FDC Bi-Monthly Update

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In This Issue ...

July highlights and implications

1. MPC maintains status quo on all parameters

In line with market expectations, the MPC voted to maintain status quo on all monetary policy parameters. This means that the MPR was left unchanged at 12.5%pa, CRR at 27.5%pa, Liquidity ratio (30%) and Asymmetric Corridor (+200/-500bps). The decision was premised on a marginal improvement in economic fundamentals as activities pickup. In addition, the need to avoid further pressure on the naira amid rising consumer prices influenced the Committee's decision.

The impact of the decision on the markets will be neutral. Inflationary pressures will persist with inflation (12.56%) remaining above T/Bills rate (91 day: 1.79%). The negative real rate of return will reduce the efficacy of money as a store of value and lower national savings and investment.

2. FAAC disbursement up by 19% to N651.18bn

The Federal Account Allocation Committee (FAAC) disbursement to the federal, state and local governments in July jumped by 18.98% to N651.18bn from N547.31bn in June. FAAC is an accumulation of revenue from oil, value-added tax (VAT), exchange rate gains and statutory revenue. The pick-up in FAAC disbursement was largely attributed to the increase in oil receipts. The gross statutory revenue also increased by 26.71% to N524.53bn in the month.

The balance in the Excess Crude Account (ECA) increased to $72.41mn as of July 16, 2020. We expect oil prices to improve in the short term due to positive sentiment from the development of a vaccine that could cure covid-19. Higher oil prices ($44.25pb) above the budget benchmark of $28pb would support FAAC allocations in the coming month. Higher FAAC disbursement will boost government expenditure, increase consumers' disposable income and ultimately, aggregate demand.

3. COVID-19 Impact Monitoring (June 2020)

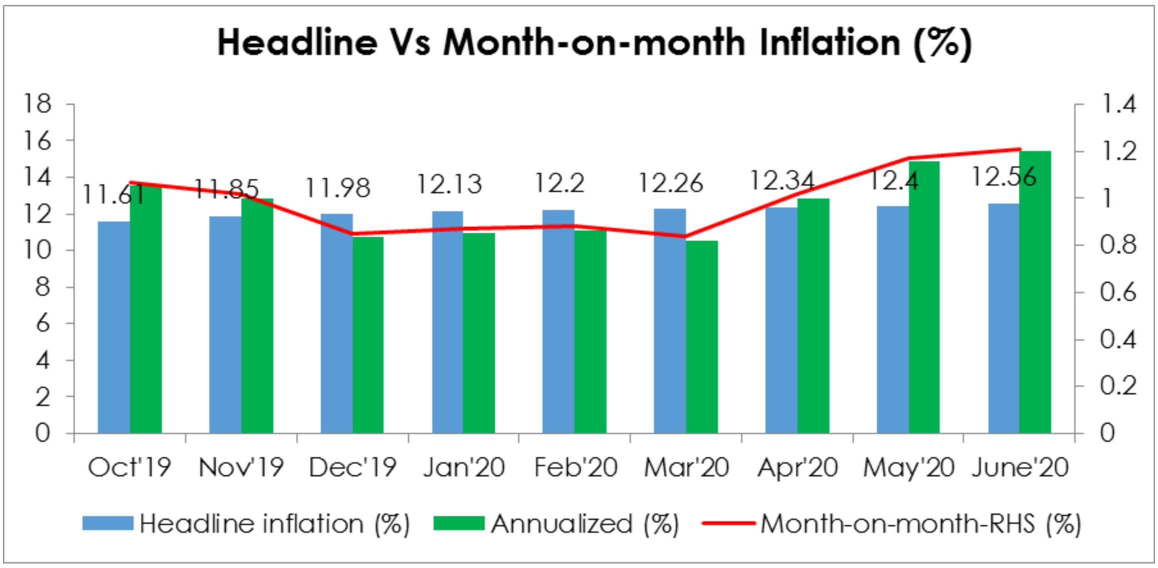
In its monthly COVID-19 Impact Monitoring report, the NBS reported that only about 64% of urban residents worked in June. This means that approximately 36% of urban respondents were idle at home despite the easing of lockdown restrictions. The report also highlighted the sectors making a quick comeback from the lockdown-induced contraction in activities. Commerce, service and agricultural sectors recorded the highest recoveries in the share of respondents that are back to work.

Headline inflation crosses the 12.5% threshold in June

As widely expected and consistent with analysts' consensus, headline inflation increased again to 12.56% in June from 12.40% in May. This is the 10th consecutive monthly increase and the highest level in over two years. More disturbing is the fact that the rate of change in the year-on-year inflation is increasing at a faster pace (0.16%). The continued rise in the general price level can be largely attributed to supply disruptions due to the planting season, partial lockdown of the economy and higher logistics costs. All the inflation sub-indices moved in tandem with the headline inflation.

Policy makers are more interested in inflation expectations

Monetary policy decisions are based on inflation expectations rather than the historical trend. In spite of the harvest season which commenced in Q3, lower disposable income and the relaxation of the inter-state movement restrictions, headline inflation is expected to continue its upward trajectory in the coming months. This will be largely driven by the lingering effects of the global pandemic and the exchange rate pass through. Hence, beyond the spike in the headline inflation in June, policy makers will take into consideration the rising inflation expectations at the MPC meeting this month. Notwithstanding, we do not expect a change in the monetary policy stance given the weak GDP outlook.



[1]

[1]NBS, FDC Think Tank

Month-on-month inflation up 0.04% to 1.21%

Month-on-month inflation (a measure of current market realities) increased for the 4th consecutive month to 1.21% (15.58% annualized) in June from 1.17% in May (14.91% annualized). Meanwhile, the rate of change in the monthly index slowed to 0.04% from 0.16% in May. This was partly due to the gradual easing of the lockdown especially the inter-state movement, providing some support for the commodity supply chain and increasing output levels.

Data Breakdown

Food inflation nudges higher

In June, the year-on-year food inflation increased by 0.14% to 15.18% while the monthly component rose by 0.06% to 1.48%. The commodities that recorded the highest price increases were bread and cereals, potatoes, yams and other tubers, fruits, oils and fats, meat, fish and vegetables. We expect a reduction in food prices in the coming months as the harvest season commences. However, higher logistics costs will remain a major threat.

Year-on-year core inflation inches up while M-o-M sub-index ease

The annual core inflation (inflation less seasonalities) inched up by 0.01% to 10.13% in June. However, M-o-M core inflation eased to 0.86% from 0.88% in May. Currently, core inflation is 6.78% above the 364-day primary market T/bills rate of 3.35%, implying a negative real rate of return.

Imported food inflation up 0.02% to 16.29%

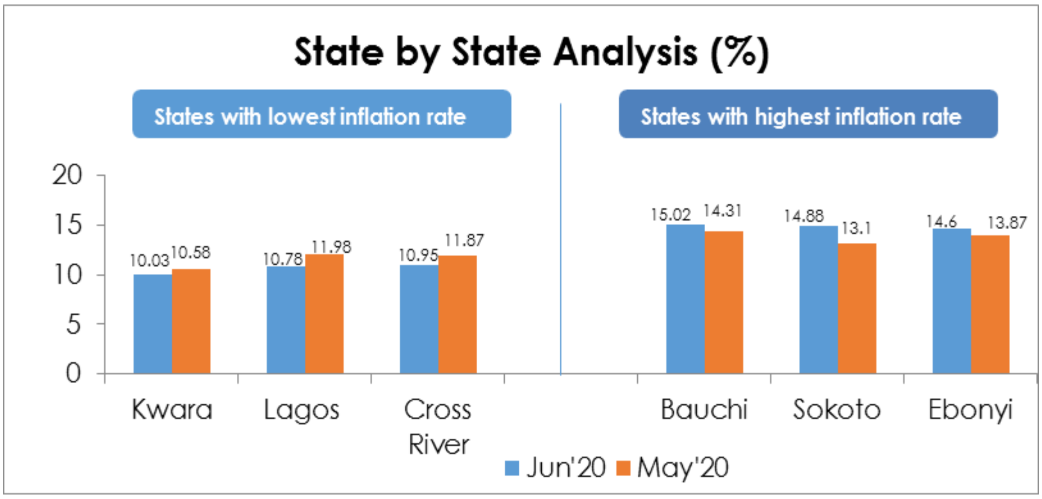
Imported inflation increased marginally by 0.02% to 16.29% in June from 16.27% in May. The rate of change will be much higher in the coming months as the impact of the exchange rate devaluation becomes more stark. The currency has been devalued twice in the last four months.

Rural & Urban Indices

Rural and urban inflation rate (year-on-year) increased to 11.99% and 13.18% from 11.83% and 13.03% respectively in May. On a month-on-month basis, both rural and urban indices rose to 1.19% and 1.23% from 1.16% and 1.18% respectively in the previous month.

State by State Analysis

Kwara state had the lowest inflation rate of 10.03%, followed by Lagos (10.78%) and Cross River (10.95%). The states with the highest inflation rates were Bauchi (15.02%), Sokoto (14.88%) and Ebonyi (14.60%).



[2]

Peer Comparison – Mixed movement in Inflation – 3 Reds, 4 Greens

In June, the inflation trend across Sub-Saharan African (SSA) countries was mixed. With the exception of South Africa, all the SSA countries under our review have released their inflation numbers for June. While Kenya, Ghana and Zambia recorded a decline, Angola and Uganda reported higher inflation. Unlike Nigeria, food prices slowed in most of the SSA countries. The spike in inflation in Angola and Uganda was largely due to currency devaluation and the lingering effects of the global pandemic.

It is worth mentioning that South Africa's headline inflation eased to a 15-yr low of 2.10% in May from 3.00% in April. This was supported by the drop in transport prices triggered by the fall in oil prices amid the Covid-19 pandemic.

