds to the states. In an effort to tackle the problem, the government this month raised the value added tax rate from 5 per cent to 7.5 per cent as part of a finance bill that aims to bolster revenue collection.

To encourage investment and draw more smaller businesses out of the informal economy, the bill also exempts companies with less than N25m ($70,000) in annual revenues from corporate income tax and cuts the rate for those making up to N100m from 30 per cent to 20 per cent. Mr Buhari has also pledged to expand the economy and tax base by weaning Africa's largest oil producer off its reliance on crude.



Shubham Chaudhuri, country director for the World Bank, said domestic revenue generation was one of the top three issues the government had asked him to help with when he arrived last year, along with power generation and job creation."This is clearly one of the things that Nigeria has to get its head round, and it has to be a concerted effort to raise domestic revenues," he said. "The main challenge will be . . . broadening the [tax] base."

This will not be easy, say analysts. According to the latest World Bank economic report for the country, "tax morale is low" in Nigeria because of the system's complexity and because the population receives few services or infrastructure improvements from the tax the government does collect. "Nigerians have essentially not been given public services . . . so there is tremendous resistance to trying to raise revenue where the social compact of paying taxes and receiving services is not functioning," said Andrew S Nevin, chief economist for PwC Nigeria.

According to PwC, scores of levies, including state consumption, road and development taxes, cost more to collect than they generate. The top six taxes in terms of revenue raised — including VAT and corporate tax — provided 97 per cent of federal tax revenue, Mr Nevin said, adding: "So a bold but productive step would be to simply eliminate all the other taxes."

Nigeria's 36 states would also need to boost collection, Mr Chaudhuri said. Nearly 70 per cent of state revenue comes from the federal government, and few states have been able even to pay public employees the new federal monthly minimum wage of N30,000, let alone improve services.

"The fiscal needs are huge . . . for investments in infrastructure, and investments in people and human capital, basic services, healthcare, basic education, water and sanitation," he said.

The Buhari administration has long made boosting non-oil revenues a priority, but after five years in office, it continues to struggle. The administration's 2017-18 tax amnesty programme — allowing Nigerians to bring undeclared income back into the country — met only 8% of its target.

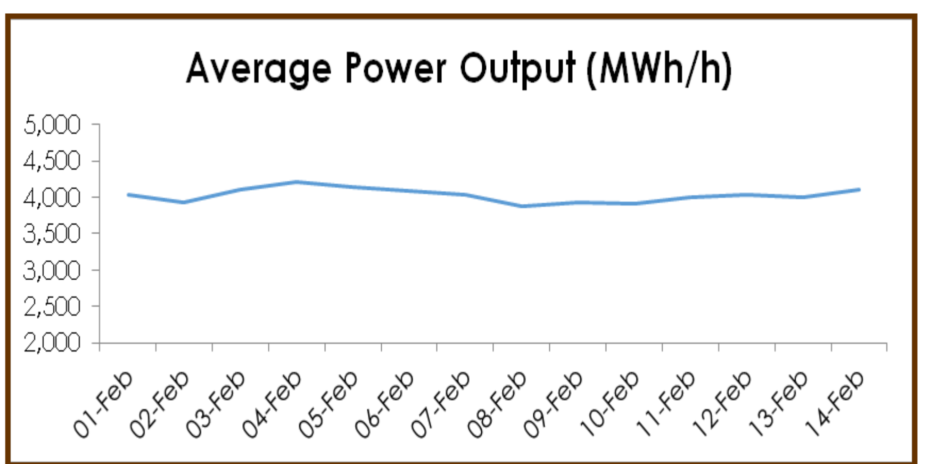
The oil industry still provides more than half of government revenues and 94 per cent of foreign exchange, according to the IMF.

Diversifying the economy will take time, but there was one way the government could spur revenue collection and convince more people to pay taxes, said Mr Nevin: requiring government agencies to comply with all taxes and fees. "It is not possible to ask the private sector to be tax compliant if the [federal government] is not," he said.

Macroeconomic Indicators (February 3rd – 14th)

Power Sector

During the review period, an average of 4,029MWh/h power output was sent out from the national power grid. This shows a 4.9% increase from the average of 3,840MWh/h recorded in the first half of January. The major constraint experienced during the review period was the gas constraint and grid constraint. Total constraints averaged 3,872MWh/h, resulting in a total revenue loss of N26.02billion (annualized at N9.49 trillion).



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Outlook

Water constraint increased in the period under review following a resurfacing of the dry season. We expect this trend to persist on the back of weather forecasts, which estimate the dry season ending in March. This could contribute to the fall in average power supply.

Impact

The fall in average power supply will lead to businesses sourcing for other forms of energy. The resulting effect is an increase in the cost of production, in prices of local goods and services.

