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In This Issue ...

FG appoints new team to head SEC, markets are indifferent

As foreign investors dump Nigerian stocks and the naira seems to be in a free fall, the FGN has made some changes to the leadership of the Securities and Exchange Commission (SEC). The FGN nominated a new leadership team for SEC led by Lamido Yuguda. He is to take over from the acting director general, Mary Uduk. In addition, Reginald C Karausa, Ibrahim D Boyi, and Obi Joseph were nominated as new executive commissioners. Nigeria's stock market has been wobbling and it is expected that a firm hand at the capital market regulatory board will help stem the tide.

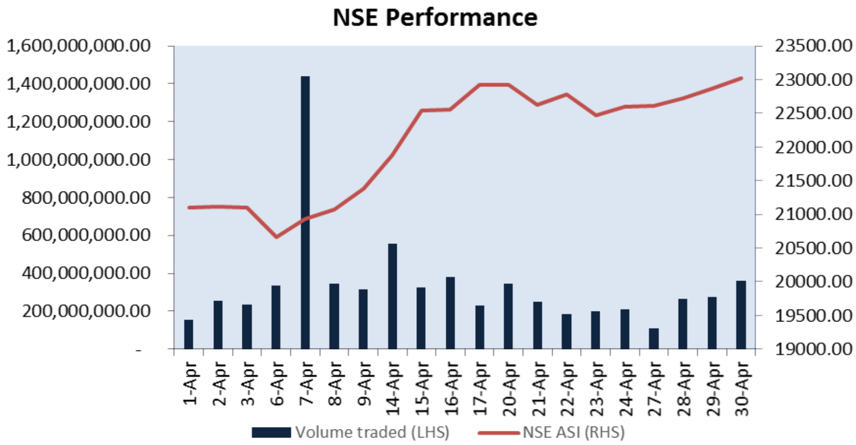
Lamido Yuguda is a former director of the Central Bank of Nigeria and he is in charge of reserves management. Mr. Yuguda brings to the Securities and Exchange Commission (SEC) more than three decades of experience as a central banker, economist and investment manager. In the past, Ibrahim D. Boyi held the position of CEO, Managing Director & Director at Peugeot Automobile Nigeria Ltd. He is also on the board of Eterna Plc. Given the uncertainties in the financial market, the stability in the corporate governance will boost investor confidence in the Nigerian bourse.

The role of the capital market in economic growth cannot be overemphasised. A well functioning capital market attracts funds from foreign investors which increases capital inflows. This in turn boosts infrastructure development and productivity.

As the Covid-19 pandemic takes a toll on the economy, protection against financial risks becomes a necessity as investors are cautious of where to invest their funds. The ability of Nigeria's capital market to compete globally given the current economic downturn will be dependent on its efficiency, transparency, accountability and stability. The FGN's response to the reconstitution of the board of SEC is a step in the right direction.

Stock Market Review

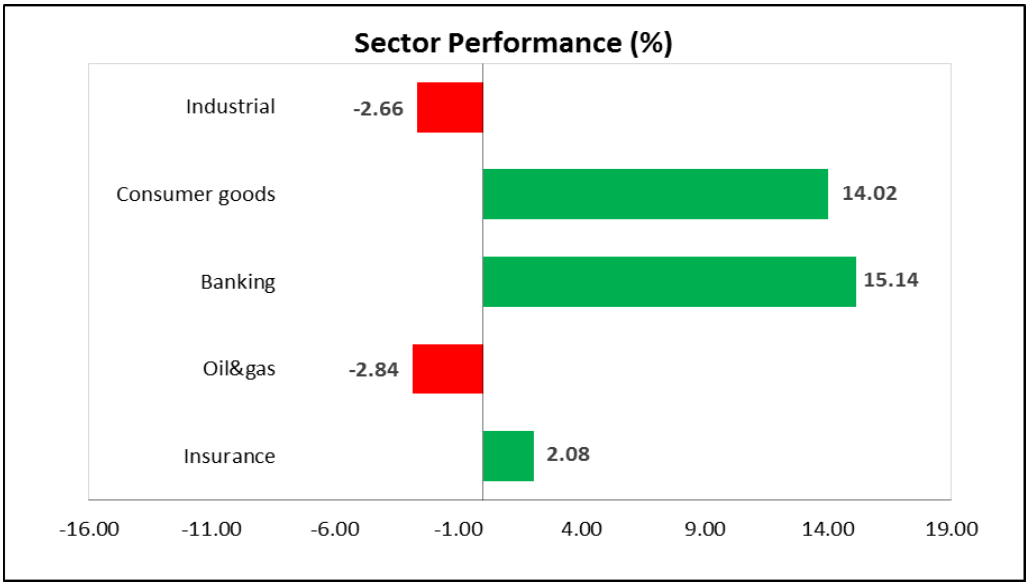
In the first 12 trading days in May, the market has gained in 8 and lost in 4days, resulting in a cumulative gain of 5.09%. In the month of April, the NSE ASI gained 8.08% to close at 23,021.01 points relative to its close of 21,300.47 points on March 31st. Similarly, market capitalization rose by 8.11% (N900bn) to N12trn. In the 20-trading day period, the market gained in 14 days while it lost in 6 days.



[1]

The NSE traded at a price to earnings (P/E) ratio of 7.09x on April 30th, 12.01% higher than the close of March 31st (6.33x). The market breadth was positive at 1.62x as 21 stocks gained, 13 lost while 129 stocks remained unchanged.

Meanwhile, market activity level was low during the review period. The average volume traded lost 31.64% to 339.37mn units in April from 496.47mn units in March and the average value of trades declined by 41.53% to N3.21bn from N5.49bn.



[2]

[1] NSE
[2] NSE

The sector indices were positive during the review period. The industrial and oil & gas sectors lost by 2.66% and 2.84% respectively while the consumer goods, banking and insurance sectors gained with the banking sector leading with a 15.14% gain in its performance during the review period.

Niger Insurance Plc topped the gainers' list with a 1,710% increase in its share price. This was followed by UACN Property Development Co Plc (626.32%), Dangote Sugar Refinery Plc (38.33%), Conoil Plc (32.32%) and Linkage Assurance Plc (29.27%).

TOP 5 GAINERS				
Company	**31-March (N)**	**30-April (N)**	**Absolute Change**	**% Change**
Niger Insurance Plc	0.20	3.62	3.42	1710.00
UACN Property Development Co Plc	0.95	6.90	5.95	626.32
Dangote Sugar Refinery Plc	9.00	12.45	3.45	38.33
Conoil Plc	13.15	17.40	4.25	32.32
Linkage Assurance Plc	0.41	0.53	0.12	29.27

The laggards were led by Nigerian-German Chemicals Plc (-94.48%), UAC of Nigeria Plc (-89.31%), Skyway Aviation Handling Co Plc (44.87%), Guinness Nigeria Plc (-26.98%) and C&I Leasing Plc (-19.35%).

TOP 5 LOSERS				
Company	**31-March (N)**	**30-April (N)**	**Absolute Change**	**% Change**
Nigerian-German Chemicals Plc	3.62	0.20	3.42	-94.48
UAC of Nigeria Plc	7.20	0.77	6.43	-89.31
Skyway Aviation Handling Co Plc	2.63	1.45	1.18	-44.87
Guinness Nigeria Plc	25.20	18.40	6.80	-26.98
C&I Leasing Plc	6.20	5.00	1.20	-19.35

Outlook

During the month, the stock market rallied as investors bought into low stock prices. Investor sentiment also improved as companies released their Q1'20 financial statements. However, as stock prices begin to increase, we expect high market volatility in short term.

FEC cuts 2020 Budget to N10.523 trillion

The outbreak of Covid-19 pandemic worsened the plight of oil producing countries that had embarked on an avoidable price war. Saudi Arabia and Russia had earlier been thrust into a struggle for price leadership in an oversupplied oil market. The uncertainty surrounding the level of oversupply pushed oil prices for the first time in history to below zero.

Nigeria is a price taker in the oil market and is one of the more vulnerable members of OPEC. It had been exempted from production cuts in previous OPEC output deals. Therefore, because of the extraordinary circumstances, Nigeria is now expected to be compliant with the new restrictions. The FGN of Nigeria in the light of the above circumstances has significantly reduced its budget benchmark price on two occasions this year.

The Federal Executive Council (FEC) in a teleconference meeting revised the already slashed budget downwards by N71.5 billion (0.67%) to N10.523trillion from a previous estimate of N10.594 trillion. The benchmark oil price assumption has been revised downwards three times in the last five months. The latest revision is from \$30pb to \$25pb. Other revisions that were made to the budget include the cut in oil production by 11.01% to 1.94mbpd from 2.18mbpd initially approved. The revenue projected is now N5.158trn, leading to a significant jump (150%) in the fiscal deficit from N2.18trn to N5.365trn. The deficit will be funded by external and domestic borrowing. Some of the external funds have already been received and are being drawn down, e.g the IMF's $3.4bn concessional loan. The FEC also approved the amendment of the Medium Term Expenditure Framework (MTEF) for 2020-2022.

Funding the budget – Can Nigeria dodge the recession bullet

The risk of poor implementation is now higher for the 2020 budget due to the precarious state of the global economy and oil markets. In spite of the deeper cuts imposed by OPEC (+) members, the market remains in a supply glut. The gradual reopening of economies such as China, France and Germany is yet to make a meaningful impact on aggregate demand for crude oil. Brent is now trading at $33pb and WTI is up 5.71% to above $30pb.

The risk of a second wave of infections and another lockdown looms at this time. This could lead to another plunge in oil prices. If this happens, all bets are off and the assumptions in the revised FGN 2020 budget become academic. The economy, which is projected to contract by 3.5% may fall deeper into recession (-8% growth). The economy is currently going through a period of stagflation, i.e slowing growth amid rising inflation. This is often followed by high unemployment.

In addition, the external imbalances will deteriorate further. The recent steady accretion in the external reserves level will be reversed, and could fall towards $25bn. The CBN will be forced to devalue the currency again, which would increase the cost of production of import dependent manufacturers and lead to a spike in imported inflation.

If Nigeria is to have any chance of a full recovery, the need for economic discipline cannot be overemphasized. Policy makers must adopt structural reforms that have transformational impact including an efficient pricing model for petroleum products and exchange rates.