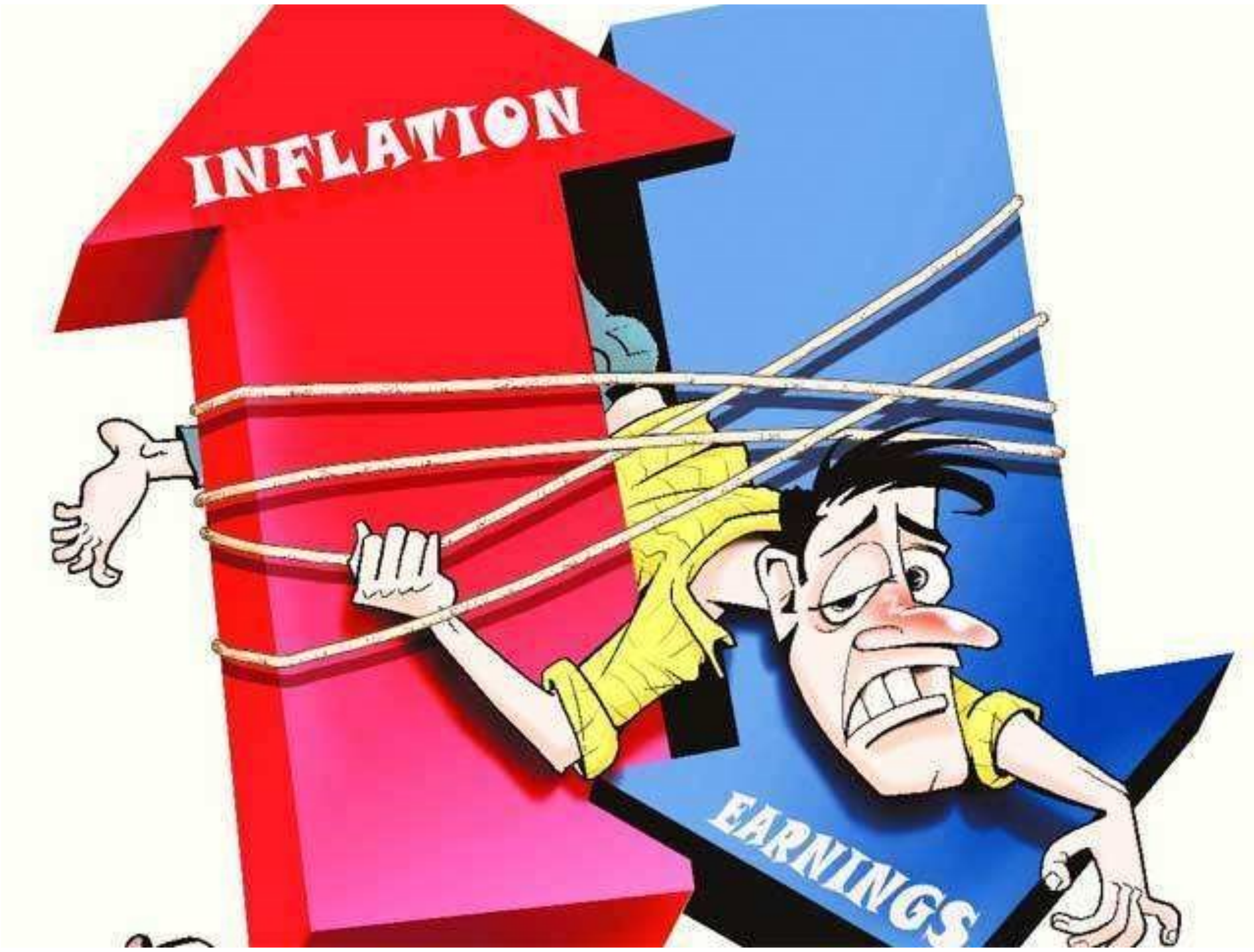
Country	June Inflation (%)		June Policy rate (%)	
Nigeria	12.56	↑	12.50 (May)	↓
Angola	22.62	↑	15.50 (May)	↔
Kenya	4.59	↓	7.00	↔
South Africa	2.10 (May)	↓	3.75 (May)	↓
Ghana	11.20	↓	14.50 (May)	↔
Uganda	4.10	↑	7.00	↓
Zambia	15.9	↓	9.25 (May)	↓

[3]

[2]NBS, FDC Think Tank
[3]Trading Economics, FDC Think Tank

Outlook

The harvest season has commenced and is expected to reach its peak towards the end of the third quarter. This will most likely drive down agricultural commodity prices. However, higher logistics costs and currency devaluation will stoke inflationary pressures. The inflation expectations, which is tilted more to the upside, will impact on the MPC's decision this month. Notwithstanding, we do not expect a change in the monetary policy stance given the weak GDP outlook.



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Implications of COVID-19 on Nigeria's employment generation

Companies around the world are adopting a more cautious approach to their operations as they struggle to stay afloat, despite the prevailing economic realities brought on by the coronavirus pandemic. The imposition of lockdown measures has had a severe impact on business operations and raised the threat of massive job cuts as companies struggle to survive the nightmare of the century. For instance, the United States reported a spike in its unemployment rate to 14.7% in April 2020 the highest since the inception of the unemployment survey before it eased to 13.3% in May 2020.[4] Although the unemployment statistics of many African economies including Nigeria is not up to date, these countries are also likely to experience a surge in unemployment rates. Nigeria's unemployment rate was last estimated at 23.1% in Q3'18[5] and is projected to rise to 33.6% by Q4'20.[6]

Employment generation amid strained public finances

The Nigerian government's ability to create employment for its growing youthful population has been gravely undermined by the plunge in oil revenue due to the crash in global oil prices. This has necessitated several revisions to the country's 2020 budget and significant reductions in certain planned fiscal expenditure. Although the oil price benchmark was reviewed upwards to $28 per day from $25 per day, according to the recently passed revised budget, the fiscal revenue projection is based on expected oil production of 1.8 million barrels per day (mbpd).[7]

[4]Heather Long and Andrew Van Dam, 2020. "U.S. unemployment rate soars to 14.7 percent, the worst since the Depression era". The Washington Post. https://www.washingtonpost.com/business/2020/05/08/april-2020-jobs-report/

[5]National Bureau of Statistics (NBS), 2018. "Labour Force Statistics - Volume I: Unemployment and Underemployment Report". Author. https://nigerianstat.gov.ng/elibrary?queries[search]=unemployment

[6]Economic Sustainability Committee (ESC), 2020. "Bouncing back: Nigeria Economic Sustainability Plan". The Federal Government of Nigeria. https://www.proshareng.com/admin/upload/report/13601-ESC%20Plan-proshare.pdf

[7]Deji Elumoye and Udora Orizu, 2020. "With revised 2020 budget passed, what next". This Day Nigeria. https://www.thisdaylive.com/index.php/2020/06/14/with-revised-2020-budget-passed-what-next/

This is above the new OPEC quota of 1.4mbpd.[8] Invariably, it could be as unrealistic as the newly revised 2020 budget of N10.81trn, which is 2.08% higher than the initial budget of N10.59trn.[9]

In other words, with government revenue in tatters, the feasibility of planned fiscal spending is already a mirage and so is employment creation. This is aggravated by the possibility of massive lay-offs of workers by firms operating in the country, especially companies offering non-essential services who have been the most affected by the lockdown measures. A number of companies have reported a steep decline in earnings in Q1'20, largely attributed to the unintended consequences of the COVID-19 lockdown measures.[10]

Way forward

The implication of the COVID-19 outbreak on Nigeria's employment generation capacity presents Nigerian youths with a need to reposition themselves to be relevant in the post-COVID-19 labor market. How can this be achieved?

Digital skills: An interesting realization of the COVID-19 pandemic is the practicability of virtual business interactions and operations. This highlights the importance of ICT skills and personal development in order to be able to use ICT knowledge for business operations. Finding ways to make one's skill or services marketable digitally will also help to expand the reach of the business or service for better productivity.

Take advantage of attractive sectors of the economy, particularly the agricultural sector: Some sectors have become priority for the government following the outbreak of COVID-19. Loan initiatives to the agricultural sector and the emphasis on patronage of made-in-Nigeria goods can be favorably explored for productive investments and self-employment.

Entrepreneurial initiatives: Although entrepreneurship has been frequently alluded to as a veritable means of job creation, the present realities in the economy and the advent of COVID-19 have helped to reinforce this stance. The need to develop entrepreneurial initiatives is closely linked to taking advantage of attractive sectors. For instance, some individuals began manufacturing improvised facemasks and shields after the government made it compulsory to wear facemasks in public places as part of measures to curb the further spread of COVID-19 in the country.

[8] Oladehinde Oladipo, 2020. "OPEC's new deal reduces Nigeria oil quota to 1.4mpd". Business Day Nigeria. https://businessday.ng/energy/oilandgas/article/opecs-new-deal-reduces-nigeria-oil-quota-to-1-4mpd/

[9] Deji Elumoye and Udora Orizu, 2020. "With revised 2020 budget passed, what next". This Day Nigeria. https://www.thisdaylive.com/index.php/2020/06/14/with-revised-2020-budget-passed-what-next/

[10] Nigerian Stock Exchange (NSE), 2020. Real time. http://www.nse.com.ng/Issuers-section/corporate-disclosures/company-results

Conclusion

With the business environment and work space redefined in line with requirements for social distancing measures and the obvious constraints on job creation by the government, it has become imperative for Nigerians, especially the unemployed youths, to carve a niche for themselves in the labor market. This individualistic positive orientation could have a significant impact on the collective development of the economy as a whole and position the country for quick recovery from the economic impact of the COVID-19 pandemic.

COVID-19 and the real estate market in Nigeria

The real estate sector, a lagging indicator, has yet to catch up with Nigeria's economic recovery from the 2015/2016 recession. In the last four years the real estate sector contracted by an average of -4.48%.

The sector is facing both demand and supply challenges. On the demand side, challenges range from dwindling consumer disposable income and suboptimal mortgage services, among others. These have affected the home ownership rate in Nigeria (25%) which pales in comparison to ownership rates in peer countries such as Kenya (75%) and South Africa (56%)[11].

The supply side of the market is facing its own unique trials. A primary difficulty is the absence of government intervention in and attention to the sector. . Compared to agriculture and manufacturing, which have received government interventions, the real estate sector has received only residual intervention. In the recently launched Economic Sustainability Plan (ESP), the FGN has clearly articulated plans for sectors such as aviation, agriculture and manufacturing with little to no mention of the real estate sector.

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COVID-19's impact on the real estate market

The pandemic has disrupted life and performance in most sectors. Some have been lucky to have the capacity to withstand the shocks. The telecommunications sector, for instance, has been the bright spot during the pandemic as business owners and individuals rely on technology for meetings and milestone celebrations. Other sectors, such as aviation, education, and trade, have crashed under the weight of the pandemic. Social distancing guidelines have affected their ability to conduct business and resulted in a significant loss of revenue.