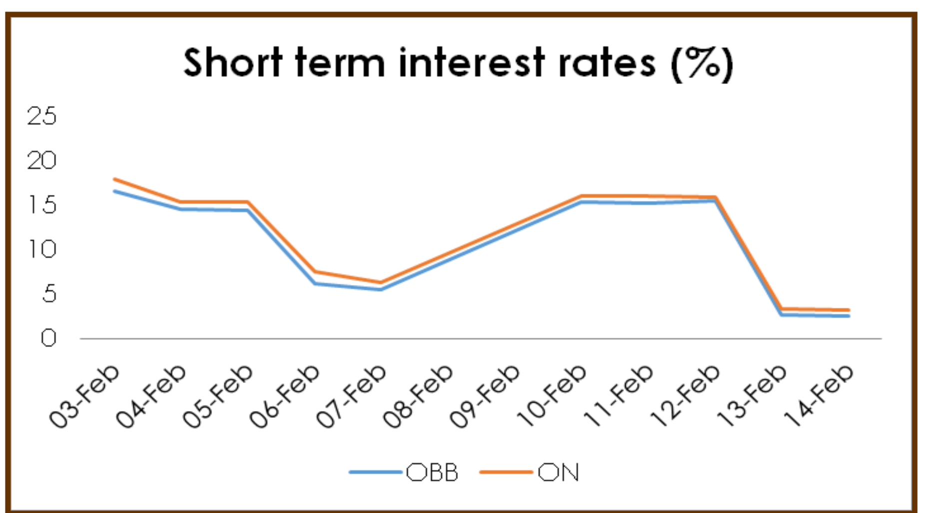
Money Market

The average opening position of banks fell sharply by 56.58% to N205.43billion within the first fourteen days of February from N473.14billion in the review period last month. During the review period, the banking system recorded a negative opening position for two consecutive days,

[8]FGN, FDC Think Tank

the first since August 2019. Average short term rates (OBB, O/N) rose by 451bps to 11.24% p.a. from an average of 6.73% p.a. within the period covered recorded in the first half of January.

Total OMO sales during the review period amounted to N343.07bn from N892.42bn recorded in the corresponding period in January. On the other hand, OMO repayments increased sharply to N865.87bn from N446.8bn recorded in the first half of January. This resulted in a net inflow of N522.8bn.



[9]

There was a primary market auction on February 12th worth approximately N154.38billion. Yields on the 91-day and 182-day T/ bill tenors declined by an average of 5bps to close at 3.0%pa and 4.0%pa. Conversely, the 364-day tenor increased marginally from 6.50% to 6.54%. In the same vein, there was a mixed movement of yields at the secondary market. Yields fell from 3.35%pa and 3.67%pa to 2.55%pa and 3.40%pa for the 91-day and 182-day tenors respectively. On the other hand, the 364-day tenor increased by 15bps to close at 4.15%pa.

Primary Market

T/bills Tenor	Rate on Jan 29th (% pa)	Rate on Feb 13th (% pa)	Direction
91	3.50	3.00	↓
182	4.50	4.00	↓
364	6.50	6.54	↑

[9] CBN

T/bills Tenor	Rate on Feb 3rd (% pa)	Rate on Feb 14th (%)pa	Direction
91	3.35	2.55	⬇
182	3.67	3.40	⬇
364	4.00	4.15	⬆

Secondary Market

Outlook

We expect maturing OMO bills to reach a peak in the coming month. The increased market liquidity will lead to a decline in interest rates in the near term.

Impact

A decline in interest rates reduces the cost of borrowing for investors and consumers.

Forex Market

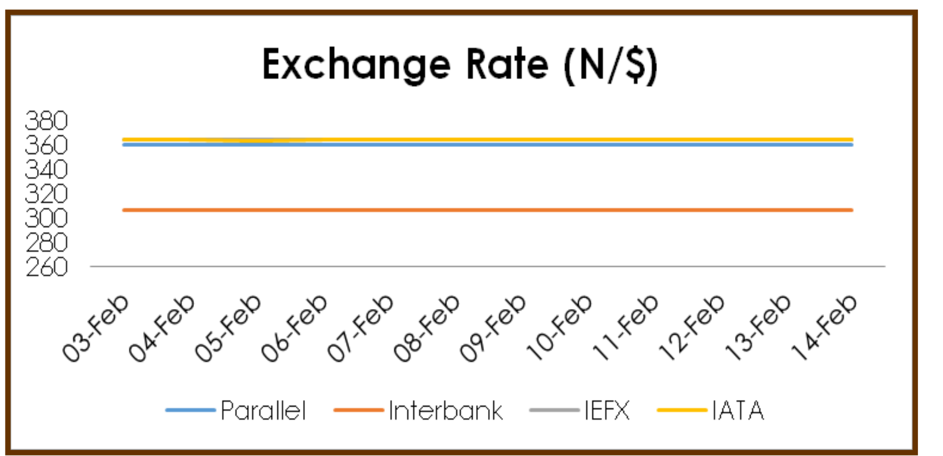
The Nigerian forex market is segmented with multiple exchange rates. The most important rate being the Investors and Exporters window (IEFX). No less than 55%-60% of Nigerian forex transactions are traded at this window. The CBN and most exporters and investors use this window. It serves as not only 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 Rate

At the parallel market, the naira traded flat at N360/$ during the review period. The stability in the value of the naira was partly due to the 76.18% jump in the total CBN forex intervention to $446.41mn in the first half of February from $253.38mn in the corresponding period in January.

At the interbank foreign exchange market, the currency appreciated by 0.02% to close at N306.95/$ on February 14 from N307/$ at the beginning of the month. During the review period, the CBN continued its forex restriction interventionist stance by limiting the importation of milk and other dairy products to only six companies.

In contrast, the currency depreciated by 0.16% at the Investors & Exporters Foreign Exchange window to close at N364.76/$ on February 14 from N364.17/$ on February 3. The total forex turnover recorded at the window increased by 19.27% to $3.60billion compared to $3.01billion in the corresponding period of January.