Poverty and Consumption Expenditure in Nigeria – From Dismal to Terrible

The World Bank defines poverty as 'a person whose income level falls below a minimum level ($1.90 per day) necessary to meet basic needs'. Income and expenditure measures are commonly used to establish poverty lines to measure the extent and composition of poverty.

According to the Poverty and Inequality in Nigeria 2019 report released by the National Bureau of Statistics, an average of 40.1% of Nigerians live below the poverty line of N137,430 a year. The report stated that 4 out of every 10 individuals in Nigeria have real per capita expenditures below N137,430 per year. This translates to 82.9 million people who are considered poor in Nigeria.

A further breakdown of the report shows that 52.10% of rural dwellers are living in poverty while the poverty rate in urban area is 18.04%.

A state by state breakdown (excluding Borno which has been devastated by Boko Haram insurgency) is as follows:

States above National Average

States	Poverty head-count rate (% of population)	Gini Coefficient
Sokoto	87.73	28.02
Taraba	87.72	32.23
Jigawa	87.02	28.00
Ebonyi	79.76	28.60
Adamawa	75.41	27.78[3]

States below National Average

States	Poverty head-count rate (% of population)	Gini Coefficient
Lagos	4.5	27.23
Delta	6.0	29.84
Osun	8.5	25.12
Ogun	9.3	27.10
Oyo	9.8	31.09

The tables above show that states with the highest poverty headcount rate are concentrated in the northern part of Nigeria while the states with the lowest poverty rate are concentrated in the South-West.

Consumption expenditure pattern in Nigeria

The analysis of Consumption Expenditure Pattern in Nigeria in 2019 by the National Bureau of Statistics shows that states with the highest consumption expenditure are concentrated in the southern region. Lagos state was top in rank, accounting for 12.60% of the total household expenditure of N40.21trillion followed by Oyo (5.83%), Delta (5.38%), Rivers (4.99%) and Kano (4.91%).

The report further shows that the states with the lowest consumption expenditure are mainly in the Northern region. Taraba had the lowest consumption expenditure accounting for 0.74% of the total household expenditure of N40.21trillion followed by Ebonyi (0.77%), Nasarawa (0.95%), Yobe (1.04%) and Gombe (1.12%).

The consumption pattern in Nigeria shows that more is spent on food items than non-food items. While 56.65% (N22.78 trillion) of the total household expenditure (N40.21 trillion) was spent on food consumption expenditure, 43.35% (N17.43 trillion) of the total household expenditure was spent on non-food consumption expenditure. In the rural and urban area, food consumption expenditure were N12.93 trillion and N9.85 trillion respectively while non-food consumption expenditures were N8.16 trillion and N9.27 trillion respectively.

[3]NBS

In terms of non-food consumption expenditure, more is spent on health (18.85%), transport (14.44%) and education (12.19%) in the rural area while education (15.48%), transport (15.22%) and services (14.13%) were the top non-food consumption expenditure in the urban area.

Impact of Covid-19 outbreak on Poverty and Consumption Expenditure

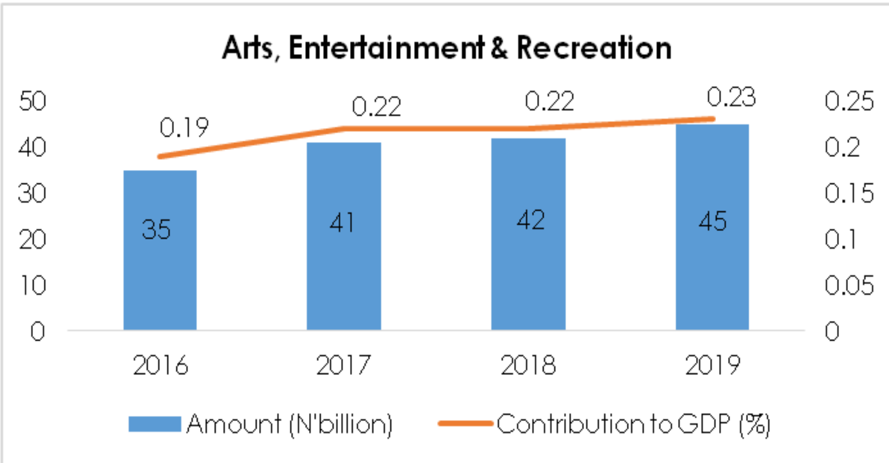
The outbreak of Covid-19 in Nigeria has led to a contraction in economic activities in virtually all sectors of the economy including aviation, transport, hospitality and hotels. The resulting shortfalls in revenues will be accompanied by salary cuts and staff layoffs as firms tries to minimize cost. This will lead to an increase in unemployment rate, contraction in disposable income and reduce the total household expenditure in 2020. A fall in household consumption expenditure will further exacerbate poverty in Nigeria in 2020.

Nigeria's pattern of consumption expenditure is characterized by higher household expenditure on food items. The decrease in food consumption expenditure will further lead to widespread hunger.

As in many developing economies, Nigeria's economy is largely informal with the rural area predominated by informal traders, small-scale farmers and small local industries. As the spread of the covid-19 continues, movement is restricted which will affect activities such as farming, commodity supply chain and logistics resulting in supply shortages. This will result in a spike in inflation (15% by June) and reduce aggregate demand. A huge fall in the aforementioned could trigger a recession in Nigeria in 2020.

Capitalizing on the global interest in the creative industry

The creative industry, which comprises of film, music, fashion, television, performing arts, visual arts, information technology and radio employs approximately 30 million people globally. Increasingly it is attracting attention for its ability to drive sustainable development, job creation, innovation, entrepreneurship, urban and rural regeneration, exports and government revenue.[4] Nigeria is positioned to exploit this global attention, with its rich heritage in film, fashion, and music.



[5]

In the past three years, Nigeria's creative industry has maintained a positive GDP contribution. Specifically in 2019, the industry contributed 0.23% (N45billion) to the real GDP (N19.53 trillion), up from its contribution of N42billion in 2018. The industry also grew at a faster pace by 0.67% to 4.85% (Q4'19) from 4.18% recorded in Q4'2018.

Nigeria's film industry, Nollywood, is the largest contributor to the creative sector. With over 2,000 films produced annually, Nollywood comes second only to India's Bollywood in terms of the number of movies released. It is also the second biggest employer in Nigeria after agriculture (engaging over a million people) and it is expected to generate $1bn worth of export revenue.[6] As

[4]OECD (2018). "Creating Creative Jobs". OECD conference on culture and local development. Discussion note. http://www.oecd.org/cfe/leed/venice-2018-conference-culture/documents/B1-DiscussionNote.pdf

[5]National Bureau of Statistics (2019). Gross Domestic Reports Q4'19, Q4'18, Q4'17 and Q4'16. Federal Government of Nigeria. nigerianstat.gov.ng/elibrary

[6]IMF (2016). "Runaway Success". Finance and Development. June 2016, Vol53, No 2. https://www.imf.org/external/pubs/ft/fandd/2016/06/omanufeme.htm

of 2016, the film industry contributed 2.3% (N239bn) to Nigeria's GDP, reaching a global audience of six million people in 178 countries.[7] In addition to Nollywood, Nigeria's music and fashion industries are also making waves. The country's music industry is one of the biggest in Africa. In 2018, the industry was worth $53 million and is expected to be worth over $80mn by 2020.[8] Meanwhile, the average growth of Nigeria's textile, apparel and footwear sector stands at 17% since 2010.[9] The increased demand and continuous fashion initiatives like Lagos Fashion Week, GT Bank Fashion Week and many others have led to the rise in the fashion industry.[10]

A major challenge currently limiting the industry from taking its rightful place in the Nigerian economy is the lack of funding and investment from the various levels of government.[11] If Nigeria is to capitalize on current global attention, it must take a serious look at how it invests in and supports its creative industry.

Nigeria's current support for the arts

The CBN, banks and the British Council have embarked on specific initiatives to support the industry. While it is too early to evaluate the impact of these programs on the industry, supporting individuals in the sector, both financially and with the necessary training to aid competitive advantage, is a step in the right direction. However, awareness of these initiatives needs to be intensified, to ensure that a larger fraction of the players in the sector are included.

The Creative Industry Financing Initiative Scheme (CIFI)[12]

The CBN in collaboration with the bankers committee set up the CIFI in 2019. The focus of the scheme is to diversify revenue in the country and create more jobs through the creative industry, especially among the youth. CIFI is available to entrepreneurs in fashion, information technology, movie production and music.

[7]PWC (2017). "Spotlight, the Nigerian Film Industry". https://www.pwc.com/ng/en/publications/spotlight-the-nigerian-film-industry.html.
[8]Premium Times (2020). "Ministers to investors: Invest in Nigeria's creative industry". https://www.premiumtimesng.com/entertainment/artsbooks/374157-minister-to-investors-invest-in-nigerias-creative-industry.html
[9]The Guardian (2019). "Awaiting the gains of Nigeria's multi-billion naira fashion industry". https://guardian.ng/sunday-magazine/awaiting-gains-of-nigerias-multi-billion-naira-fashion-industry/
[10]Stears (2019). "The state of Nigeria's fashion industry". Stears Business Nigeria. https://www.stearsng.com/article/the-state-of-nigerias-fashion-industry.
[11]Allwell Okechukwu (2018). "Harnessing the Potential of Nigeria's Creative Industries; issues, prospects and policy implications". Pan-Antlantic University, Lagos, Nigeria. https://www.researchgate.net/publication/328744613_Harnessing_the_Potential_of_Nigeria's_Creative_Industries_Issues_Prospects_and_Policy_Implications
[12]Guarantee Trust Bank (2019). "The Creative Industry Financing Initiative". https://www.gtbank.com/business-banking/sme-banking/loans-advances/the-creative-industry-financing-initiative

According to the CBN, prospective beneficiaries are only required to prepare their business plan or proposal statement and approach their bank.[13] Entrepreneurs in the listed industries can get loans of up to N500mn at a 9% interest rate and payback period of up to 10 years.

The Nigerian Creative Enterprise Support Program [14]

The Nigeria Creative Enterprise Support Program also started in 2019. The program is organized by the British council in partnership with the Foreign and Commonwealth Office. The focus of the program is to further develop a network of creative entrepreneurs, sharpen their skills and encourage innovation within the fashion and film industries. To date, over 100 entrepreneurs have received training and 14 of them received business grants of up to N950,000.