[11]Chuka Uroko. October 10,2019. 'Nigeria lags peers in home ownership rate at 25% for 200m population', Business Day. https://businessday.ng/real-estate/article/nigeria-lags-peers-in-home-ownership-rate-at-25-for-200m-population/

Unfortunately, the real estate sector is among the significant losers of the current crisis. The impact of the pandemic on the real estate sector is unique in that it is not felt immediately by key stakeholders. The sector is a lagging indicator, which means that it can confirm long term trends but not predict them. The fragmentation of the sector means that different sub-sectors will feel the pinch of the virus differently than others. However, one common factor is that all sub-sectors will be negatively affected[12]:

Residential

Demand for residential spaces is likely to follow the downward trend of consumer disposable income. With job losses and furlough of staff across sectors, households are likely to delay their home ownership decisions. Housing remains an essential need and accounts for approximately 17% of consumer income in Nigeria

Commercial

The outbreak of the virus plus social distancing guidelines have forced many companies to encourage their employees to work from home. This strategy has reduced the usage of office space. The uncertainty regarding the future of where and how people will work will force companies to request discounts and benefits from building suppliers and will slow decision-making for new office spaces.

[12]Estate Intel. 2020. 'Real Estate and COVID in 19 Slides'. https://estateintel.com/app/uploads/2020/05/Nigerian-Real-Estate-and-COVID-in-19-Slides.pdf

Retail

Since the pandemic outbreak, foot traffic to malls and shopping centers has reduced significantly. During the lockdown period, non-essential stores had to close their shops and reported lower sales as a result. Even now, many shops are still reliant on their online presence if they are to have any chance of staying afloat. This will have an adverse impact on the retail sub-sector which was already dealing with the twin shock of higher maintenance charges and lower disposable income.

The new normal for the real estate market

In a post-pandemic world, virtually all sectors will have to reinvent themselves if they are to have any chance of surviving the tide. The real estate sector is not excluded. There are two trends that will have an impact on the sector adjusts post-COVID:

1. *Virtual reality*: Before COVID-19, the idea of 'proptech' was gradually gaining traction in developed economies. Simply put, proptech is the application of technology to different aspects of the real estate lifecycle. Since COVID-19, property developers are being forced to adopt virtual tours to comply with social distancing guidelines. For Nigeria, adoption of technology within the sector may be hindered by our low broadband penetration.

2. *E-commerce and the retail sub-sector*: E-commerce is currently a bright spot of the pandemic. Malls have been replaced with online marketplaces forcing even more brick and mortar stores to close shop. While this trend is good for consumers and retail businesses, it will have an adverse impact on mall owners and occupants alike as the pressure to shut down brick and mortar shops will grow.

Federal government's Intervention in the sector

Before the pandemic, there was a call for the government to get more involved in the real estate sector as it didn't bounce back from the 2015/16 recession. Now, the sector has a limited chance of surviving the tide without appropriate and adequate government intervention.

A good starting point for the FGN is to develop its mortgage financing structure. As more consumers record job losses, their willingness and ability for home ownership dwindles. Easing the financial strain from potential homeowners involves developing schemes that cater to a diverse target audience. Poland, for instance, has introduced several credit schemes such as "Family's Own House" which was targeted at married couples and single parents and increased home ownership in the country. For Nigeria, the target should be reaching the Nigerian population using different schemes rather than a one size fits all.

Another area for the government to regulate and monitor closely is tenancy agreements. Many landlords in Nigeria are known for their unlawful terms and frivolous charges that need to be curbed by the appropriate regulatory authority.

The real estate sector is a vital part of any economy. The 2008 global financial crisis was triggered by the housing crisis which confirms the sector's importance. It is time for the Nigerian government to regulate and intervene frequently in the real estate sector if the sector is to have any chance of exiting the negative territory.

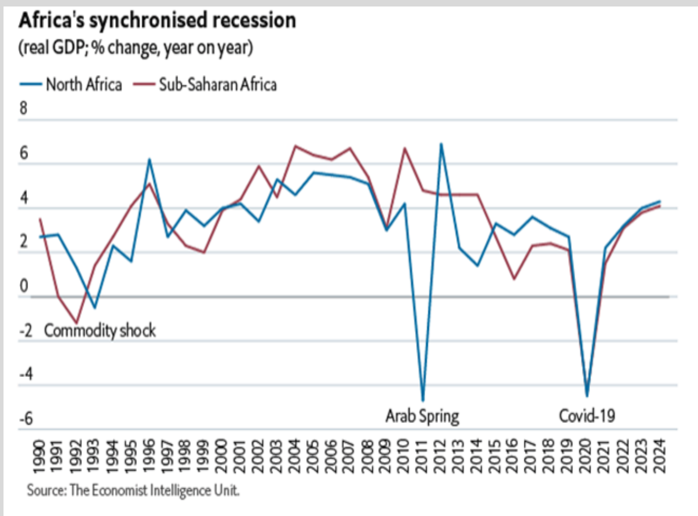
Africa's growth to return but with extra baggage

GLOBAL PERSPECTIVE: culled from The Economist

So far, Africa appears to have escaped the worst of the coronavirus pandemic that has spread rapidly from Asia into the Middle East, Europe and the Americas during the first half of 2020. The public health impact in Africa has been relatively low compared with other major regions, although there remains great uncertainty about the scale and trajectory of the outbreak on the continent and concerns that the transmission of the virus could be accelerating in some countries and that the worst is yet to come. What is much less uncertain, and expected to be severe, is the economic impact of coronavirus-containment policies implemented in Africa and elsewhere. The region looks set to suffer its largest ever recession in 2020, but a quick return to growth is in the offing. The rebound will be modest across board, and most countries will emerge from the crisis with heavy baggage in the form of large twin deficits, weak currencies and worryingly large stocks of debt.

Synchronized downturn

All but a few African countries will see their economy contract in 2020. The nearly complete synchronized downturn of 2020 will be driven by multiple headwinds such as vastly reduced international travel, trade and investment flows, low energy and non-energy commodity prices, disrupted global value chains and weak demand in major export markets. In addition to this, African states are confronted by the imposition of restrictions on domestic business activity, new barriers to regionalized cross border travel and trade and adverse environmental effects, such as large swarms of desert locusts that have decimated crops in the Horn of Africa and the wider East Africa region.



These factors will weigh heavily on African economies throughout 2020 and produce the largest region-wide recession on record.

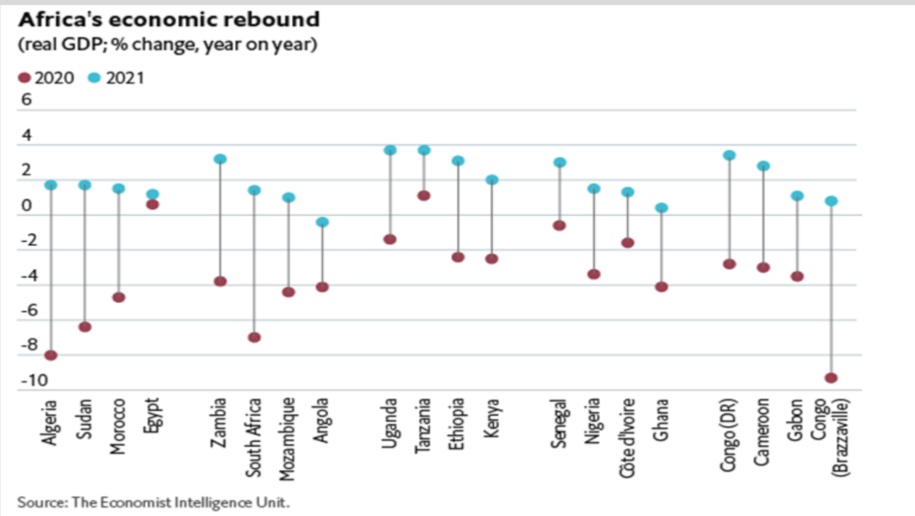
The downturn will be felt across all sub-regions but most acutely among the region's major energy and industrial commodity traders of South Africa, Mozambique, Angola and Zambia in Southern Africa, Algeria, Sudan and Morocco in North Africa, Nigeria and Ghana in West Africa and the Republic of the Congo in central Africa.

The economies of Egypt and Tanzania will slow, owing to subdued tourism sectors, disrupted global value chains, weak demand from major trading partners and soft foreign investment flows, but could escape full-year recessions in 2020. Relatively light restrictions on business activity, on-going large public infrastructure projects and some fast-growing sectors such as telecommunications and new energy investment will continue to support economic growth.

African rebound

A quick return to growth is in the offing as governments in Africa and around the world ease restrictions, reopen their economies and implement supportive economic policy adjustments. Assuming that any acceleration of the coronavirus outbreak is contained or the so-called second wave is avoided, then Africa could quickly rebound, with all but a few African economies posting a return to growth in 2021.

Economies in North Africa could record among the largest rebounds in the region, although this is more to do with the depth of the recession in 2020 rather than the heights of recovery in 2021. Algeria, Sudan and Morocco are expected to grow by 1.5-2.0% in 2021, and Egypt will maintain a low level growth, of just over 1%. The return of goods and services export trade will support a return to growth, driven largely by the slow but steady recovery of demand in Europe. Still-low energy sector commodity prices and the threat posed by civil unrest will dampen and threaten the short-term outlook.



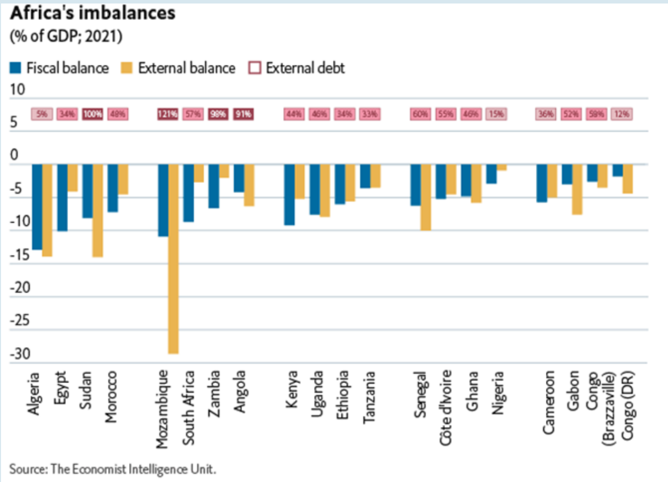
Southern Africa will be the other sub-region hit hardest by the coronavirus crisis, and the return to growth in 2021 could prove modest at best and probably disappoint in South Africa and Mozambique. South Africa will be burdened by tight credit markets and low levels of private investment, high unemployment and labour militancy, and the probable re-emergence of electricity constraints among other factors. Mozambique will benefit from an increase in mining output from currently open and some mothballed sites, while projects advance in the country's nascent energy sector. Angola will remain mired in recession as its energy-dependent economy struggles to regain momentum amid stubbornly low oil prices, falling oil production and weak inflows of foreign investment. Politicians in Southern Africa will face a tough year in 2021 as leaders grapple with weak recoveries combined with the high demand for socioeconomic reforms and better living standards.