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Outlook

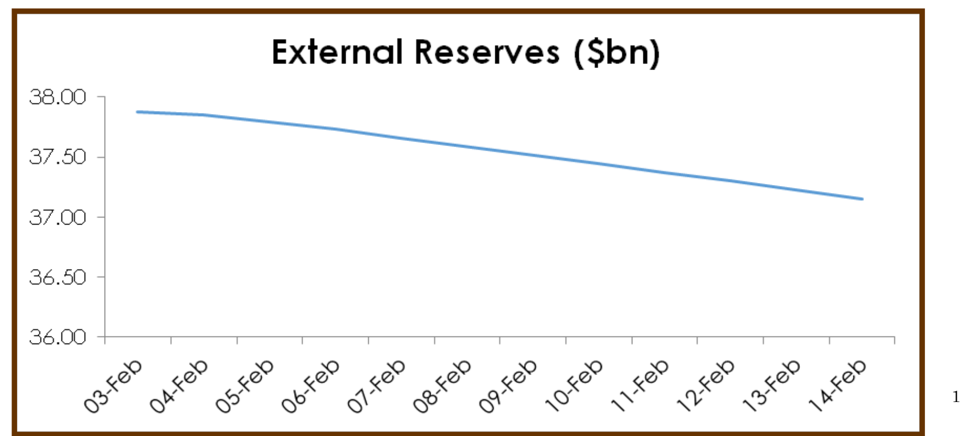
The currency is expected to remain relatively stable in the near term as the CBN continues to support the naira. However, its ability to intervene could be limited by the continuous depletion of the external reserves.

Impact

A stable currency will boost activities within industries such as manufacturing that are highly dependent on imported inputs.

External Reserves

The external reserves balance continued its downward trend in the review period. Reserves fell by a total of $721mn to close the period at $37.15bn on February 14.As at February 17th, it fell below the threshold of $37bn to $36.93bn. During the review period, Nigeria's import cover declined to 9.25 months from 9.43 months on February 3rd.



[11]

[10] FDC Think Tank
[11] CBN

Outlook

The reserves are projected to continue the downward trend amidst falling oil prices, and growing investor anxiety. We expect external reserves to close at $36.6bn-$36.8bn by the end of February.

Impact

The continued decline in external reserves threatens the CBN's ability to intervene in the forex market. This could reflect negatively in the value of the naira in coming weeks.

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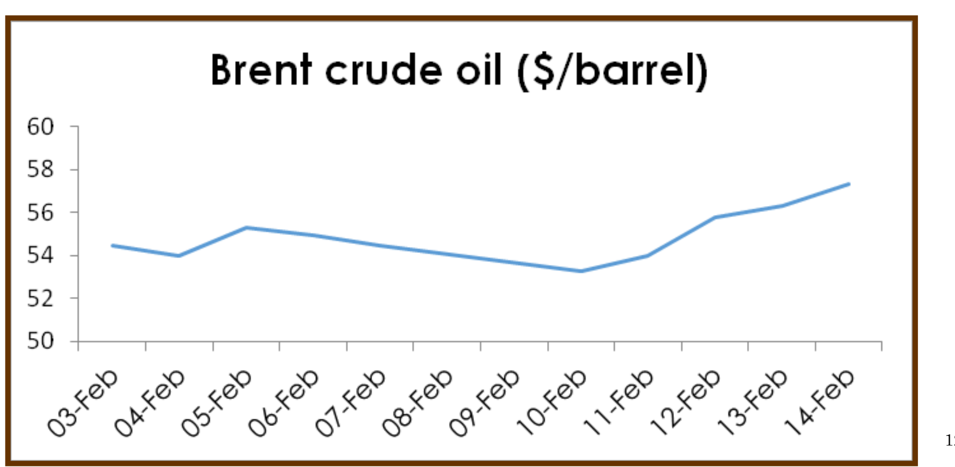
Commodities Market - Exports

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

Oil Prices

Oil prices on average decreased by 16.76% to $54.98pb, from the average of $66.05pb in the first half of January. The decline in prices was partly due to the impact of the Covid-19 on Chinese oil demand. During the review period, OPEC+ Technical Committee recommended additional oil production cuts of 600,000 bpd in response to falling oil prices.



[12]

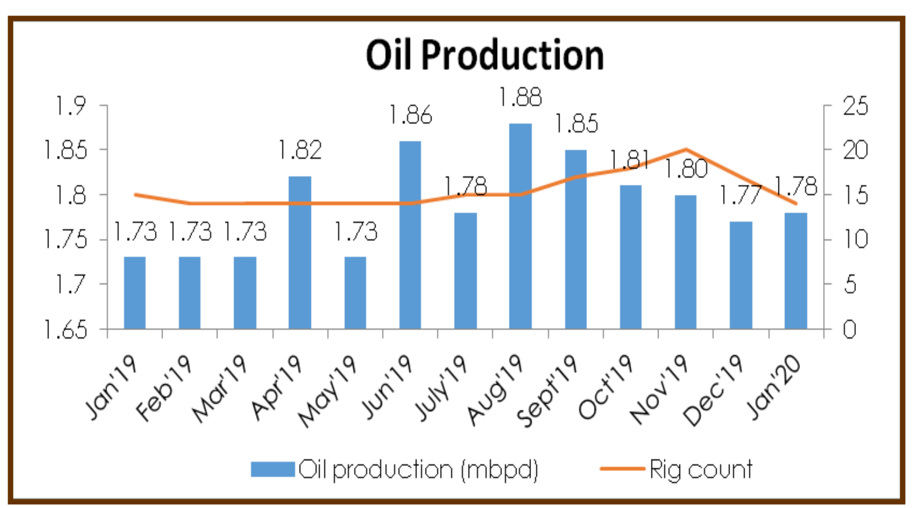
Outlook

The market is anticipating the implementation of the proposed supply cut by OPEC+. In addition, supply disruptions from Libya and Russia are expected to support prices in the near term. Therefore, we expect oil price to increase marginally to trade within a range of $57 - $60 per barrel.

Oil production

Nigeria's oil production increased by 0.56% to 1.78mbpd in January from 1.77mbpd in December 2019. This remains above Nigeria's OPEC quota of 1.77million barrels per day. Conversely, Nigeria's rig count reduced from 17 to 14 in January.