Who can Nigeria learn from?

South Korea

The South Korean government through the Hallyu festival is developing the link between tourism and the creative industries like music. Hallyu is a Korean pop festival that not only showcases Korean music but their cuisine, fashion, beauty and lifestyle. The perfect blend of all things Korean has made the festival very popular and is driving an increase in tourism. As of 2014, the development of Hallyu tourism generated approximately $1.5 billion and created over 25,000 jobs.[15]

Oslo, Norway

In the past five years, through the Establishment Grant Initiative (Etablererstipend), Oslo, provides financial support to individuals aiming to transform their creative activities into profitable businesses, particularly startups in the creative industry. Two types of grants are given: development grants, given in the startup phase for the development of the idea or plan, and growth grants, awarded to individuals whose business ideas have been approved and are in the process of

[13]CBN (2019). Creative Industry Financing Initiative. cbn.gov.ng/out/2019/ccd/creative%20industry%20financing.pdf
[14]British Council (2019). Nigeria Creative Enterprise Support Programme. https://www.britishcouncil.org.ng/programmes/arts/nigeria-creative-enterprise-programme-enterprise-support
[15]Greg Richards (2018). The Creative Economy, Entertainment and Performance. SAGE Handbook of Tourism and Management. academia.edu/37603928/The_Creative_Economy_Entertainment_and_Performance

establishing an enterprise. Oslo prioritizes the development grants.[16] Apart from giving grants, proper follow up is done and training is given to ensure that the individuals succeed in their quest to build a profitable creative business.

The way forward

To fully enjoy the benefits of the sector, the Nigerian government should intensify its efforts in already existing initiatives and diversify its approach to funding and supporting the creative industry. An active creative environment is attractive to investors. The more countries invest in festivals — either music, film, fashion or arts — the more people are drawn to the country, which in turn builds up tourism and job creation. The government is headed in the right direction. It needs to commit further.

[16] Jon Hickman (2020). How to Support Creative Industries. Creative Metropoles, Good Practices from European Cities. https://www.academia.edu/12267775/How_to_support_creative_industries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Climate change: Who will drive the transition to Renewable Energy?

The World Economic Forum's (WEF) 50th annual meeting took place in, as it usually does, Davos, Switzerland, from January 21-24, 2020. This year, the forum brought together over 3,000 participants from across the world with the objective of helping governments and international institutions make progress toward fulfilling the Paris Agreement and the United Nations sustainability goals.

One of the global issues that featured prominently on the agenda and clearly stood out as urgent and important was how to address the urgent climate and environmental challenges that are harming the global ecology and economy. The climate change narrative is one that has gained a significant amount of traction over the past year. Proponents emphasize the need for urgent action as the world is now desperately close to several "tipping points" which could further accelerate the pace of global warming. One of these is the melting of the polar ice caps and the consequences of the resultant rise in sea level globally. Coastal cities would simply be buried under water while the world map would need some redrawing.

The Threat is Existential

The burning of fossil fuels to produce energy is primarily responsible for global warming. The International Energy Agency (IEA) is now essentially asking companies responsible for the exploration, production and trading of fossil fuels to take the driver's seat in delivering solutions to global warming. According to a report by the IEA, "the oil and gas industry faces the strategic challenge of balancing short-term returns with its long-term license to operate. Societies are simultaneously demanding energy services and also reductions in emissions. Oil and gas companies have been proficient at delivering the fuels that form the bedrock of today's energy system; the question that they now face is whether they can help deliver climate solutions."[17]

Climate change will have a major impact on companies – especially those involved in oil and non-renewable energy. The loss of social acceptability is one thing. Waning profitability only deepens the uncertainty that now confronts the global oil and gas industry. The transition to cleaner energy is on-going but still at its early stages. Barring a transition to low-carbon businesses in the near to medium term, oil companies are now effectively confronted with an existential crisis.

Every company in every part of the oil and gas industry will be affected by the transition to clean energy so they all will need to consider their strategic response. There will not be a one-size fits all solution as the diversity of the industry landscape means a single strategic response will not make sense for all. The bigger danger here is that it is not just businesses plugged into the carbon-based energy value-chain that are faced with extinction; the transition also threatens governments and whole populations in oil and gas dependent-countries.

Money, Know-how and No other choice

For oil companies, the energy transition means investing in renewable forms of energy: biofuels, wind, solar and carbon-capture projects. However, according to the IEA, global oil and gas companies invested just $2.1 billion (0.8% of overall expenditure) on these energy sources. This is simply not enough. Other activities geared at investing or merging with or an outright acquisition of low-carbon companies saw the leading oil companies spend less than $2 billion (bn) in 2019. again, considering the need for definitive and urgent steps to be taken, this is simply not enough.

[17]IEA, January 2020. "The oil and gas industry in energy transitions: World energy outlook special report," IEA. https://www.iea.org/reports/the-oil-and-gas-industry-in-energy-transitions

But why are oil companies being asked to deliver solutions in the first place? The answer is simple: deep pockets and know-how. The big players in the industry can deploy their resources to accelerate the rate of innovation in renewable energy technologies – like offshore wind and other clean but capital-intensive technologies – and seeing them through to maturity. Big oil companies are capable of giving these technologies the scale needed to have a significant effect on carbon emissions.

State Oil Companies: How well positioned?

Will national oil companies (NOCs) fare any better? The answer is a resounding NO. They account for more than 50% of global production and well over 50% of oil reserves compared to 15% of global production and 12% of oil and gas reserves accounted for by the seven largest international oil majors. Very few NOCs are high-performing – like the Saudi ARAMCO and the Chinese National Petroleum Corporation – while many are poorly positioned to adapt to the rapidly evolving global energy dynamics.

Many NOCs are only in existence because oil and gas are the main revenue earners for their governments. Asking them to lead the charge and take leadership roles in the quest for something that essentially takes away food from their mouths is a tricky proposition. Saudi Arabia's ARAMCO only recently launched its IPO and needs higher oil prices to bolster its valuation. At the same time, higher oil prices act as an incentive for increased investment a slower adoption of renewable forms of energy. A double-edged sword if there ever was one.

Countries, like Nigeria, have their annual expenditure budgets hinged quite crucially on the price of oil price and production benchmarks. Nigeria's budget reflects a $25 per barrel oil price with 1.94 million barrels produced per day in 2020. Yet Nigeria's central bank just reported that the federal government undershot its revenue target for 2019 by 49% (N4.62 trillion). The monetary authorities also watch, with a keen eye, foreign exchange (forex) earnings from oil and gas which account for over 80% of the total forex earnings. The strategic response to the transition to cleaner energy has been a keen attempt to diversify the economy while milking the oil cow for as long as there is a cow to milk.

Conclusion

The story is not very different with regards to other NOCs – especially in the developing and emerging economies. The quest for cleaner energy will probably have to be led by the big international oil companies and their governments – unless Nigeria and other emerging economies innovate and find ways to forge an income out of the transition to a cleaner economy.

The world after covid-19

Dambisa Moyo on a "Marshall

America and Europe should provide direct cash transfers to Africans to alleviate the covid crisis

THE PANDEMIC'S scale and virulence means it is destroying economies as much as it is claiming lives. Poor countries look as if they will suffer the worst, in particular those in Africa, home to the most impoverished. But the world need not be passive in the face of the calamity. A modern "Marshall Plan" for Africa, modelled after the big aid package that America provided European countries after the second world war, could prevent a humanitarian tragedy and pay dividends for generations.

A decade ago, I gained notoriety as a critic of large-scale foreign-aid programmes that flow from Western countries to developing economies. I argued that over $1trn of aid provided over the previous 60 years had failed to improve living standards across Africa. I argued that, worse still, it had harmed, not helped, the continent by fuelling corruption, fostering dependence and creating economic malaise.

Yet today it is clear that Africa urgently needs a substantial aid injection or it will be destroyed by the coronavirus. There are three broad reasons to act.

First, morality. If nothing is done, Africa is forecast to have as many as 1.2bn infections and 3.3mn deaths by the end of 2020, according to the UN Economic Commission for Africa. Second, migration. Aid may prevent a surge in disorderly or illegal migration, which is already plaguing Europe. If Africa's health infrastructure and economic foundations are not stabilised, the pandemic will almost certainly unleash an exodus of refugees.

The third reason is, frankly, influence. At a time when China is the pre-eminent geopolitical force in Africa, a large aid package is an opportunity for the West to re-engage with the continent and gain a new edge in its ideological and commercial clash with China. This mirrors how America was motivated to create the original Marshall Plan to prevent Europe tilting towards the Soviet Union.

Already China has proven a worthy contender in this great-power rivalry, as a partner with Africa in trade, investment and aid. China's exports to Africa topped $90bn in 2018, three times those of America. Meanwhile, China is a leading investor in the African continent. In 2018 Chinese flows of foreign direct investment into Africa reached $5.4bn, whereas flows to the continent from America have remained consistently below $2bn since 2015 and turned negative in 2016 and 2018. Considerable support by the West may prevent Africa from pivoting further towards China.

That is the lesson of the original Marshall Plan. From 1948 to 1952 America provided loans, grants and technical assistance to 16 European countries. The idea was to reconstruct cities, industries and infrastructure damaged during the war; to foster trade between Europe and America; and, crucially, to stem the spread of communism. The price tag was roughly $13bn, or around $135bn in today's money.

This would hardly be enough to combat covid-19 across the continent. An alternative benchmark is the size of the Marshall Plan relative to the national economy. The $13bn in 1948 represented around 4.7% of America's economy. To spend the same proportion today would cost around $1trn. That is roughly one-third of Africa's overall gross domestic product, an amount in line with the scale of the problem, albeit ambitious. In contrast, the IMF and the World Bank have pledged $62bn in emergency financing for coronavirus for low-income and emerging economies—a hefty sum, but a fraction of what is probably needed.

America needs to lead. It can act faster than the European Union. And the dollar, as the world's reserve currency, gives it flexibility in managing the fiscal burden. But European countries should not be far behind in giving support. After all, they are closer to the problems that disorder in Africa may bring.