East Africa will once again post among the fastest growth rates in Africa during 2021, although these will be well short of pre-coronavirus levels and range-bound between 2%-4% in Uganda, Tanzania, Ethiopia and Kenya. Uganda could benefit from resurgent domestic demand and infrastructure investment in the transport and energy sectors, which will be reflected as the key drivers of growth in Tanzania. Ethiopia's growing network of industrial parks will support increased output from light manufacturing ventures connected to global value chains, especially those targeting Europe and Asia. Furthermore, the ongoing reform process should continue to attract new foreign investment into strategic growth sectors. Kenya will probably lag behind other countries in the region as fiscal constraints, unemployment levels and weak confidence sap momentum from the rebound.

West Africa will return to growth amid stronger export trade and despite weak domestic demand and stretched national finances. Senegal is a new frontier energy market, and postponed developments in 2020 could gain traction in 2021, while agricultural commodity trade could benefit from improved supply and demand conditions. Nigeria will return to growth but will be constrained by low international energy prices, exchange-rate volatility and high inflation that undermine confidence and spending among many households, businesses and investors. Government debt-servicing costs will prove to be a major drag on public finances. Côte d'Ivoire and Ghana could benefit from improved export trade flows and international prices for agricultural commodities in 2021, although the overall recovery will be dampened by stretched national finances and weak domestic demand.

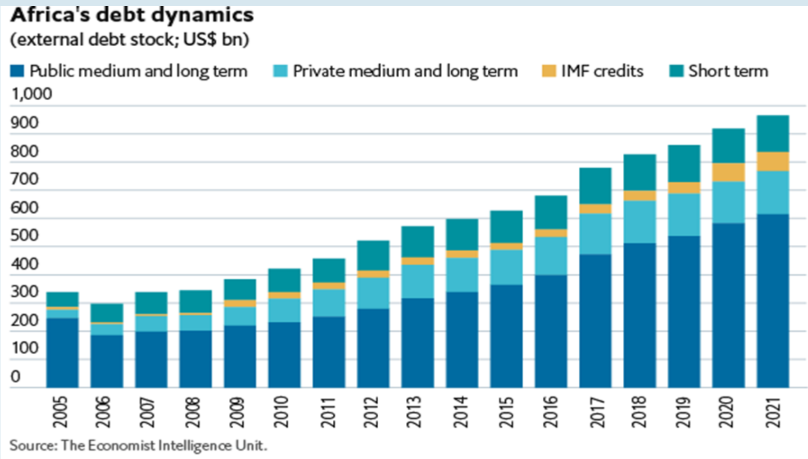
Central Africa will return to leveraging its natural resource potential as stalled investment comes through. New energy sector production and delayed infrastructure projects will support a return to growth in Cameroon. Gabon and the Republic of the Congo will see their recoveries stifled by still-bearish energy markets, although both countries will pull out of deep recessions in 2020. The Democratic Republic of the Congo's crucial mining sector could ramp up production at existing mines and new investments as demand conditions improve, while business trading conditions in major cities return to a sense of normality.

Returning with extra baggage



The recovery across Africa in 2021 will be tempered by the lingering effects of the coronavirus on international travel, trade and investment flows, still-subdued commodity prices and volatility in financial markets, where lenders could become much more selective and more costly to engage. Africa will emerge from the crisis of 2020 but with large fiscal and current-account deficits, as well as bloated debt-servicing costs. Almost every major economy in Africa will have twin deficits, and in some cases these will contribute to major liquidity and even potential solvency issues in some countries, most notably Angola, Mozambique, Sudan and Zambia.

Overcoming the debt hurdle



African countries will continue to push the boundaries of their capacity to borrow from international capital markets, although in the current climate this is linked more to necessity than desire. The stock of total external debt accrued across Africa will surpass US$900bn by the end of 2020 and could reach almost US$1trn by the end of 2021. Total foreign debt service payments made up of principal repayments and interest payments could reach US$100bn in 2021 and present a major hurdle for some countries in the years ahead.

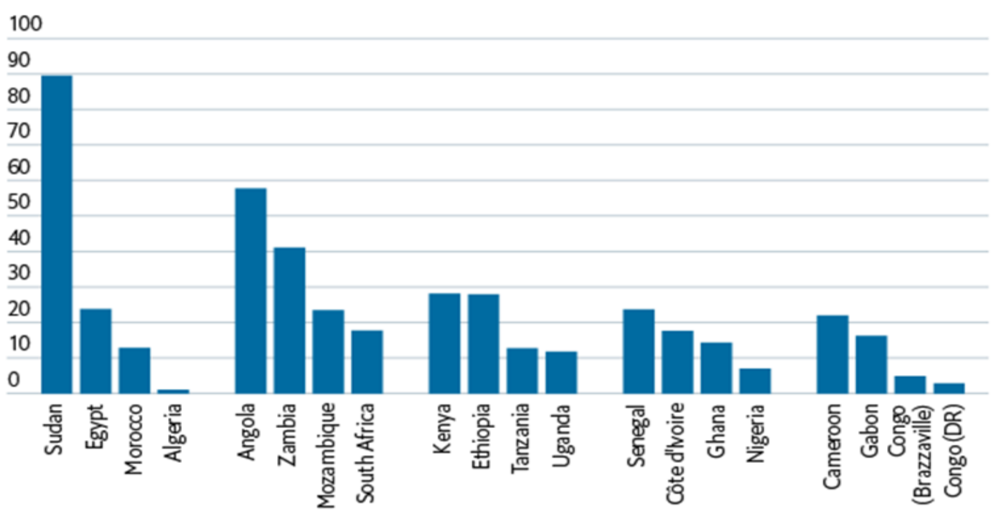
External debt-servicing burdens have escalated as countries contend with the economic fallout from the coronavirus pandemic and dedicate extra financial resources to propping their up economies. Bloated twin deficits need financing, while weak currencies will add to external debt-servicing costs at a time when debt rollover is less guaranteed and more costly than before. Relief in the form of debt write-offs and a suspension of servicing costs are on offer for most African states from the IMF, multilateral development banks and G20 creditors. However, many countries have been reluctant to take up the offer amid concerns that this could affect their future creditworthiness.

Debt-servicing hurdles are high and even higher when considering total (domestic and external) outstanding debt. For instance, Nigeria faces the tricky situation of relatively low but rising external debt but elevated total debt. The stock of external debt will be about 15% of GDP in 2021, and related servicing will cost less than 10% of earnings from exports, income payments or transfers on its current account.

Furthermore, Nigeria's twin deficits are relatively small compared with the ratio to GDP of most other African countries. However, Nigeria has a much higher domestic debt burden, which means that total public-sector debt repayments absorb about two-thirds of federal government revenue. The Nigerian government could seek to settle its debt by printing more money but is reluctant to do so, given the implications for even higher inflation, while debt write-offs are an unsavory option as most creditors are banks, pension funds and other institutions in Nigeria. This is a tricky situation indeed, especially given the subdued outlook for global energy markets over the next 12 to 18 months. Similarly, South Africa has high levels of debt held by the government, state-owned enterprises and corporates and nervous investors, as well as a weak currency and rising borrowing costs.

Africa's debt burdens

(external debt service due as % of goods and services exports, primary income and workers' remittances; 2021)



Source: The Economist Intelligence Unit.

Steady as she goes

Africa could well lose several years' worth of economic and financial development gains in 2020 as almost all economies contract, currencies weaken, and national wealth shrinks. The continent could quickly return to growth in 2021 and beyond, driven largely by relaxed restrictions and the reopening of businesses, together with supportive economic policy. The recovery will help to ease the immediate pain, but the loss of wealth will take several years to fully recover. Furthermore, governments will face difficult policy decisions in the years ahead as large economic imbalances, stretched national finances and high unemployment levels weigh heavily on growth prospects for most countries.

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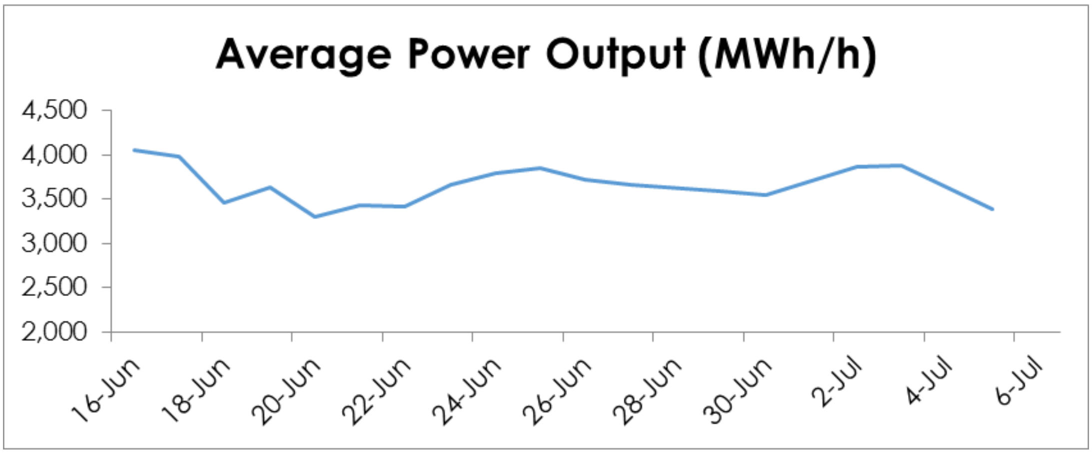
Macroeconomic indicators

Power Sector

The average power output from the national grid was 3,659MWh/h during the review period, 7.65% lower than the average of 3,962MWh/h in the corresponding period in May. The major constraints to the sector were gas (36,891.5MWh/h) and grid (33,545.6MWh/h), which restrained the ability of many thermal power stations including Ihovbor NIPP and Geregu NIPP to generate optimally. Total constraints stood at 75,425MWh/h resulting in a revenue loss of N36.20 billion (N434.4billion annualized) in the sector.

During the review period, the Nigerian Electricity Regulatory Commission (NERC) postponed the electricity tariff hike, which was scheduled to take effect in July 2020.



[13]

Outlook

Water constraints have been minimal in the last couple of days and this is likely to be sustained in the near term as the rainy season persists. This is expected to boost hydro-generated power and improve electricity supply.