[12]Bloomberg, FDC Think Tank



13

Outlook

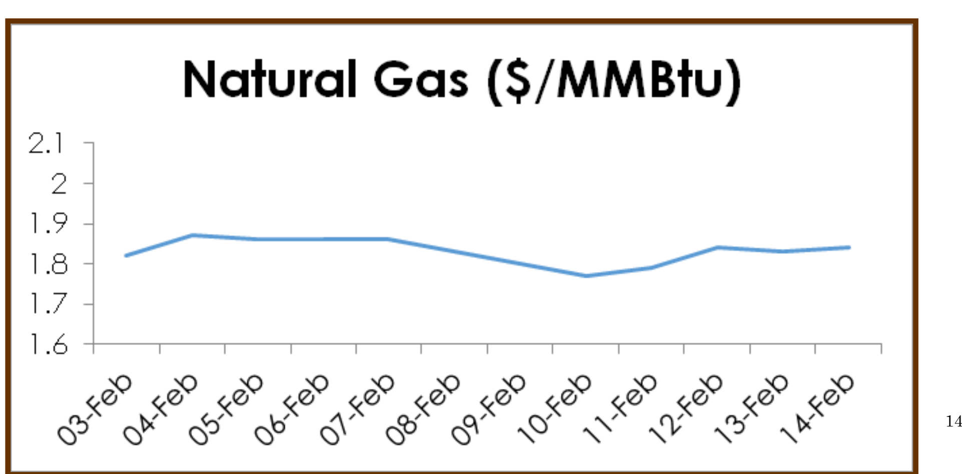
We expect a further decline in domestic crude oil production in the near term as OPEC+ proposes additional supply cuts of 600,000 barrels per day by member countries for the first half of 2020.

Impact

Nigeria remains more oil production sensitive than oil price sensitive. Therefore, a decline in oil output amidst falling global oil price could threaten Nigeria's quarterly oil revenue. This would have a negative impact on proxies such as FAAC allocation.

Natural Gas

The average price of natural gas for the review period was $1.83/mmbtu, which is 15.28% lower than the average price of $2.16/mmbtu recorded in the first half of January. The decline was partly due to weak global demand.



14

[13]OPEC, FDC Think Tank
[14]Bloomberg, FDC think Tank

Outlook

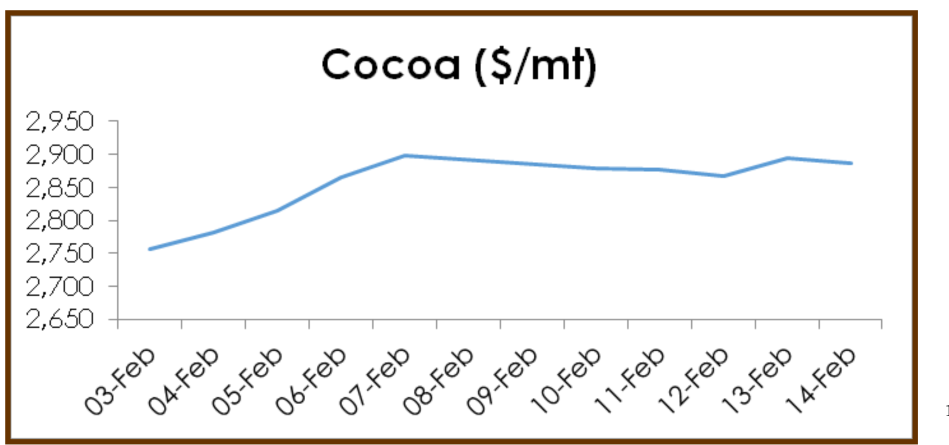
Natural gas prices are expected to rise in the coming period driven by expectations of unfavourable weather conditions and a decline in US inventories.

Impact

LNG is Nigeria's second major export, accounting for approximately 14.2%[15] of the country's export revenue. An increase in the global price of natural gas will positively affect Nigeria's LNG export earnings.

Cocoa

Average cocoa price increased by 11.24% to close the review period at $2,852/mt from $2,563.9/mt in the first half of January. The increase in price was partly due to adverse weather conditions in major exporting countries such as Ivory Coast and Ghana.



[16]

Outlook

We expect prices to increase in coming days driven by global supply shortage as dry weather conditions suppress production and continue to push up cocoa prices.

Impact

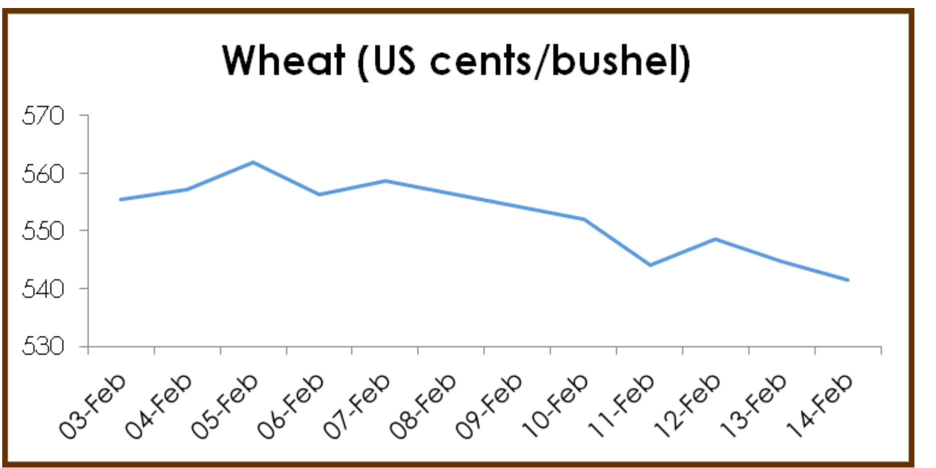
Cocoa is Nigeria's second largest non-oil export commodity. Thus, an increase in cocoa prices would result to higher export earnings and revenue for the government.