In the spirit of the stimulus approach used in Hong Kong and in America (think the $1,200 cheques to its lower-income citizens), donor countries should consider direct cash payments to African households. The beauty of a direct-transfer approach is that it mitigates the risk of funds being illicitly diverted, as billions in aid have been before, despite all the "conditionalities" that are regularly imposed to prevent this. A payment infrastructure already exists. According to the World Bank, African citizens received $46bn in remittances in 2018. Moreover, donors can take advantage of technologies to make peer-to-peer transfers, such as via mobile phones.

The logic for the package is compelling. Africa is at the frontier of power politics, with its vast mineral resources and a substantial amount of untilled arable land on the planet. A Western aid project would be a counterweight to China's influence and may pay itself back in security and economic terms, thus serving the West's interests.

Like the original Marshall Plan, it would encourage the development of markets. American exports to Africa totalled just $28bn in 2018 while the EU exported nearly $170bn to Africa. The initiative would support a global, liberal, economic order of cross-border trade, international capital flows and market capitalism.

To some a Marshall Plan for Africa might appear fanciful and even seem a political non-starter, given the huge debts from stimulus packages and the nationalist political forces facing many Western governments. However, the risks of inaction are great, too: entrenching Africa's poverty, fanning mass migration, fomenting domestic unrest and possibly terrorism, and pushing the continent closer to China. The economic harm of doing nothing may be costlier than intervening.

Of course, Africa was mired in problems even before the pandemic. The pace of poverty reduction is slowing. A population explosion is under way, with Africa's population expected to double to 2.5bn by 2050. A lack of basic infrastructure such as roads, power and water hobbles economies. The consequences of climate change are largely overlooked (as they are basically everywhere). Growing debt weighs on national budgets. A Marshall Plan for Africa can't fix every problem. But it might remedy the most urgent ones at a time when it is most needed.

To be clear, I am not advocating an open-ended aid programme in perpetuity. More than 60 years after the Bretton Woods agreement and the establishment of a system to provide international economic assistance, valid questions remain about its efficacy—not least because of African governments' poor record in improving people's lives and livelihoods at scale and in a sustainable way.

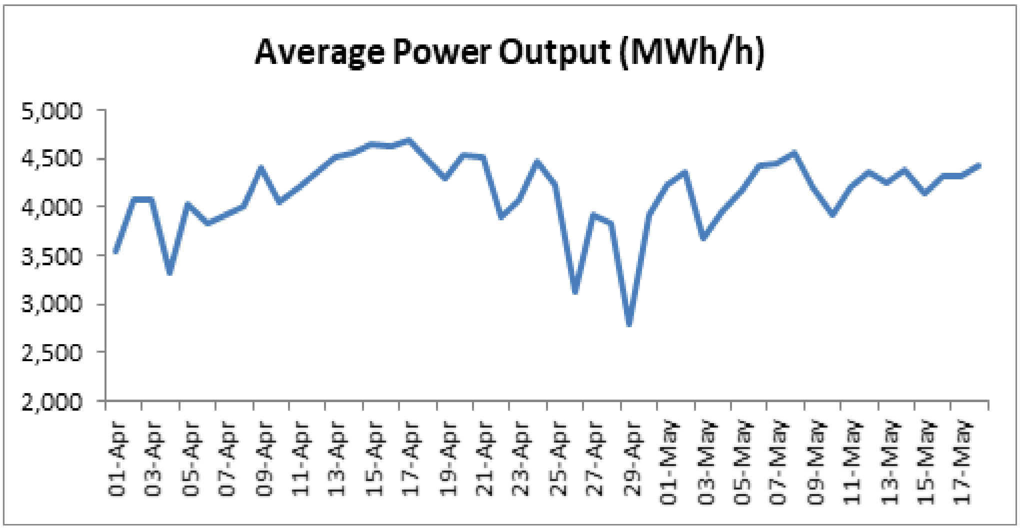
However, I advocate a Marshall Plan for Africa because it, like the original Marshall Plan—or any emergency aid for that matter—is short, sharp and finite assistance to save lives and rebuild the economy. It will save Africa, a continent that is home to more than one-fifth of humanity. And the West may reap the benefits for decades, too.

Macroeconomic Indicators

Power Sector

The average power output from the national grid stood at 4,099MWh/h in April, 4.78% higher than the average of 3,912MWh/h in March. During the review period, gas remained the predominant constraint to power generation primarily in Ihovbor NIPP and Geregu NIPP plants. Total constraints averaged 4,489MWh/h, resulting in a revenue loss of N64.64billion in the sector.

Between May 1 and May 17, average power output increased by 8.11% to 4,227MWh/h from 3,910MWh/h on April 30.



[18]

Outlook

Average power output is expected to remain above 4,000MWh/h in May as we approach the peak of the rainy season (boost in hydro-generated power). However, gas shortages will remain the principal challenge as gas fired thermal power plants account for approximately 70% of total power generation.

Impact

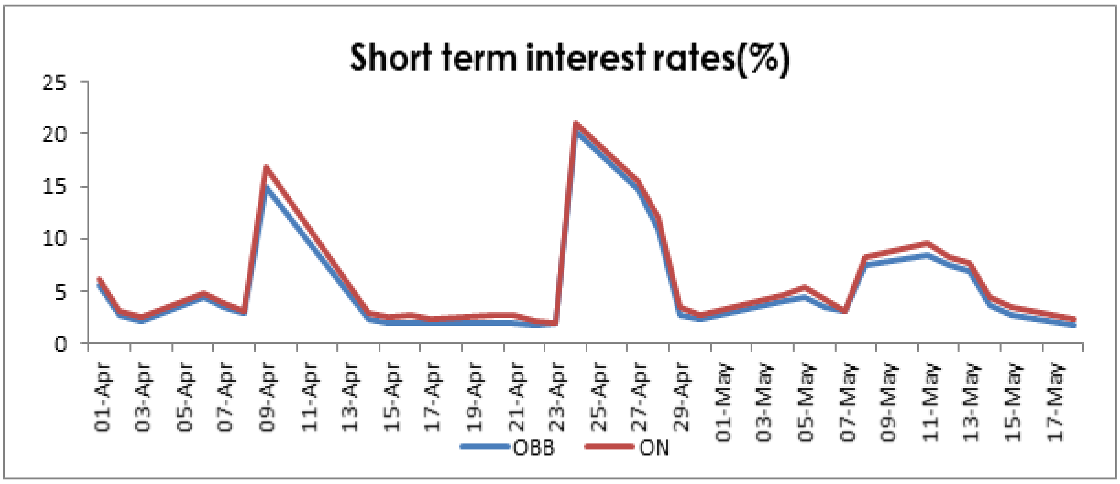
An increase in power supply will reduce the operating cost of firms especially during this lockdown.

[18] FGN, FDC Think Tank

Money Markets

The average opening position of banks rose sharply by 64.70% to N541.85billion from N328.99 billion in March. This was largely due to a net OMO inflow of N498.34bn and the suspension of cheque clearing by the CBN. OMO maturities totalled N788.34bn, which was higher than OMO sales (N290.0bn). Meanwhile, average liquidity for banks so far in May stands at N332.32billion.

On the average, the short-term interbank rates (OBB, O/N) fell by 541bps to 5.45%p.a. from 10.86%p.a. in the previous month. OBB and ON rates closed at 1.83% and 2.33% p.a. on May 18 from 4.0%p.a. and 4.67%p.a. respectively on May 1.



[19]

In April, there was a total primary market auction of N442.75bn, which was 140.8% higher than the sum of N183.87bn in March. OMO maturities were also higher by 113.42% to N285.7bn from N133.87bn in March. The net outflows increased from N50bn to N157.05bn in April. T/bill yields declined across the three tenors at the primary market. At the secondary market, the 91-day tenor yield increased while the 182-day and 364-day declined.

T/bills Tenor	Secondary market rates as at April 1 (%pa)	Secondary market rates as at May 18 (%pa)	Direction	Primary market rates as at April 1 (%pa)	Primary market rates as at April 29 (%pa)	Direction
91	2.20	2.04	⬇	2.30	1.85	⬇
182	3.82	2.55	⬇	3.40	2.50	⬇
364	4.50	3.00	⬇	4.60	3.84	⬇

[19]CBN

Outlook

The CBN will continue to manage system liquidity with the use of its OMO bills. The level of liquidity in the system will determine the direction of interest rates.

Impact

Lending rates remain high and with the contraction in economic activities, non performing loans are likely to increase.

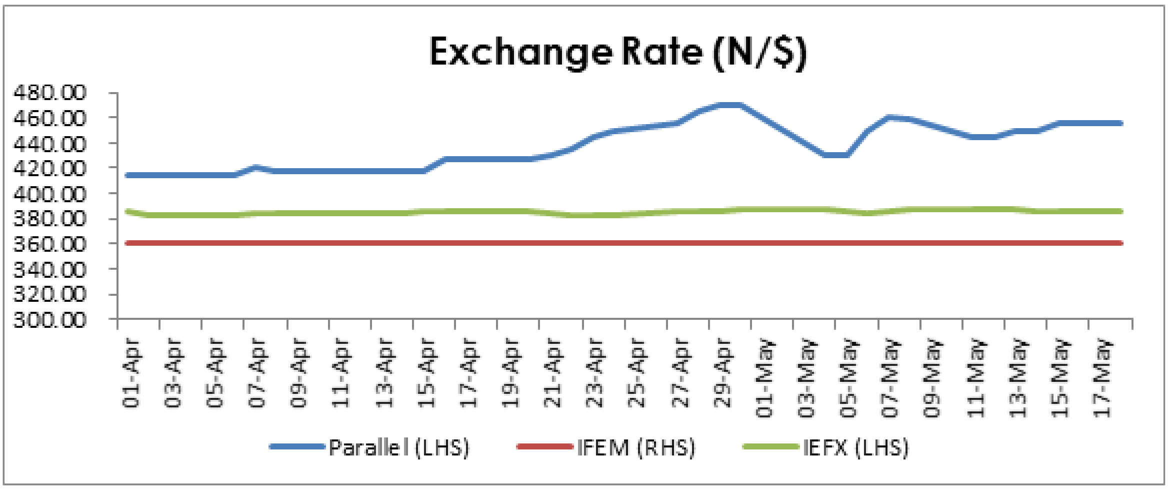
Forex Market

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 not only as a source of price discovery but also a barometer for measuring potential and actual CBN intervention in the market. Some of the exchange rate determinants are balance of payments, capital inflows and trade balance

Exchange Rate

Currency pressures persisted in the forex market due to the shortage in dollar liquidity and speculative activities. The currency at the parallel market depreciated to a low of N470/$ on April 29, before appreciating to close at N455/$ on May 18.