Impact

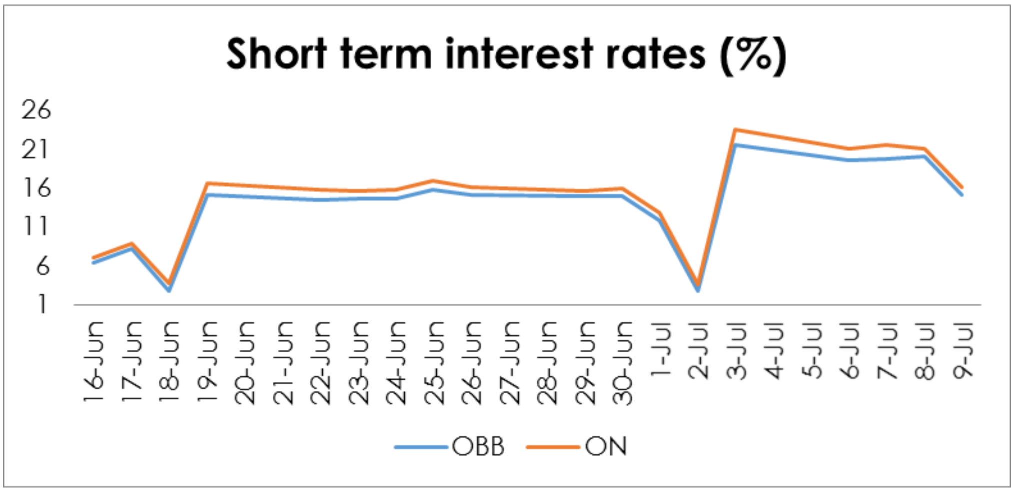
An improvement in power supply will reduce the demand for alternative energy, thereby reducing firms' operating expenses and consequently increasing their margins. In the meantime, the postponement of the new electricity tariff will positively impact on consumers' disposable income.

[13]FGN, FDC Think Tank

Money Market

The average opening position of banks fell sharply by 84.65% to N68.11 billion in the period under review from N443.78 billion in the corresponding period in May. During the review period, opening position slipped into the negative region for three consecutive days. This was due to the debits from CRR and funding for the CBN's retail forex auction. Total OMO maturity during the period amounted to N779.79 billion while a total of N80 billion was issued which led to a net inflow of N699.79 billion.

The fall in market liquidity led to a significant increase in short-term interbank interest rates, which averaged 14.33%p.a. during the review period, up 768bps from an average of 6.65%p.a. in the corresponding period in May. The yield curve is currently inverted as rates at the short end of the curve are higher than longer tenured rates.



[14]

During the period, there were two primary market T/Bill auctions (June 17 & July 1) worth a cumulative of N103.47 billion. Yields declined across all tenors by an average of 18bps to close the period at 1.79%pa, 1.91%pa and 3.39%p.a. for the 91-day, 182-day and 364-day tenors respectively. In the same vein, yields declined by an average of 94bps at the secondary market.

Primary Market

T/bills Tenor	Rate on June 17	Rate on July 01 (% pa)	Direction
91	1.80	1.79	↓
182	2.08	1.91	↓
364	3.75	3.39	↓

Secondary Market

T/bills Tenor	Rate on June 16 (% pa)	Rate on July 09 (%)pa	Direction
91	2.30	1.70	↓
182	3.00	2.19	↓
364	4.29	2.88	↓

[14]CBN

Outlook

Interbank interest rates are likely to remain at current levels pending any significant inflows into the system.

Impact

The inverted yield curve will persist in the near term (barring FAAC inflows) due to the exchange rate adjustment, which will mop up extra liquidity and keep rates elevated.

Forex Market

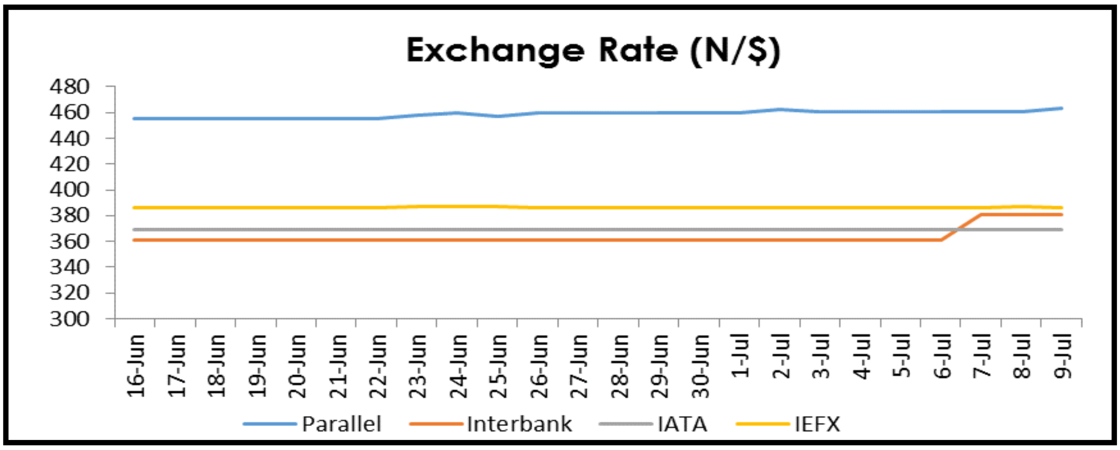
The Nigerian forex market is segmented with multiple exchange rates. The most important rate being the Investors and Exporters window (IEFX). No less than 55%-60% of Nigerian forex transactions are traded at this window. The CBN and most exporters and investors use this window. It serves as not only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

During the review period, the CBN adjusted the official exchange rate to N381/$ from N361/$ in an attempt to unify the multiple exchange rates around the Investor and Exporter window (IEFX) rate. This move aligns with the World Bank's prerequisite for granting Nigeria a concessional funding of $1.5bn. Prior to this, the currency traded flat at N361/$ at the interbank window since the last adjustment in March.

On the other hand, the naira depreciated by 0.13% at the IEFX window to close the period at N386.50/$ from N386/$ on June 16. However, the level of activities increased at the window with total forex turnover up 51.64% to $1.11bn (as of July 14) from $732mn in the corresponding period in May.

At the parallel market, the naira traded within a band of N455/$ - N463/$ in the review period to close at N463/$ compared to N455/$ at the start of the period.



[15]

Outlook

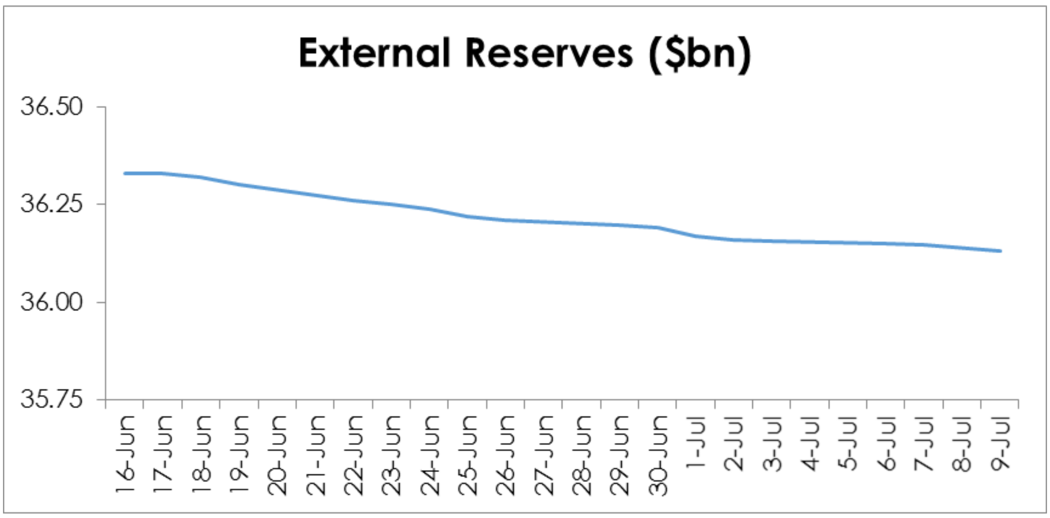
The unification of exchange rates is likely to have a muted impact on the parallel market rate in the near term. This is due to the speculative premium at the market as investor skepticism about the CBN's available buffers to support the currency persists.

Impact

A weaker exchange rate will lead to an increase in imported inflation and the costs of dollar denominated loans but will generate higher naira revenue from Nigeria's crude oil receipts.

External Reserves

Nigeria's gross external reserves maintained a declining trend in the review period. The gross external reserves lost 0.55% ($200mn) to close at $36.13bn on July 09 from $36.33bn on June 16. The country's payment and import cover also declined to 9.00 months from 9.04 months on June 16.



[16]

[15] FDC Think Tank
[16] CBN

Outlook

The external reserves depletion is expected to continue, falling below the $36bn threshold in the near term as international travel commences at an undisclosed date.

Impact

As external reserves deplete further, the ability of the economy to withstand both domestic and external shocks will be tapered. Also, it will reduce the ability of the CBN to intervene in the forex market. Thus, the naira could come under pressure due to forex supply shortfalls.

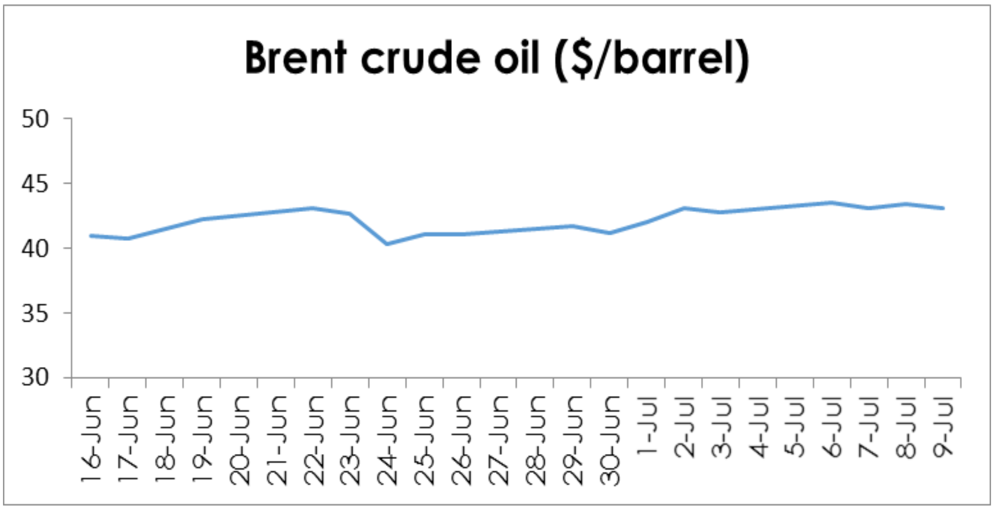
Commodities Market - Exports

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

Oil Prices

On the average, oil prices stood at $42.01pb during the review period. This represents a 12.42% increase when compared to the average of $37.37pb in the corresponding period in May. During the period, Brent touched a 3-month high of $43.54pb on July 06 partly due to the hike in crude prices by Saudi Arabia.