[15]EIU
[16]Bloomberg, FDC Think Tank

Imports

Wheat

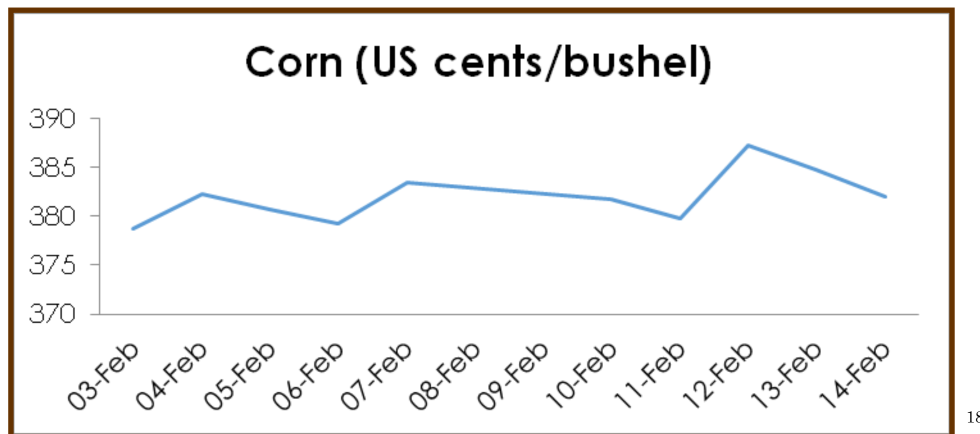
On the average, the price of wheat decreased to $552.05/bushel during the review period, a fall of 1.39% from $559.85/bushel in the first half of January. The decrease in price was driven by ample world supplies.



[17]

Corn

The price of corn averaged $382/bushel during the review period, down 1.2% from $386.65/ bushel in the first half of January. The decline was partly driven by lower Chinese demand for US corn produce due to the Coronavirus epidemic.



[18]

Outlook - Grains

The rise in Coronavirus cases could hamper demand for grains in the near future and lead to a decline in grain prices.

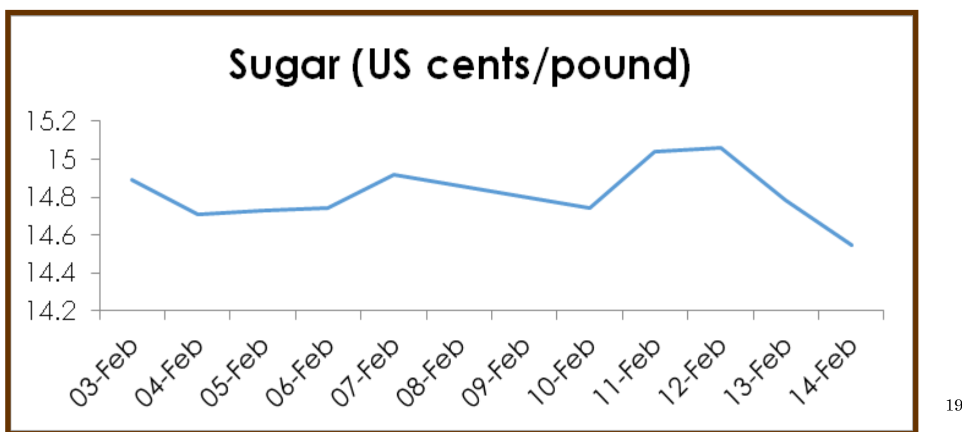
[17] Bloomberg, FDC Think Tank
[18] Bloomberg, FDC Think Tank

Impact

Reduced grain prices should reduce production cost for domestic companies dependent on the importation of grains.

Sugar

During the review period, the average price of sugar increased by 7.39% to $14.82/pound from $13.80/pound in the first half of January. This was largely driven by lower sugar production in Thailand.



[19]

Outlook

Prices are likely to increase in the near term owing to shortages in global supply of sugar due to drought like conditions in Thailand, the fourth largest producer of sugar.

Impact

A rise in the global price of sugar will result in higher input costs of sugar-producing companies in Nigeria.