The exchange rate was relatively stable at the interbank market and I&E window. The naira traded flat at N369/$ at the interbank market while it remained between the range of N383/$ and N387.30/$ at the IEFX window. The level of forex activities at the IEFX window has declined as the average daily turnover has fallen sharply by 87% to $43.65mn from $335.71mn in March.

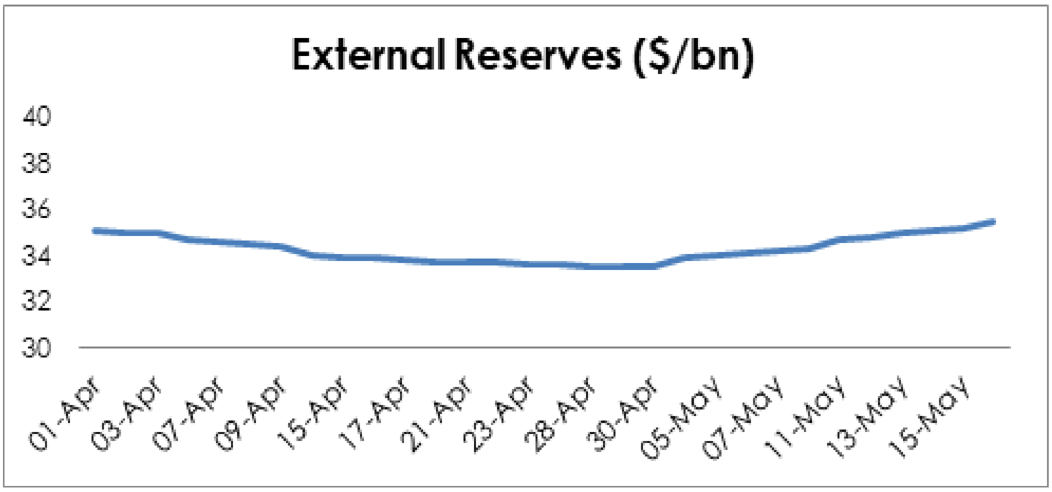


[20]

[20] FMDQ, CBN, FDC Think Tank

External Reserves

The gross external reserves continued its depletion trend in April, losing 4.93% ($1.74bn) to close at $33.52bn on April 30 from $35.26bn on March 31st. So far in May, the reserves level has reversed its downward trend, gaining 4.86% ($1.63bn) to close at $35.15bn as at May 15. The sharp fall in oil prices, coupled with reduced global demand for oil, has worsened Nigeria's fiscal and external positions. The import cover fell to 8.35 months from 8.75 months on March 31st.



[21]

Outlook

We expect an uptick in the reserves level in the coming weeks as the IMF's loan of $3.4bn kicks in. However the impact of this is expected to be short-lived as oil prices remain low around $30pb. The exchange rate will continue to hover around N430-N450/$ on the CBN's weekly forex sales of $100mn.

Impact

The stability of the exchange rate is a function of robust external buffers. The anticipated depletion in external reserves and lower oil prices will continue to stoke exchange rate pressures.

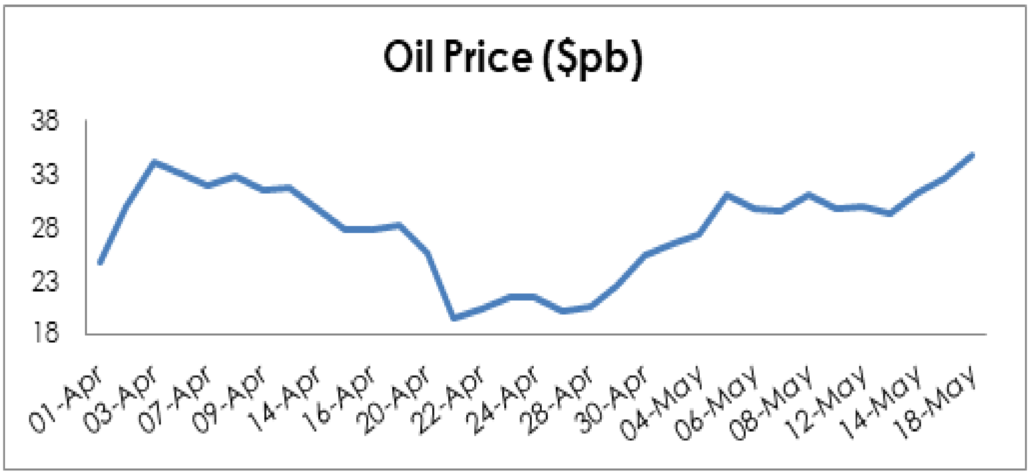
[21]CBN

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

In April, the average price of Brent fell by 21.05% to $26.63pb from March's average of $33.73pb. However, so far in May, oil prices rose by 37.75% to close at $34.81pb on May 18. The pick-up in prices was due to the market's positive reaction to OPEC's production cuts coupled with economies slowly reopening from the COVID-19 lockdowns. Also, Saudi has announced plans to deepen its output cuts by an additional 1mbpd, although the impact of this announcement was neutral.



[22]

Outlook

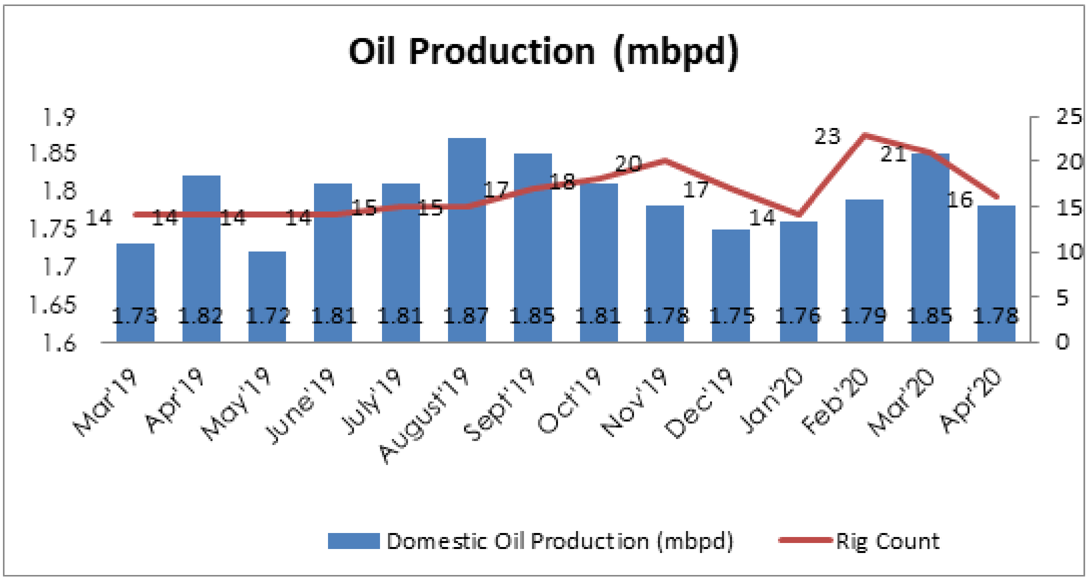
We expect oil prices to pick-up marginally in the near term as more economies reopen from the lockdown. However, it will take some time for fuel consumption to normalize and excess stocks to be absorbed.

Oil production

In April, Nigeria's crude oil production fell by 3.78% to 1.78mbpd from 1.85mbpd in March. This is 0.56% above Nigeria's OPEC quota of 1.77mbpd. Similarly, the country's active rigs declined to 16 from 21. Total OPEC output rose by 1.80mb/d mainly in Saudi Arabia, UAE

[22]Bloomberg

and Kuwait, while it fell in Angola, Nigeria, Iran and Iraq. However, it is expected that the 9.7mbpd output cut by OPEC+ will cushion the adverse effects of the weak demand and storage constraints.



23

Outlook

We expect Nigeria's oil output to decline in the coming months due to the supply cut from OPEC+.

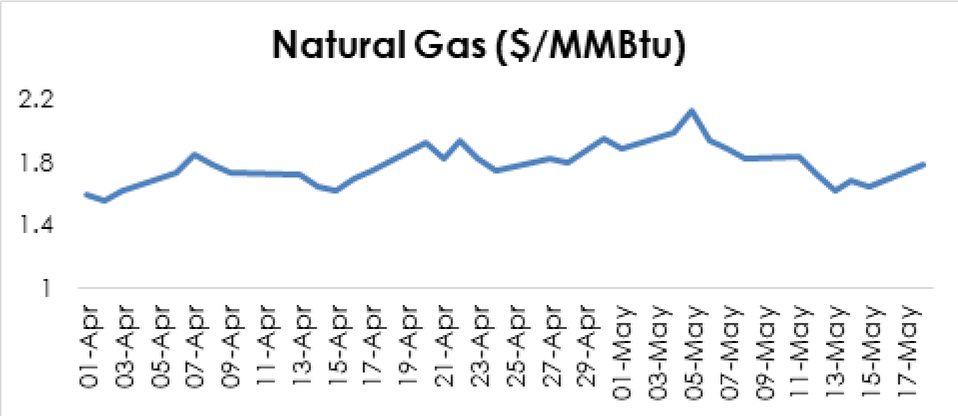
Impact

Nigeria is more sensitive to changes in oil production compared to price. A fall in oil production will taper fiscal revenues and widen the deficit financing.

Natural Gas

The average price for Natural gas stood at \$1.76/mmbtu, 1.73% higher than the average of \$1.73/mmbtu recorded in March. The increase in prices was despite excess supply from the US and demand concerns owing to the coronavirus outbreak. However, between May 1 and May 18, prices have declined by 5.82% to close at \$1.78/mmbtu on May 18.