Following the uptick in oil prices in June, the Petroleum Product Pricing Regulatory Agency (PPRA) announced an upward adjustment in the pump price of Premium Motor Spirit (PMS) to a band of N140.80-N143.80/litre for the month of July.



[17]

Outlook

We expect oil prices to decline in the near term driven by demand concerns due to the surge in COVID-19 infected cases globally, especially in the US.

Oil Production

According to the latest OPEC report, Nigeria's oil production declined by 5.66% to 1.5mbpd in June from 1.59mbpd in May. On the other hand, Nigeria's rig count increased to 9 from 8 in May. Total OPEC production during the month of May was 22.27mbpd, 7.82% lower than the previous month's average (24.16mbpd). This was owing to a decline in output mainly in Saudi Arabia, Iraq, Venezuela, UAE and Kuwait.

[17]Bloomberg, FDC Think Thank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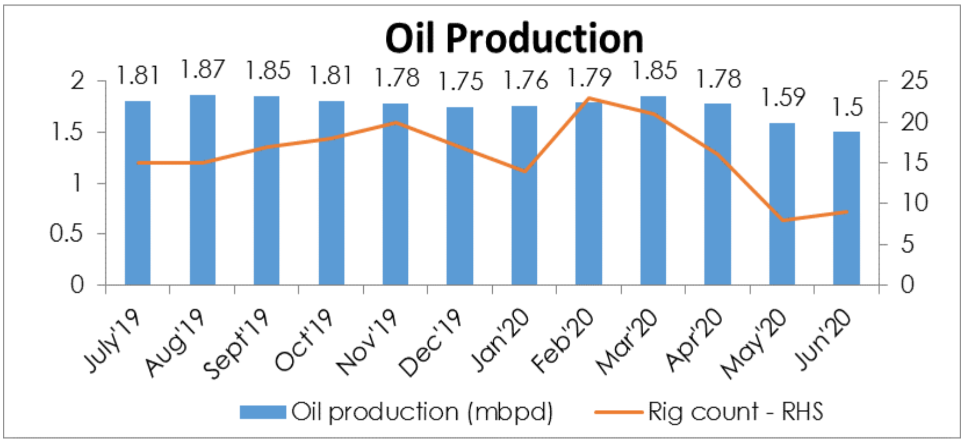


18

Outlook

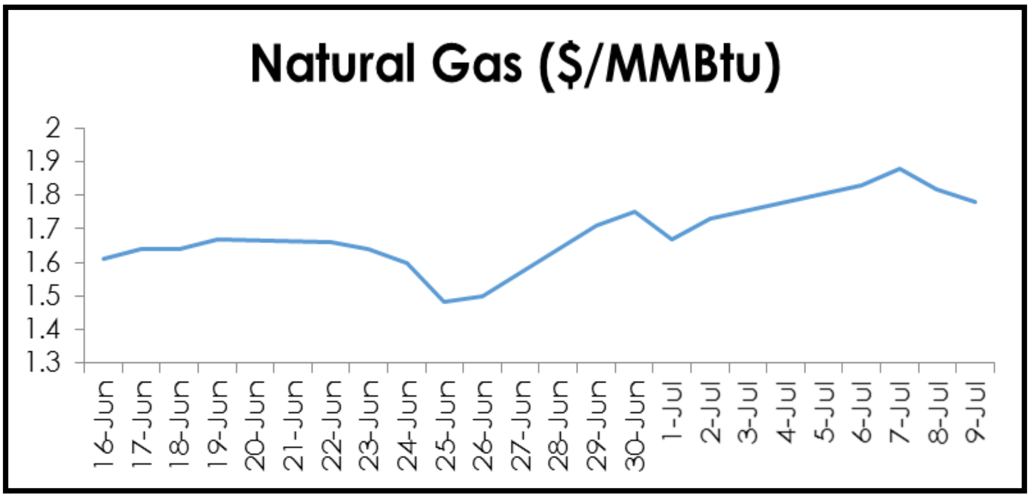
We expect Nigeria's oil output to continue its downward trend as the country remains committed to meeting its OPEC quota of 1.4mbpd.

Impact

Nigeria is more sensitive to a fall in oil production than price. Thus, a further decline in oil production levels coupled with lower oil prices would result in depleting oil proceeds, fiscal and external buffers. This means that the pace of external reserves depletion could intensify.

Natural Gas

The price of natural gas was volatile during the period under review and took a turn for the worse as LNG prices plunged to a record low of $1.45/mmbtu on June 25 owing to large US inventory buildup. On average, natural gas prices declined by 5.62% to $1.68/mmbtu during the review period from an average of $1.78/mmbtu in the corresponding period in May.



19

[18]OPEC, FDC Think Thank
[19]Bloomberg, FDC Think Thank

Outlook

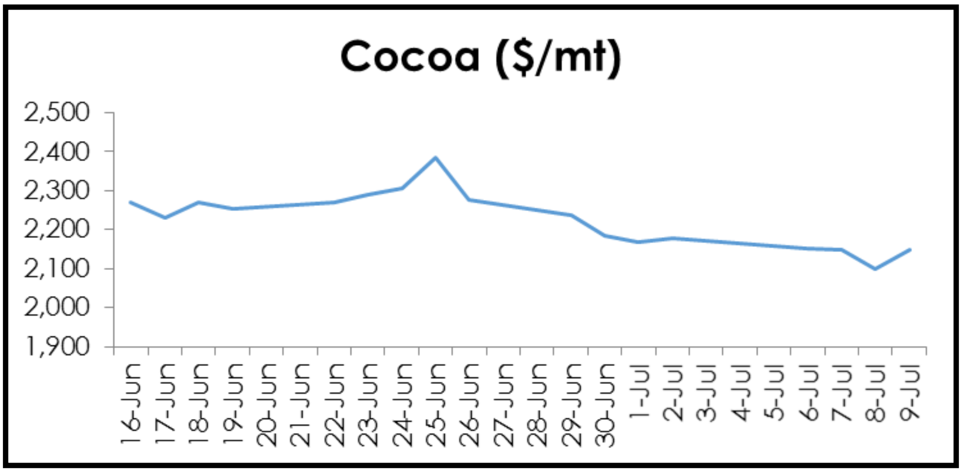
We expect LNG prices to reverse the bearish trend on prospects of improved LNG demand as higher temperatures in the US boost the demand outlook.

Impact

Natural gas is a key export commodity for Nigeria, accounting for approximately 13%[20] of export revenue. An increase in the global price of LNG is positive for the country's LNG export earnings.

Cocoa

The average price of cocoa fell by 7.01% to $2,228/mt during the review period from an average of $2,396/mt in the corresponding period in May. After reaching a 21-month low of $2,100/mt on July 08, prices picked up to close the review period at $2,149/mt on July 09. The price drop was buoyed by expectations of ample global supply amid the favorable weather conditions in Ivory Coast.



[21]

Outlook

We expect cocoa prices to decline further in the near term driven by reduced global demand for chocolate.

Impact

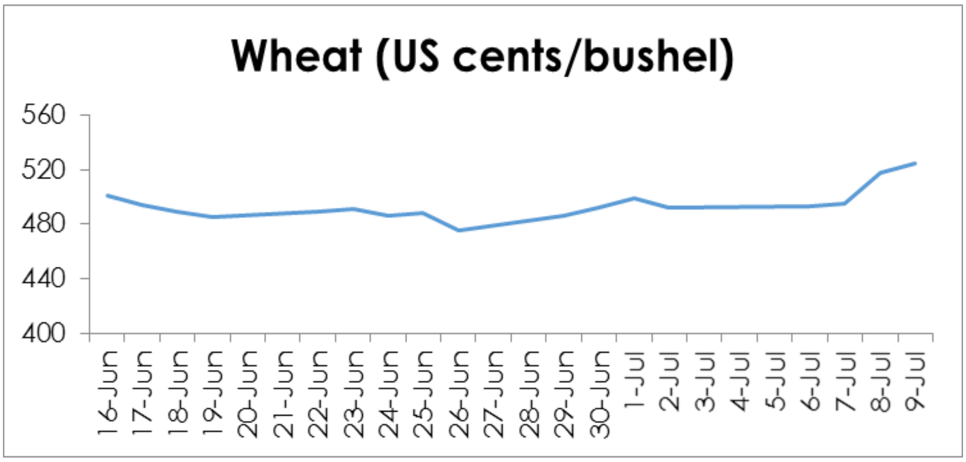
Cocoa is Nigeria's second largest non-oil export commodity. A fall in global cocoa prices will negatively affect Nigeria's export revenue.

[20] EIU
[21] Bloomberg, FDC Think Thank

Commodities Market - Imports

Wheat

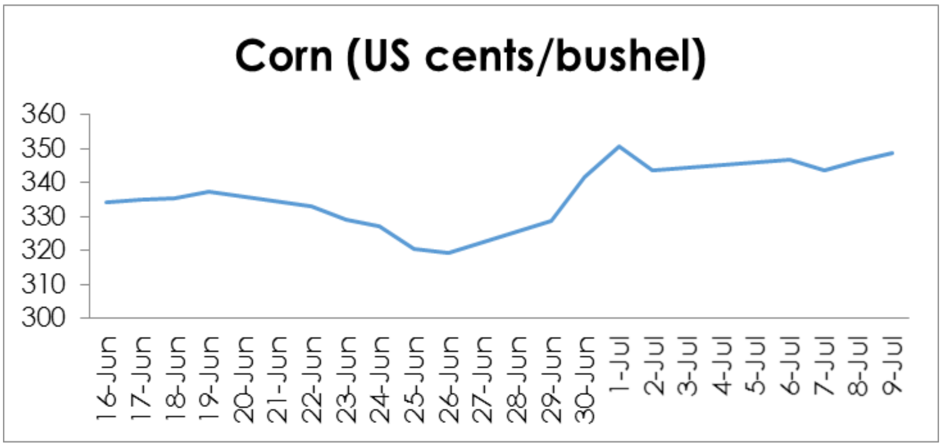
On average, wheat prices declined by 3.25% to $494.07/bushel from an average of $510.69/bushel in the corresponding period in May. The decline in price was as a result of ample wheat supply from the US and Australia.



22

Corn

Corn prices averaged $336.47/bushel during the review period, 3.87% higher than the average of $323.94/bushel recorded in the corresponding period in May. The bullish trend was supported by supply concerns amid increasing US coronavirus cases.



23

Outlook - Grains

Prices are likely to increase due to weather concerns in the US amid weak crop prospects.