[19] Bloomberg, FDC Think Tank

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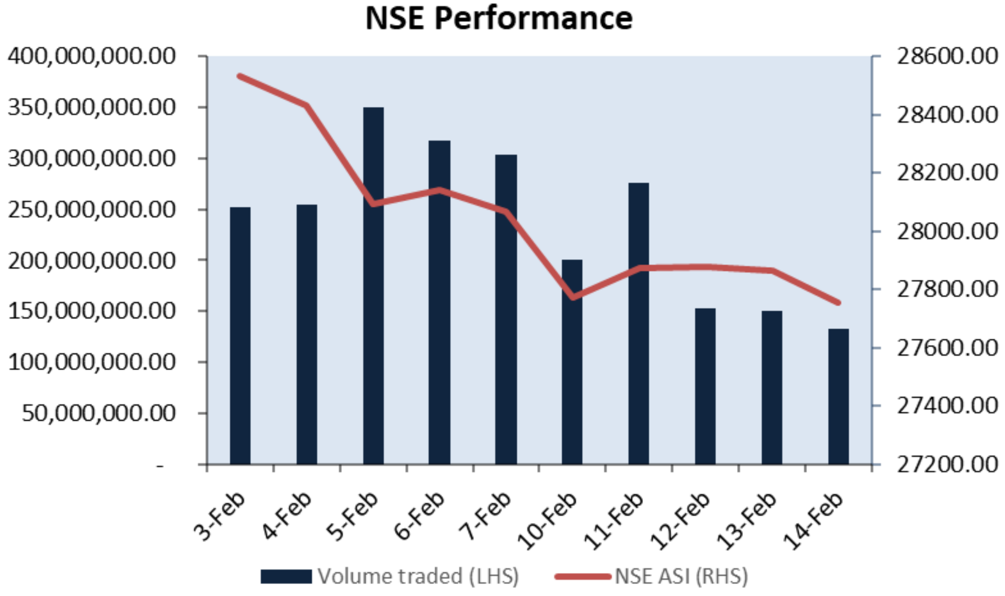
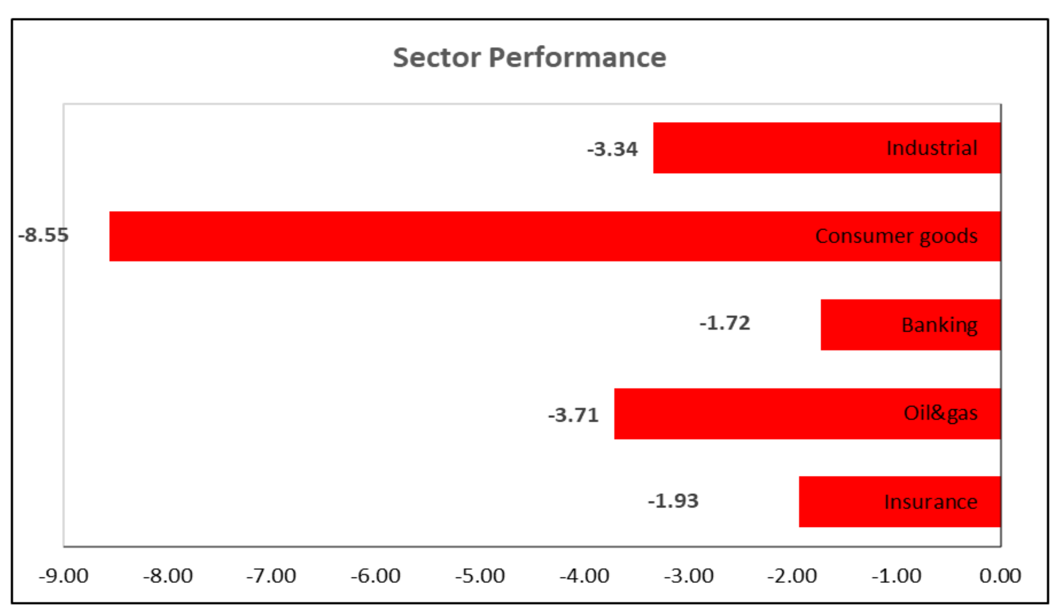
Stock Market Review

The NSE ASI lost 3.77% to close at 27,755.87 points on February 14th relative to its close of 28,843.53 points on January 31st. In the same vein, market capitalization fell 1.57% (N230bn) to N14.46trn. In the 10-trading day period, the market gained in 3 days and lost in 7 days. YTD, the market has gained 3.40%.

The NSE traded at a price to earnings (P/E) ratio of 7.44x as of February 14th, 5.10% lower than the close of February 3rd (7.84x). The market breadth was negative at 0.46x as 21 stocks gained, 46 lost while 96 stocks remained unchanged.



On the other hand, the market saw a decrease in activity level. The average volume traded fell by 18.29% to 239mn units, while the average value of trades declined by 32.22% to N3.24bn.



The sector indices performance was broadly negative during the review period. The consumer goods sector lost the most (8.55%), followed by the oil & gas sector (3.71%), industrial (3.34%), insurance sector (1.93%) and banking sector (1.72%).

Law Union & Rock Insurance Plc topped the gainers' list with a 49.35% increase in its share price. This was followed by Livestock Feeds Plc (27.27%), United Capital Plc (20.00%), Union Bank of Nigeria Plc (17.50%) and Africa Prudential Plc (10.38%).

TOP 5 GAINERS (N)				
Company	**Feb. 3'20**	**Feb. 14'20**	**Absolute Change**	**% Change**
Law Union & Rock Insurance Plc	0.77	1.15	0.38	49.35
Livestock Feeds Plc	0.55	0.7	0.15	27.27
United Capital Plc	2.45	2.94	0.49	20.00
Union Bank of Nigeria Plc	6	7.05	1.05	17.50
Africa Prudential Plc	4.24	4.68	0.44	10.38

The laggards were led by Skyway Aviation Handling Co Plc (-30.84%), C and I Leasing Plc (-26.53%), Royal Exchange Plc (-23.33%), Linkage Assurance Plc (-19.30%) and Neimeth International Pharmaceuticals Plc (-18.18%).

TOP 5 LOSERS (N)				
Company	**Feb. 3'20**	**Feb. 14'20**	**Absolute Change**	**% Change**
Skyway Aviation Handling Co Plc	4.15	2.87	-1.28	-30.84
C and I Leasing Plc	7.35	5.4	-1.95	-26.53
Royal Exchange Plc	0.3	0.23	-0.07	-23.33
Linkage Assurance Plc	0.57	0.46	-0.11	-19.30
Neimeth International Pharmaceuticals Plc	0.55	0.45	-0.10	-18.18

Corporate Disclosures

Demutualization of the Nigerian Stock Exchange

The Nigerian Stock Exchange (NSE) announced its intentions to become a public limited liability company on February 7. Members of the NSE will vote on March 3 to convert from a member-owned mutual organization into a public limited-liability company. The NSE will change its name to Nigerian Exchange Group Plc and then list its shares on its own market as part of the process, known as demutualization. The demutualization will lead to a deepening of the Nigerian capital market and open it up to more investors.