[23]OPEC and Baker Hughes



[24]

Outlook

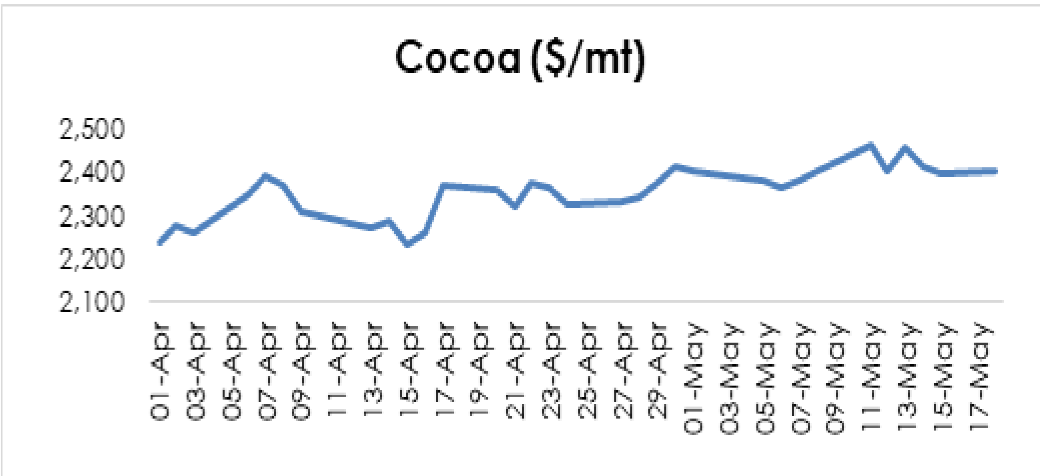
We expect LNG prices to decline in the coming weeks. This will be largely attributed to cooler weather in the US and weak demand due to the lingering coronavirus outbreak.

Impact

Natural gas is a major export for Nigeria that accounts for approximately 13% of the country's export earnings. Lower prices will adversely affect export revenue and lead to an unfavourable balance of trade.

Cocoa

The average price of cocoa fell by 3.45% to $2,324mt in April from $2,407/mt in March. Between May 1 and May 18, cocoa prices have remained stable between $2,363/mt and $2,404/mt. The declining trend in April was despite poor weather conditions limiting supply in Ivory Coast and Ghana.



[25]

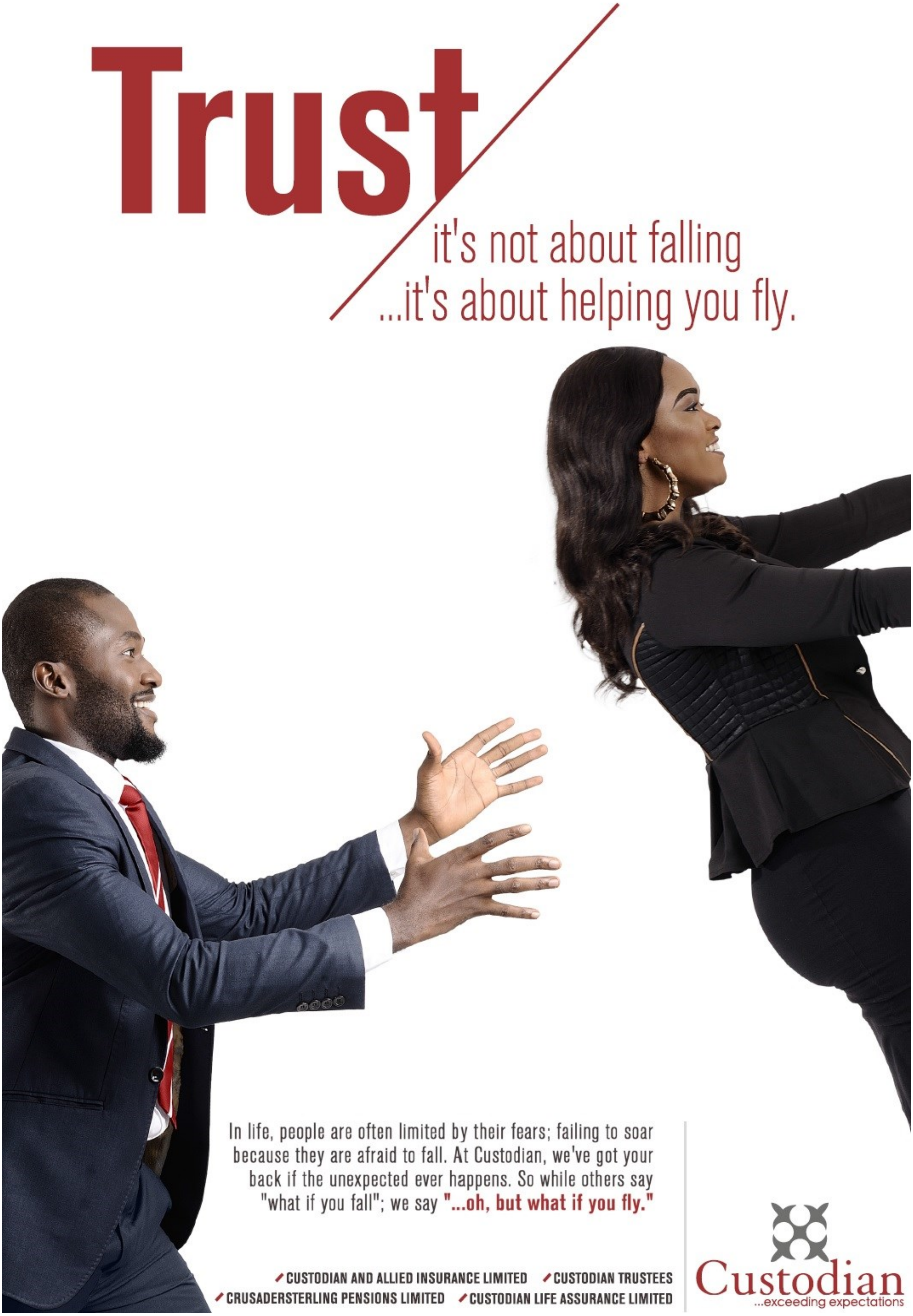
[24] Bloomberg
[25] Bloomberg

Outlook

We expect cocoa prices to pick up in the coming weeks due to supply shortages from export countries amid the lockdown.

Impact

Higher cocoa prices will have a positive impact on Nigeria's export revenue and support a favourable balance of trade.


Trust
it's not about falling
...it's about helping you fly.
In life, people are often limited by their fears; failing to soar because they are afraid to fall. At Custodian, we've got your back if the unexpected ever happens. So while others say "what if you fall"; we say "...oh, but what if you fly."
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CUSTODIAN TRUSTEES
CRUSADERSTERLING PENSIONS LIMITED
CUSTODIAN LIFE ASSURANCE LIMITED
Custodian
...exceeding expectations

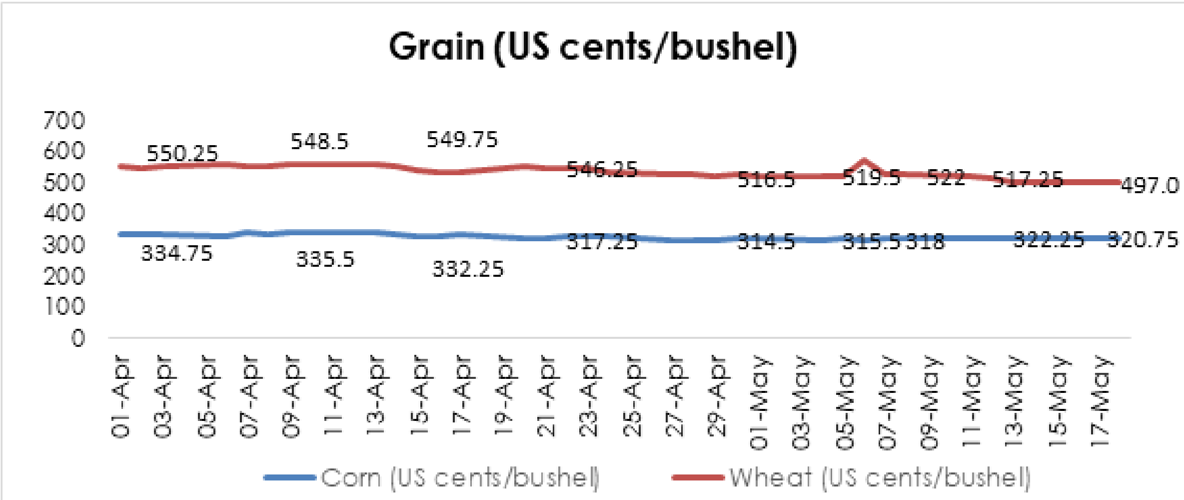
Commodities Market – Imports

Wheat

In April, the average price of wheat was up 1.49% to $541.18/bushel from $533.22/bushel in March. During the month, wheat prices declined by 4.73% to close at $524.25/bushel from $550.25/bushel on April 1. The downward trend is still evident in May as prices fell to $497/bushel on May 18, partly due to lower global demand.

Corn

On the average, the price of corn decreased by 8.88% to $327/bushel from $358.86/bushel in March. In the month, corn prices fell to $320/bushel from $334.75/bushel on April 1. However, between May 1 and May 18, corn prices inched up 0.71% to $320.75/bushel on May 18 buoyed by higher oil prices.



[26]

Outlook - Grains

We expect the bearish streak to continue in the grain market due to low global demand ensuing from the pandemic.

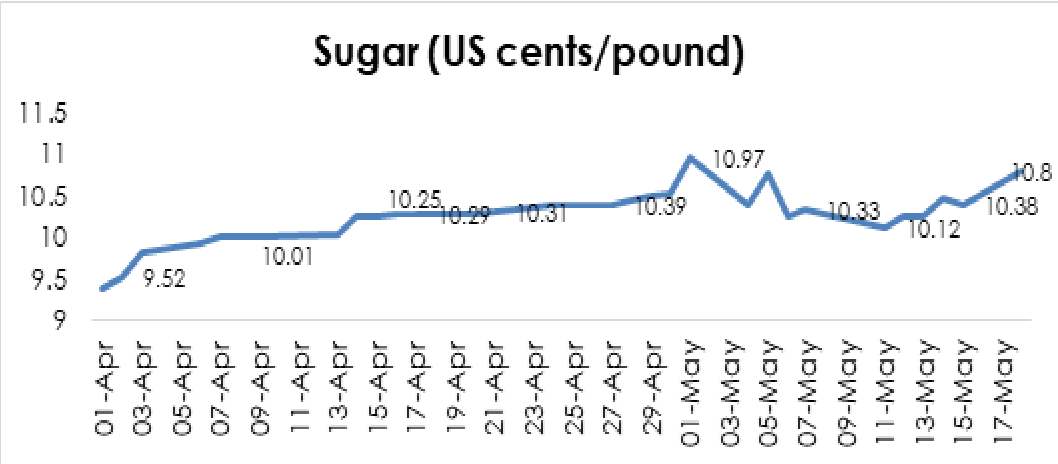
Impact

Nigeria is a major importer of grains. Therefore, lower grain prices will positively affect the country's import bill.