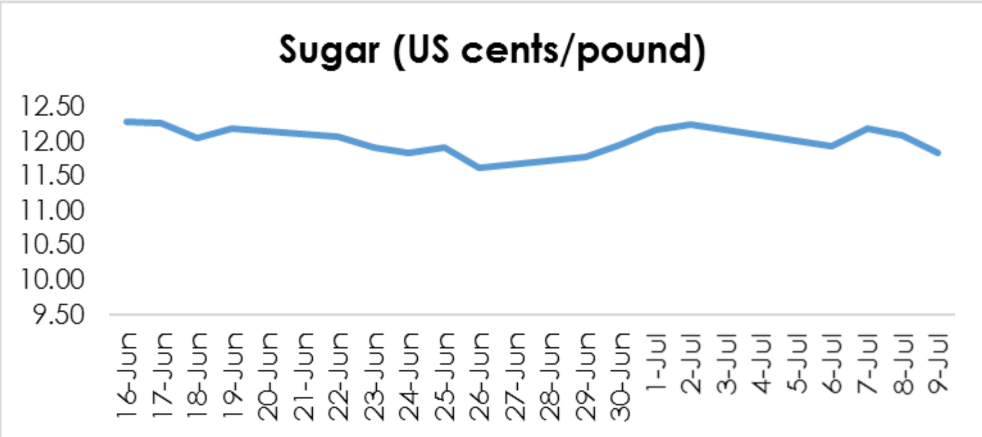
[22]Bloomberg, FDC Think Thank
[23]Bloomberg, FDC Think Thank

Impact

An increase in the price of grains will increase the import bill of the country. It will also increase the cost of production of firms who depend on grain importation.

Sugar

During the review period, the average price of sugar gained 6.65% to $12.02/pound compared to the average of $11.27/pound in the corresponding period in May. The pickup in prices was driven by increased global demand.



[24]

Outlook

With the increase in the global demand for sugar, we expect the trend in sugar prices to remain bullish in the near term.

Impact

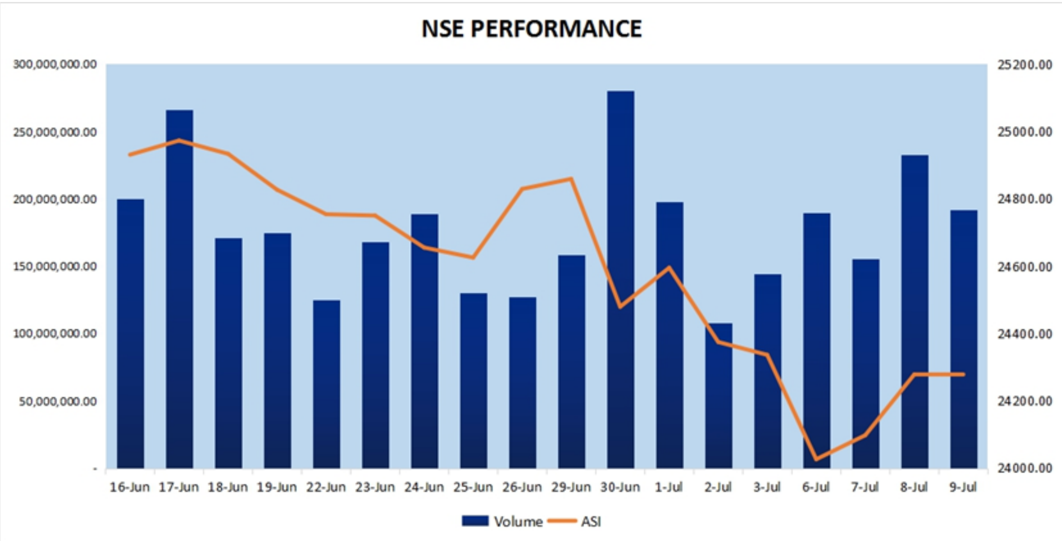
Higher global prices for sugar will lead to a rise in the input costs of sugar-producing companies and will increase Nigeria's import bill on sugar.

[24]Bloomberg, FDC Think Thank

Stock Market Review

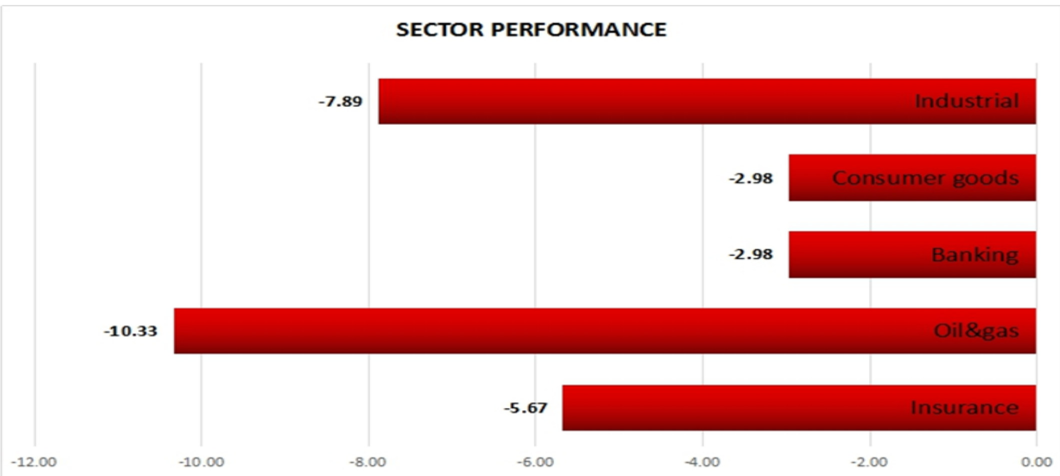
The Nigerian stock market performance was negative between the second half of June and July 9th. The NSE ASI lost 2.62% to close at 24,276.56 points on July 9th compared to close of 24,930.88 points on June 16th. Similarly, market capitalization was down 1.36% (N350bn) to N12.66trn relative to its close of N13.01trn on June 16th. Also, the market has lost 9.56% YTD so far in 2020. So far, in the 18 trading days of the review period, the market gained in 6 days and lost in 12 days.

The NSE traded at a price to earnings (P/E) ratio of 8.07x as of July 9th, 2.42% lower than the close of June 16th (8.27x). The market breadth was negative at 0.25x as 17 stocks gained, 67 lost while 79 stocks remained unchanged.



[25]

On the other hand, market activity level was negative in the review period. The average volume traded fell by 36.50% to 178.41mn units from 280.98mn units in the first half of June. Also, the average value of trades decreased by 38.46% to N2.16bn in the review period.



[26]

[25] NSE, FDC Think-Tank
[26] NSE, FDC Think-Tank

The sector indices were broadly negative during the review period. The oil & gas sector lost the most (10.33%), followed by the industrial sector (7.89%) and insurance sector (5.67%). Also, the consumer goods and banking sector both declined each by 2.98%.

Associated Bus Co Plc topped the gainers' list with a 19.15% increase in its share price. This was followed by Nestle Nigeria Plc (18.09%), First City Monumental Bank Plc (10.47%), Airtel Africa Plc (9.97%) and Regency Alliance Insurance Plc (9.09%).

TOP 5 GAINERS				
Company	Jun-16 (N)	Jul-09 (N)	Absolute Change	Change (%)
Associated Bus Co Plc	0.47	0.56	0.09	19.15
Nestle Nigeria Plc	995.00	1175	180.00	18.09
First City Monumental Bank Plc	1.72	1.90	0.18	10.47
Airtel Africa Plc	298.90	328.7	29.80	9.97
Regency Alliance Insurance Plc	0.22	0.24	0.02	9.09

[27]

The laggards were led by NPF Microfinance Bank Plc (-35.48%), GlaxoSmithKline Consumer Nigeria Plc (35.21%), Neimeth International Pharmaceuticals Plc (-33.49%), Livestock Feeds Plc (-27.14%) and Unilever Nigeria Plc (-26.76%).

TOP 5 LOSERS				
Company	Jun-16 (N)	Jul-09 (N)	Absolute Change	Change (%)
NPF Microfinance Bank Plc	1.86	1.2	0.66	-35.48
GlaxoSmithKline Consumer Nigeria Plc	7.10	4.60	2.50	-35.21
Neimeth International Pharmaceuticals Plc	2.09	1.39	0.70	-33.49
Livestock Feeds Plc	0.70	0.51	0.19	-27.14
Unilever Nigeria Plc	17.00	12.45	4.55	-26.76

[28]

Outlook

We expect the bearish performance of the market to continue especially due to the dearth of liquidity in the money markets. Investors are cash strapped. Hence, the turnover in the market is expected to decline due to low demand.

[27]NSE, FDC Think-Tank
[28]NSE, FDC Think-Tank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Analyst Recommendation: Sell

Market Capitalization: N73.82bn

Recommendation Period: 365 days

Current Price: N12.85

Industry: Consumer Goods

Target Price: N8.81

Equity Report: Unilever Nigeria PLC

Analyst note

The success of any manufacturer in the fast-moving consumer goods (FMCG) sector is dependent on volumes sold, because of low margins associated with the sector. Unilever Nigeria has been around for years and has grown to be among the big players in the domestic FMCG sector. However, the company is currently challenged. Structural issues stemming from its parent companies, coupled with domestic operational inefficiencies are the major issues facing the company. Unilever needs to ensure efficient utilization of its assets, and an efficient debt recovery system. Its cost of sales margin needs to return to an average of 68%, which will result in a higher gross margin and a reversal of the historical loss recorded for the 2019 financial year. Prior to 2019, the company had maintained an average gross margin of 31%. The gross margin fell to 7.9% for the year under review. Although, Q1 2020 shows a gross margin of 5.7% higher than that of Q1 2019, it is not certain that the impact of Covid-19 on economic activities and consumer spending will sustain such growth. Both a horizontal and vertical analysis of the company's historical records highlights how Unilever's operating efficiency diminished drastically. Compared to our target price of ₦8.81, which was based on intrinsic valuation, the current market share price is overvalued. Based on the current price of ₦12.85, our target price implies a 31.4% downside potential for the stock. Thus, we recommend a **SELL** rating on the shares of Unilever Nigeria PLC.

High credit exposure and rising impairment loss

Translating revenue income into profit became a herculean task for the management team, even before receivables more than doubled in the 2018 financial year. This significantly exposed Unilever to the risk of key distributors defaulting on the credit sales made to them. All attempts to bring receivables to their normal level (about 17% of sales as at 2015) not only failed, but also consequently affected sales volume negatively in 2019. Despite the amount subjected to be impaired with hope of recovery, receivables remain on the high side at about 40% of the total sales made for the year under review. Currently, receivables still appear to be high, but this is just the first quarter of 2020 financial year and with a transformational leader like Carl Cruz, receivables could decline by 10% and translate into cash in the coming financial year.