Company	Topline	PBT	PAT	EPS
International Breweries Plc	N35.09bn (5.83%) ↓	-N13.36bn ↓	-N9.14bn ↓	-N106 ↓
Nigerian Breweries Plc	N323bn (0.43%) ↓	N23.33bn (20.55%) ↓	N16.11bn (16.99%) ↓	N2.01 (17.28%) ↓
Conoil Plc	N139.76bn (14.36%) ↑	N2.78bn (8.19%) ↑	N1.99bn (10.57%) ↑	N2.86 (10.42%) ↑
Mobil Nigeria Plc	N191.67bn (16.4%) ↑	N13.12bn (4.2%) ↓	N8.86bn (5.1%) ↓	N2,456 (5.06%) ↓
MRS Oil Nigeria Plc	N64.75bn (27.69%) ↓	-N1.58bn (10.74%) ↑	-N1.14bn (10.12%) ↑	-N3.73 (10.12%) ↑
Sterling Bank Plc	N149.47 billion (1.88%) ↑	N10.91bn (14.96%) ↑	N10.81bn (17.25%) ↑	N0.38 (18.75%) ↑
Wema Bank Plc	N91.54bn (27.97%) ↑	N6.27bn (30.63%) ↑	N4.41bn (32.43%) ↑	N11.4 (32.56%) ↑
Presco Plc	N19.88 bn (6.85%) ↓	N5.52bn (12.68%) ↓	N3.93bn (8.16%) ↓	N3.79 (11.45%) ↓
UAC of Nigeria Plc	N83.96bn (9.66%) ↑	N8.10bn (4.82%) ↑	N6.11bn (11.17%) ↑	N1.52 (21.6%) ↑
AXA Mansard Insurance Plc	N43.62bn (28.58%) ↑	N3.57bn (5.65%) ↑	N2.67bn (7.73%) ↑	N22.87bn (7.12%) ↑
Med-View Airline Plc	N3.04bn (68.28%) ↓	-N2.65bn (45.98%) ↑	-N2.65bn (45.98%) ↑	-N0.22 ↓

The performance of the sub-sectors based on the corporate results released so far has been mixed. The breweries companies results were negative with International Breweries plc and Nigerian Breweries plc recording a decline in their gross profit by 5.83% and 0.43% to N35.09 billion and N323 billion respectively. Also, the aviation sector did not fare too well, with Medview plc reporting a decline in its topline by 68.28% to N3.04bn. Banking sector results were broadly positive with the likes of Sterling Bank plc and Wema Bank plc recording a gross profit of N149.47bn and N91.54bn respectively. The oil and gas sector performance was also relatively good with Conoil plc and Mobil plc gross revenue advancing to N139.76bn and N191.67bn respectively, while MRS oil Nigeria plc topline declined to N64.75bn. FMCGs' results were mixed during the review period with UACN reporting an increase in its gross profit to N83.96bn. Presco plc on the other hand recorded a decrease to N19.88bn.

Outlook

We expect market volatility to persist and the performance of the ASI to be dictated by short term speculative trading until companies release their earnings for FY'19.

Equity Report: Cadbury Nigeria Plc

Market Capitalization: N19.63billion

Current Price: N10.45

Industry: Consumer Goods

Analyst's note

Cadbury sustained its wins of the first half of 2019 to record an impressive full year performance. This could be attributable to a 10.98% boost in domestic sales, which accounted for 87.57% of its total revenue of N39.33bn.

Bottom line significantly boosted by finance cost management

Cadbury recorded a bottom line of N1.27bn, driven by a reduced income tax expense of N277.73mn from N399.75mn in the prior period. The company recorded a 9.3% growth in revenue, which was driven by a 20.5% jump in confectioneries and an 8.3% increase in refreshment beverages. However, intermediate cocoa products declined by 7.2% year on year.

Although revenue increased, it declined across most expense lines, which resulted in a 20% decline in "results from operating activities" to N1.369bn from N1.698bn. It recorded no finance cost for the period relative to the N592.23mn recorded in 2018 resulting in a whopping 54% increase in profit for the period (bottom line). Though it recorded no finance cost for the period and showed no long-term loan on its balance sheet, a detailed review of its financials would suggest an increase in the use of non-interest bearing loans as payables to related parties increased by 27% to N2.09bn from N1.64bn.

Industry and company overview

Cadbury was incorporated in Nigeria in January 1965 and subsequently listed on the Nigeria Stock Exchange (NSE) in 1976. Before listing on the NSE, Cadbury predominantly re-packed imported bulk products, but with its listing, it grew rapidly into a full-fledged manufacturer. The parent company, Mondelēz International (formerly Kraft Foods Inc.) has a majority equity interest of 74.97% in Cadbury through its holding in Cadbury Schweppes Overseas Limited. Mondelēz International is one of the largest confectionary food and beverage companies in the world. It remains a dominant player for chocolate, biscuits and gum and candy offerings.

Cadbury Nigeria currently produces and markets branded fast-moving consumer goods such as refreshment beverages and confectionaries. It also exports intermediate cocoa products to Europe and the rest of Africa.

The beverage segment accounts for 58% of revenue. Confectionary accounts for 26% and intermediate cocoa products for 16%.

Cadbury Plc's main rivals are Nestlé and Unilever. Nestlé Nigeria Plc is currently the largest in the food and nutrition segment with bottom-line earnings over N211.3bn in 9M'19, compared to Cadbury's N28.9bn. Nestlé continues to benefit from a favorable volume-product mix, as it remains the dominant player in most of its segments.