[26]Bloomberg

Sugar

Sugar prices averaged $10.16/pound in April, 13.97% lower than the average of $11.81/pound in March. The decline was due to expectations of a production increase in Brazil. However, sugar prices gained 4.15% to close at $10.8/pound on May 18.



[27]

Outlook

We expect sugar prices to trend downwards in the coming month due to tapered global demand and sentiments around increasing exports from India.

Impact

A decline in sugar prices will reduce Nigeria's import bill on sugar.

[27] Bloomberg

Equity Report: Dangote Cement Plc

Analyst Recommendation: *BUY*	***Market Capitalization:*** *N2.45 trn*
Recommendation Period: *365 days*	***Current Price:*** *N147.5*
Industry: *Industrial Goods*	***Target Price:*** *N188.28*

Analyst's note

Dangote Cement PLC (Dangcem), Africa's largest cement manufacturer commenced operations in Nigeria 2007, with a long term plan to meet Nigeria's growing demand for cement. The company prepares, manufactures and distributes cement and other related products. It has a total production capacity of 45.6 mtpa and operates within Africa, with Nigeria as its base. DangCem has three integrated cement manufacturing plants: Obajana, located in Kogi state is the largest of the three plants with 13.3mtpa capacity; Gboko cement plant in Benue state has 4.0 mtpa and Ibese plant in Ogun state 12.0 mtpa. Its Pan African operations include six integrated plants, two import terminals and one grinding facility across sub-Saharan Africa. These are located in Cameroon (1.5 mtpa grinding facility), Congo (1.5 mtpa integrated facility), Ethiopia (2.5 mtpa Integrated), Ghana (1.5 mtpa import facility), Senegal (1.5 mtpa integrated facility), Sierra Leone (0.5 mtpa import facility), South Africa (2.8 integrated facility), Tanzania (3.0 mtpa integrated) and Zambia (1.5 mtpa integrated).

The company has mapped out its business model such that with a clear strategy for value creation, the business is well-resourced to disrupt industries in SSA. It is the market leader with over 60% of market share. The proximity of its plants to where key natural resources are located, has helped the company lower its production costs and focus more on producing quality product. This alone gives the company's product a competitive edge coupled with other advantages it has created for itself like huge investment in logistics and using high degree of automation and business integration that address most of the challenges African businesses are faced with, such as logistics, training, power and fuel.

Hence, it has gained financial strength evidenced by strong balance sheet of ₦1.74 trillion and excellent credit ratings, enables the company access favorable terms from leading local and international lenders. In context, as the company plans to expand its build its Obajana integrated facility to a 16.5 mtpa capacity. It can easily negotiate for a discount when purchasing the plant, and get good investment incentives that would enable it build an innovative and energy-efficient plant, which would enable optimal extraction of limestone and in turn gain significant economies of scale.

Revenue decline

The company's total revenue declined by 1.1% due to the reduction in sales of cement and low growth environment across key markets. This was due to the impact of the border closure, rising inflation and a slow economic recovery. Revenue from sales of other products increased substantially by 708% due to the company's pan African expansion and sales to other African countries. However, the boost in revenue from other products was not sufficient to cap the loss in cement sales.

Dividends amidst depleting margin

The company's operating margin and value fell in 2019, which is partly attributable to a decline in government grant, sundry income and increased selling and distribution expenses. Tax credit in 2018 boosted net margins unlike in 2019 when there were more tax expenses compounded with declining revenue. Consistent gross margin was maintained despite a 1.2% decline in gross profit value. The company has been able to successfully maintain its gross margin above 50% among its industry peers for three consecutive periods, evident by the 57.4% gross margin recorded in 2019. However, 2019 gross profit value didn't grow at a rate consistent with growth rate in previous years due to higher marketing and distribution costs.

The Cement Industry

The cement industry grew at a rate of 3.11% in 2019. It is not unusual for companies in this sector to locate their plant or factories close enough to mines where they extract the key raw material (limestone) used in the production of cement. The cement industry is an oligopoly as it has few key players in the industry. DangCem's two major competing players, Lafarge Africa PLC and BUA cement plc are also publicly traded companies. Based on installed capacity, DangCem plc controls about 60% market share with its 29.3 mtpa capacity from its three plants in Nigeria. Lafarge accounts for about 21% market share with 10.5mtpa capacity from three plants, while BUA has approximately 17% of market share with 8.1mtpa capacity from two plants.

2012 was a remarkable year in the cement industry as, Nigeria became self-sufficient in domestic production of cement in 2012 when Dangote cement plc commissioned its six million tons per annum (mtpa) Ibese plant in February, and created about 6000 jobs. Likewise, when Lafarge expanded its Ewekoro plant by 2.5 mtpa in 2011, about 3000 jobs were created. All this helped the country to be self-sufficient by raising the country's total production capacity to 22.50 mtpa and eliminating import dependency of cement for construction activities. Over the year, the Nigerian cement market has evolved into an emerging hub for cement exports in Africa with a total installed capacity stands at 48.7 mmt.

Demand for cement is largely driven by GDP and population growth, and there are still a lot of growth potentials in Nigeria in the face of gaping infrastructure and huge housing deficit among others. Economic slowdown, lower government revenue and foreign exchange pressure are some of the factors affecting consumer disposable income, funds available for private investment in housing, as well as public sector capital expenditure (infrastructure); which are major demand drivers for the sector. As the economy is expected to contract by 3.4% in 2020 as a result of the coronavirus pandemic effect, the cement industry amongst others will be affected too.

Across the value chain, distribution cost is a major source of concern in this sector, because higher distribution cost could easily thin out profit margins. Infrastructure gaps such as logistics, power and fuel are major costs that affect operating cost of production in this sector, and can easily thin out profit margin if cement players do not strategically manage their prices. Players should plan ahead as the race for more market share would significantly impact prices, as players with strong investment in route to market (transportation network) and cheaper energy source stand a better chance to win the volume game.

In conclusion, with all the facts established above, competitive rivalry in this industry can be said to be very high despite it being an oligopoly. Likewise, high operating costs (from huge capital investment in extraction and production process, to massive investment in distribution network to enable significant competition with top market players) have limited the threat of new entrants in the sector. Also, there has been no historic identification of a major product that substitutes cement. Hence, buyers are left with very limited options and their power to influence market trends is very low. Likewise, suppliers of raw materials used to produce cement are said to have relatively low power over cement players in the industry.

Dangote Cement plc

				Pre-forecast	Pre-forecast	Pre-forecast	Pre-forecast	Pre-forecast
Pre-forecast Vs forecast				Pre-forecast	Pre-forecast	Pre-forecast	Pre-forecast	Pre-forecast
Financial year ending				31 Dec 15	31 Dec 16	31 Dec 17	31 Dec 18	31 Dec 19
Model column counter	Constant	Unit	Total	1	2	3	4	5

Statement Of Comprehensive Income

Revenue from cement				491,544	614,936	805,294	900,927	889,359
revenue from other products				181	167	288	286	2,312
Total Revenue Actuals		**₦'million**		**491,725**	**615,103**	**805,582**	**901,213**	**891,671**
Production Cost								
Material consumed				55,623	87,203	111,559	122,581	117,239
Fuel and power consumed				66,495	112,265	111,569	133,528	122,851
Royalty				1,138	1,382	1,136	1,134	1,817
Salaries and related staff cost				15,263	24,019	26,713	31,557	32,955
Depreciation and amortisation				38,243	51,245	59,598	64,544	65,254
Plant maintenance				18,331	29,063	26,848	29,562	28,766
Other production expense				10,830	21,165	14,653	9,199	7,750
Increase in finished goods and WIP				(4,115)	(2,526)	(786)	(8,794)	3,357
		₦'million		**(201,808)**	**(323,816)**	**(351,290)**	**(383,311)**	**(379,989)**
Gross profit		**₦'million**		**289,917**	**291,287**	**454,292**	**517,902**	**511,682**
Administrative expenses								
Salaries and related staff costs				9,203	11,338	12,376	11,323	12,853
Corporate social responsibility				722	1,097	1,562	2,260	2,572
Management fee				2,839	3,054	3,853	3,627	3,997
Depreciation and amortisation				4,025	5,789	5,529	6,087	6,359
Auditors remuneration				285	417	508	539	561
Directors remuneration				485	638	1,071	1,116	841
Rent rate and insurance				3,642	3,934	3,918	5,341	6,578
Repairs and maintenance				781	1,019	1,083	1,528	1,637
Travel expenses				1,510	1,905	2,041	2,996	2,445
Bank Charges				833	1,126	1,222	2,205	1,948
Professional and consultancy fees				-	-	3,550	2,650	2,607
General administrative expenses				3,140	4,088	5,003	7,883	5,974
Others				3,457	3,519	3,377	4,586	5,681
write off and impairment of property, plant and equipment				1,624	(1,255)	287	360	71
		₦'million		**(32,546)**	**(36,669)**	**(45,380)**	**(52,501)**	**(54,124)**
Salaries and related staff cost				6,161	10,334	10,871	14,401	16,976
Depreciation				12,358	17,716	18,812	25,572	23,850
Advertisement and promotion				3,147	1,534	2,199	3,990	8,597
Haulage expenses				29,276	49,344	74,653	88,040	107,176
Others				2,558	3,739	3,382	4,922	4,046
selling and distribution expenses		**₦'million**		**(53,500)**	**(82,667)**	**(109,917)**	**(136,925)**	**(160,645)**
Insurance claims				39	48	411	982	610
Government grant				478	417	376	2,368	227
Sundry income				3,434	10,077	4,426	6,872	2,143
Other income				**3,951**	**10,542**	**5,213**	**10,222**	**2,980**
Profit from operating activities		**₦'million**		**207,822**	**182,493**	**304,208**	**338,698**	**299,893**
Finance-Interest income				1,699	2,662	9,136	11,323	7,610
Finance income- Other foreign exchange gain				12,250	41,155	26,790	-	-
Finance cost- Interest expenses				(33,807)	(45,583)	(52,101)	(41,413)	(43,829)
less amount included in the cost of qualifying assets				653	411	-	-	
foreign exchange loss				-	-	-	(8,112)	(13,481)
Other finance costs				(323)	(209)	(610)	(253)	(363)
share of profit from associate				-	-	2,167	563	649
Profit before tax		**₦'million**		**188,294**	**180,929**	**289,590**	**300,806**	**250,479**
income tax credit/(expense)				(6,971)	(38,071)	(85,342)	89,519	(49,958)
Profit for the year		**₦'million**		**181,323**	**142,858**	**204,248**	**390,325**	**200,521**