Local players in the industry include UACN, SweetCo Foods and Promasidor, who are also diversified food companies. Like Cadbury, they have lagged compared to Nestlé due to a combination of production constraints and the intense rivalry in a highly price-sensitive market.

Financial Highlights for the Year Ended 31 December 2019			
In thousands of Naira			
	YTD 2019	**YTD 2018**	**%**
Revenue	39,326,807	35,973,479	9
Cost of Sales	(31,110,612)	(28,017,413)	-11
Results from Operating Activities	1,359,492	1,698,294	-20
Profit Before Tax	1,544,761	1,222,831	26
Profit for the Period	1,267,035	823,085	54
Share Capital	939,101	939,101	0
Total Equity	13,735,459	12,676,146	8
Data per 50K share			
Basic Earnings per share	67.46	43.82	54
Net Asset per share	731.00	675.00	8

Statement of Financial position		
In thousands of Naira		
	31st December 2019	31st December 2018
Assets		
Non-Current Assets		
Property, plant and equipment	13,483,386	13,291,154
Intangible Assets	144,510	207,767
Total non-current assets	**13,627,896**	**13,498,920**
Current Assets		
Inventories	6,133,580	5,865,105
Trade and other receivables	4,715,809	3,770,169
Prepayments	152,524	303,641
Cash and cash equivalents	4,429,219	4,090,204
Total Current Assets	**15,431,132**	**14,029,119**
Total Assets	**29,059,027**	**27,528,040**
Equity		
Share Capital	939,101	939,101
Share premium	272,344	272,344
other reserves	3,436,348	3,436,348
Share based payment reserve	62,927	62,927
Retained earnings	9,024,739	7,965,426
Total Equity	**13,735,459**	**12,676,146**
Liabilities		
Non-current Liabilities		
Deferred Taxation	733,881	734,382
Employee benefits	4,763,296	4,032,108
Lease liabilities	6,363	-
Total non-current liabilities	**5,503,540**	**4,766,490**
Current Liabilities		
Current tax liabilities	135,513	68,393
Trade and other payables	9,684,515	10,017,011
Current liabilities	**9,820,028**	**10,085,404**
Total liabilities	**15,323,568**	**14,851,894**
Total equity and liabilities	**29,059,027**	**27,528,040**

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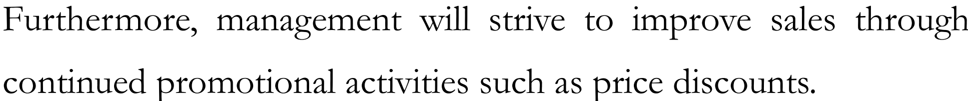
Management

Cadbury's leadership team has been focused on three key initiatives: accelerating consumer-centric growth, driving operational excellence, and building a winning growth culture.

Managing Director

Mrs. Oyeyimika Adeboye

In a bid for the company to sustain returns and drive growth in a period of fragile and slow economic growth, the management aims to continue to reposition the company for improved cost efficiency. This has been achieved by continuous investment in human capital, innovative initiatives and acquisition of world class technology, which in turn will strengthen the company's capabilities and improve shareholder value. In addition, the business will continue to be built on price competitiveness, aggressive route to market initiatives, sustained customer driven activations and exponential growth in portfolio.



Furthermore, management will strive to improve sales through continued promotional activities such as price discounts.

The board of Cadbury is under the leadership of Mr. Atedo Peterside, founder of Stanbic IBTC, a leading financial institution in Nigeria. He has also served on the board of several companies such as Flour Mills of Nigeria and Nigerian Breweries. Experiences and lessons from serving on these large corporations help keep the leadership abreast of industry trends in Nigeria.

Chairman

Mr. Atedo Peterside

Mrs. Oyeyimika Adeboye is the first female Managing Director (MD) of the company. She is a Chartered Accountant and joined the Cadbury's Board of Directors in 2008 as the Finance and Strategy Director, West Africa. She has also worked in notable companies and positions such as Nigerian Bottling Company Plc (Director of Finance and Chief Financial Officer), Arthur Andersen & Co and Midgley Snelling & Co., Chartered Accountants.

Bulls and Bears say

Bulls Say:

- Superior and recognizable brand value
- Strategic alliance and support from parent company
- Upward review of the minimum wage to bolster consumer spending
- Innovative initiatives to improve appeal and customer satisfaction
- Introduction of new products to boost sales

Bears Say

- Intense competition from other leading players such as Nestlé
- Persistent macroeconomic headwinds could dampen consumer demand
- Shift of market preference to low-priced products
- Ban on FX for dairy products

Risks and Outlook

The major risks that may prevent Cadbury from achieving its desired objectives are the typical risks to be expected. These include but are not limited to a weak macroeconomic environment, credit, liquidity, market (currency, interest rate and equity prices), and capital management risks.

Economic outlook for the next month

The next Monetary Policy Committee (MPC) meeting is scheduled to hold on March 23/24. The key considerations for the Committee will be the rising inflation trend, depleting external reserves as well as the Q4'19 & FY'19 GDP report which is scheduled to be released on February 24.

Scenario Analysis of likely outcomes from the meeting:

a. Maintain status quo on all policy parameters

Rationale:

- To allow the full realization of the impact of CBN's CRR hike on naira liquidity

Impact:

- Will have a minimal impact on credit availability

b. Increase MPR by 25bps (from 13.5%pa to 13.75%pa)

Rationale:

- To curtail inflationary pressures while monitoring economic growth trajectory
- Headline inflation has accelerated for five consecutive months. Inflation expectations point to further increases in subsequent months.

Impact

- Curtail inflationary pressures
- Higher interest rates will weigh on private credit growth

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