Dangote Cement plc

Pre-forecast Vs forecast	Constant	Unit	Total	Pre-forecast	Pre-forecast	Pre-forecast	Pre-forecast	Pre-forecast
Financial year ending				31 Dec 15	31 Dec 16	31 Dec 17	31 Dec 18	31 Dec 19
Model column counter	Constant	Unit	Total	1	2	3	4	5
Statement Of Financial Position								
Non-current assets								
Property, plant and equipment		?'million		917,212	1,155,711	1,192,140	1,171,864	1,206,749
Intangible assets		?'million		2,610	4,145	6,355	5,969	3,663
Right of use assets				-	-	-	-	11,956
Investment in subsidiaries				-	-	-	-	-
Investment in associate				1,582	1,582	3,749	4,312	4,961
Finance lease receivables				-	-	6,614	6,475	11,285
Deferred tax asset				14,465	51,306	30,625	40,622	44,768
Prepayments for PPE				9,094	13,196	16,101	36,383	51,233
Other receivables				-	-	-	-	-
Total Non-current Assets Actuals		?'million		**944,963**	**1,225,940**	**1,255,584**	**1,265,625**	**1,334,615**
Current assets								
Inventories				53,118	82,903	94,594	106,998	114,806
Trade and other receivables				11,544	26,279	30,155	44,468	30,001
Prepayments and other current assests				60,526	78,280	115,496	101,883	127,042
Finance lease receivables				-	-	1,608	2,380	4,266
Current income tax receivables				-	9	59	6,213	6,718
Cash and bank balances				40,792	115,693	168,387	166,896	123,903
Total Current Assets Actuals		?'million		**165,980**	**303,164**	**410,299**	**428,838**	**406,736**
Total Assets Actuals		?'million		**1,110,943**	**1,529,104**	**1,665,883**	**1,694,463**	**1,741,351**
Liabilities								
Current Liabilities								
Trade and other payables				127,597	268,966	270,721	230,970	284,739
Lease liabilities					-	-	-	1,409
Current income tax payables				1,289	18,220	63,901	9,223	49,932
Financial liabilities				47,275	220,300	144,783	220,128	260,631
Other current liabilities				24,537	18,307	41,071	35,185	34,083
Total current liabilities		?'million		**200,698**	**525,793**	**520,476**	**495,506**	**630,794**
Non-current liabilities								
Deferred tax liabilities				24,504	103,162	116,898	83,350	93,841
Financial liabilities				208,329	152,475	242,894	125,725	107,279
Lease liabilities/Retirement benefit obligations				3,992	-	-	-	7,447
Long term provisions and other charges				3,283	3,344	3,416	2,753	3,684
Deferred revenue				975	1,072	839	516	369
Long term payables				24,442	17,730	-		
Total non-current liabilities Actuals		?'million		**265,525**	**277,783**	**364,047**	**212,344**	**212,620**
Total Liabilities Actuals		?'million		**466,223**	**803,576**	**884,523**	**707,850**	**843,414**
Net Asset				**644,720**	**725,528**	**781,360**	**986,613**	**897,937**
Equity								
Share capital				8,520	8,520	8,520	8,520	8,520
Share premium				42,430	42,430	42,430	42,430	42,430
Capital contribution				2,877	2,877	2,877	2,877	2,877
Currency translation reserve				(22,366)	78,964	75,441	72,605	55,974
Employee benefit reserve				(1,007)				
Retained earnings				620,501	605,662	639,462	848,695	776,839
Equity attributable to owners of the company		?'million		**650,955**	**738,453**	**768,730**	**975,127**	**886,640**
Non- controlling interest				(6,235)	(12,925)	12,630	11,486	11,297
Total Equity				**644,720**	**725,528**	**781,360**	**986,613**	**897,937**
Total Equity and Liabilities Actuals		?'million		**1,110,943**	**1,529,104**	**1,665,883**	**1,694,463**	**1,741,351**

Management and Governance overview

Commitment to global best practices in Nigeria and other countries where they operate, adherence to high standard of corporate governance reassures their commitment to building a sustainable company for the benefit of all stakeholders. Regular review of governance framework and as the need arises shows that the company's governance practice is accurate, evidenced by recent changes in its business structure and management team. Amidst the resignation of two Non- Executive Director and the CFO in 2019, Engr. Joseph Makoju the group Managing Director/CEO also notified the board of his retirement plans, and Michel Puchercos was appointed to become the Group CEO effective February 2020, with over two decades of experience in the cement industry and having severed in various capacity in Lafarge including President and country CEO among other positions, that makes him capable of leading the executive team towards executing the company's strategic intent.

The management team comprises of ten executive members coupled with a robust board of directors comprising 14 members: two executive directors, seven non-executive, four independent non-executive directors, and Alhaji Aliko Dangote as the chairman. With their vast wealth of skills and experience ranging from manufacturing, finance, engineering, business to law, they have been able to maintain a strong reputation and provide strategic direction that ensures the company's business goals are achieved.

Group Chief Executive Officer

Mr. Michel Puchercos

Chairman

Alhaji Aliko Dangote GCON

Bulls and Bears say

Bulls say:

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

Bears say:

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

Risk and Outlook

Dangcem is exposed to a couple of risks that could possibly emanate from its strategic internal and external business activities. With a risk landscape that is derived from application of several risk management tools, applied across all subsidiaries of the group company. The company's risk

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citrack.support@c-ileasing.com www.c-ileasing.com management committee has reviewed and reported it risk exposures to also include the impact of the global and local business environmental dynamics and policy changes that are affecting and challenging its business in the various countries where it operates. Upon assessment of various risk and deployment of identification tools, a few incidences associated with DangCem's strategic business model, internal and external activities can be grouped into Business, Operational, Financial, Market, Liquidity, Continuity and Reputational risk. Having a specialized risk management team that uses bespoke enterprise risk management framework as a tool for identifying these incidences, have helped the company define its risk appetite and insure against its known uncertainties. A further assessment of risk factors that could threaten its business viability, future performance, solvency or liquidity was carried out. After giving thorough consideration to possibly worst scenarios like fire outbreak in one of its biggest plant among other things that can hurt DangCem's current business performance and principal risk exposures, the risk management team expects the company to be able to continue its operation and meet obligations as they fall due with-in the three-year assessment time frame.

The company is realigning its capital structure by sourcing funds from the debt market, with the intent to use proceeds from the maiden bond series to refinance existing short term debt, fund expansion projects and general corporate purposes. The company plans to improve route to market in order to grow sales volume. This might increase selling and distribution costs among other expenses and could impact margins and bottom-line if not properly executed. And lastly, one can expect the company to explore a reverse split stock option, upon conclusion of the on-going share buyback process.

Valuation Summary

DangCem valuation was derived from using Discounted Cash Flow (DCF) methodology. We estimated a stock price of N188.28, which is a 27.65% upside on the current price of stock of N147.5 per share as at May 19, 2020. With a discount rate (Weighted Average Cost of Capital (WACC)) of 15.7% derived using a 12.75% risk free rate (FGN 10-year Bond as at November 2019), a Beta of 1.16, after-tax cost of debt of 11%, and a market risk premium of 7.9%, long-term cash flow growth rate to perpetuity (3.5%) was derived by multiplying the return on equity of 17% by the retention rate of 52%.

Based on the analysis above and current market happenings, Dangote cement's current stock price is undervalued. Thus, we place a BUY rating on the stock.

DCF Valuation for Dangote Cement Plc

₦'million	**2020E**	**2021E**	**2022E**		
EBIT	376,421	439,190	512,428	**WACC**	
Less: Taxes	(99,130)	(115,935)	(134,006)	Debt-to-Total Capitalization	29.1%
EBIAT	277,292	323,255	378,422	Equity-to-Total Capitalization	70.9%
Plus: depreciation expense	61,552	63,199	64,985	Interest Expense as a % of debt	15.68%
Less: CAPEX	(65,894)	(66,964)	-	Cost of Debt	15.68%
Less: Change in working capital	44,408	57,607	67,215	Tax Rate	30.00%
Free Cash Flow (FCF)	317,358	377,098	510,622	**After-tax Cost of Debt**	11.0%
WACC	18.8%	18.8%	18.8%		
Present value (PV) of FCF	317,358	317,529	362,041	Risk-free Rate	12.75%
				Market Risk Premium (Rm-Rf)	7.9%
				Beta	1.1645
Terminal value @ perpetual growth rate (2020)	**2020**	**2021**	**2022**	**Cost of Equity**	21.9%
Terminal value as of 2020	-	-	3,463,228	**WACC**	18.8%
Present value of terminal value	2,455,498				
2020				Infinite growth rate	3.5%
DCF Calculation	**Valuation**			Payout ratio	48%
PV of explicit period	996,928			Retention rate	52%
PV of terminal value	2,455,498			Return on Invested capital	17%
Enterprise Value	3,452,426			Total Capital	1,265,847
+ Cash	123,903			EBIT	299,893
- Borrowings	(367,910)				
Equity value	3,208,419				
Share Price	**188.28**				
Shares outstanding ('million)	17,040.51				

Economic Outlook

Like many other economies, Nigeria continues to battle with the twin shocks of COVID-19 pandemic and dwindling global oil prices. Nigeria's oil output is likely to decline in the coming month due to the supply cut from OPEC+. This will result in depleting oil revenue, wider fiscal deficit and balance of trade. Due to the decline in fiscal and external buffers, the FGN may be forced to borrow more from multinationals for the implementation of the 2020 budget and to cushion the negative impact of the virus on the economy. This will further widen the country's fiscal deficit.

In addition, the stability of the exchange rate is a function of robust external buffers. Hence, the weak government's buffers would reduce the capacity of the CBN to intervene in the forex market which increases the risk of currency depreciation.