Declining revenue dragged by loss of market share

Since the beginning of the year under review, Unilever has been struggling to maintain an upward trajectory in its annual and quarterly revenue growth. Because of its high credit exposure in 2018, and rapid increase in provision for possible defaulters, management decided to review the company's credit policy in order to keep non-performing receivables to the barest minimum. This strategy decreased the number of major key distributors that renewed their sales contract, which resulted in a loss of market share, as new key distributors were not sufficient to cover what was lost. Thus, Unilever lost 20% of its revenue to competitors and small unlisted companies in the first quarter of 2019, and lost further in 9M'19 (63% revenue decline) after the stringent credit policy was implemented to reduce non-performing receivables. By the end of the 2019 financial year, 34% of the total revenue was lost when compared year on year. Furthermore, a 30% revenue decline was recorded for Q1 2020 despite the recorded positive impact of the panic buying in the FMCG sector earlier this year. Coupled with its inability to increase prices like it did in the previous year, Unilever Nigeria needs to re-strategize on how to win back its lost market share and improve operating efficiency in order to reverse the ₦11.7 billion operating loss recorded for the year under review.

Inefficient utilization of proceeds from deleveraging

In 2017, the management team created a rights issue of N57 billion to deleverage its books and meet a short-term cash need in its daily operations. This corporate action was a golden opportunity for the company to grow tremendously, however no significant positive change emerged from it. Although, the company's balance sheet grew significantly, its asset turnover and receivables turnover kept on diminishing.

Before the rights issue, asset turnover was approximately 1x while receivables turnover was 4.7x, in 2017 they both diminished by 27% and 16% respectively. In the year under review, they both diminished further by 17% and 19% respectively. This temporary growth solution created only immediate capital gains for investors without addressing the inefficient utilization of the company's assets, and inefficient recovery of cash from debtors. Two years after deleveraging, investors' value has been eroded. This shows that the company is not yet ready to run a debt free capital structure, it still needs some level of debt is its books for a short to medium term before embarking on such capital structure. Although some of Unilever's competitors have successfully operated a 99% equity capital management, Unilever may not be able to sustain running a 99% equity capital management. This is because the funds generated over the years were not efficiently utilized, coupled with the very thin margins of the company.

Unilever Nigeria PLC									
Pre-forecast Vs forecast		Pre-forecast	Pre-forecast	Pre-forecast	Pre-forecast	Pre-forecast	Forecast	Forecast	Forecast
Financial year ending		31 Dec 15	31 Dec 16	31 Dec 17	31 Dec 18	31 Dec 19	31 Dec 20	31 Dec 21	31 Dec 22
Statement Of Comprehensive Income									
Revenue									
Domestic		56,940,146	66,429,149	83,497,196	91,216,481	59,470,471	62,443,995	73,185,079	85,773,754
Export		2,281,602	3,347,912	1,696,173	1,683,488	1,016,364	1,027,710	1,039,183	1,059,967
Total Revenue	**₦'000**	**59,221,748**	**69,777,061**	**85,193,369**	**92,899,969**	**60,486,835**	**63,471,705**	**74,224,262**	**86,833,721**
Cost of sales		(38,174,248)	(49,481,020)	(57,679,133)	(64,674,847)	(55,737,010)	(46,314,251)	(54,160,214)	(63,361,127)
Gross profit	**₦'000**	**21,047,500**	**20,296,041**	**27,514,236**	**28,225,122**	**4,749,825**	**17,157,454**	**20,064,048**	**23,472,593**
Selling and distribution expenses		(2,844,098)	(3,151,087)	(3,790,502)	(4,239,077)	(3,151,738)	(2,980,597)	(3,485,532)	(4,077,665)
Marketing and adminstrative expenses		(13,641,218)	(11,464,146)	(11,476,201)	(14,712,986)	(13,247,563)	(11,510,415)	(13,460,361)	(15,747,051)
(Impairment loss)/ write back on trade & intercompany receiva		-	-	813	(311,443)	(200,042)	(49,240)	(49,240)	(49,240)
Other income		77,506	124,237	(16,918)	236,160	86,299	92,118	107,724	126,024
Operating (loss) / profit	**₦'000**	**4,639,690**	**5,805,045**	**12,231,428**	**9,197,776**	**(11,763,219)**	**2,709,319**	**3,176,639**	**3,724,661**
Finance income		301,889	1,027,622	1,565,263	4,026,932	2,144,815	695,637	1,095,637	339,559
Finance cost		(3,170,516)	(2,726,245)	(3,200,696)	(602,800)	(135,869)	(148,201)	(310,951)	(431,701)
(Loss) / profit before tax	**₦'000**	**1,771,063**	**4,106,422**	**10,595,995**	**12,621,908**	**(10,071,943)**	**3,256,755**	**3,961,324**	**3,632,519**
Tax credit/ (expense)		(578,697)	(1,034,537)	(3,526,251)	(3,489,756)	2,652,269	**(977,026)**	**(1,188,397)**	**(1,089,756)**
PORFIT FOR THE YEAR	**₦'000**	**1,192,366**	**3,071,885**	**7,069,744**	**9,132,152**	**(7,419,674)**	**2,279,728**	**2,772,927**	**2,542,763**
Dividend paid		**189,164.81**	**378,329.63**	**2,872,502.50**	**8,617,508.13**	-	**929,901**	**1,131,077**	**1,037,193**
Earnings pershare		**0.32**	**0.81**	**1.78**	**1.84**	**(1.29)**	**0.40**	**0.48**	**0.44**
Dividend per share		**0.05**	**0.10**	**0.50**	**1.50**	-	**0.16**	**0.20**	**0.18**

Parental Control Issues

Most multinationals strive to preserve their cultural heritage even after integrating into a domestic cultural environment. Hence, they struggle to minimize possible misalignment of the strategic position between the parent company and its subsidiary. Although Nigeria remains among the important emerging markets to the Unilever UK, the misalignment between their strategic positions remains an issue.

Unilever UK is currently at maturity and aims at creating value for shareholders by focusing on new product development and investing in emerging markets that will yield sustainable business growth. They have been known to push growth by investing and controlling medium size companies, aggressively cutting cost, and improving the efficiency of these acquisitions. Unilever Nigeria, on the other hand, focused only on aggressive sales growth and short-term growth that may not create value beyond now, which is quite different from the parent company. The resignation of the former Managing Director Yaw Nsarkoh, several months after beginning a leave of absence, can be attributed to the consequences of unsustainable growth.

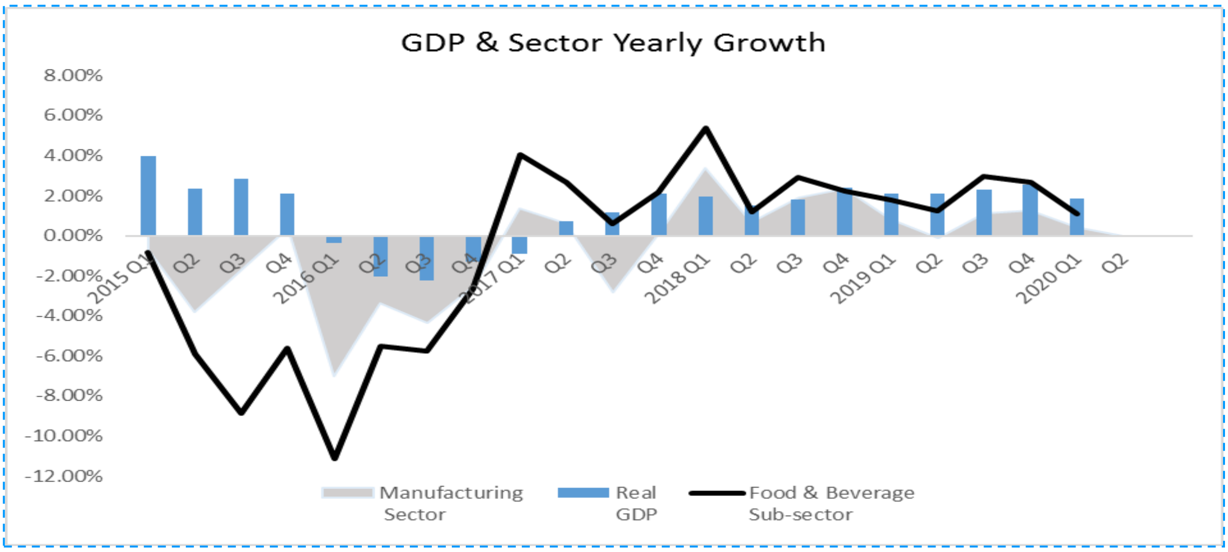
Unilever Nigeria PLC									
Pre-forecast Vs forecast		Pre-forecast	Pre-forecast	Pre-forecast	Pre-forecast	Pre-forecast	Forecast	Forecast	Forecast
Financial year ending		31 Dec 15	31 Dec 16	31 Dec 17	31 Dec 18	31 Dec 19	31 Dec 20	31 Dec 21	31 Dec 22
Statement Of Financial Position									
Non-current assets									
Property, plant and equipment	₦'000	27,368,919	29,272,186	29,880,704	29,677,539	31,957,420	32,099,440	32,116,389	33,055,652
Intangible assets	₦'000	1,168,581	940,124	705,890	448,488	225,933	699,353	1,113,949	969,721
Other non-current assets		208,809	140,160	79,486	48,353	-	2,075,536	-	-
Employee loan receivable		127,979	111,671	130,310	65,531	-			
Retirement benefit surplus		290,382	484,621	329,235	293,219	35,292	36,482	36,482	36,482
Total Non-current Assets Actuals	₦'000	**29,164,670**	**30,948,762**	**31,125,625**	**30,533,130**	**32,218,645**	**34,910,810**	**33,266,820**	**34,061,856**
Current assets									
Assets held for sale		171,411	171,411	285,740	-	-			
Inventories		6,173,113	9,878,499	11,478,532	13,928,867	11,869,295	9,157,968	10,709,392	12,528,739
Trade and other receivables		10,142,845	18,945,578	27,621,489	30,188,189	24,131,026	20,867,410	22,132,285	25,892,189
Employee loan receivables		85,201	72,918	79,384	49,005	-			
Cash and bank balances		4,435,244	12,474,141	50,493,595	57,144,182	35,458,553	37,142,191	42,898,302	42,579,395
Total Current Assets Actuals	₦'000	**21,007,814**	**41,542,547**	**89,958,740**	**101,310,243**	**71,458,874**	**67,167,568**	**75,739,978**	**81,000,322**
Total Assets Actuals	₦'000	**50,172,484**	**72,491,309**	**121,084,365**	**131,843,373**	**103,677,519**	**102,078,379**	**109,006,799**	**115,062,178**
Liabilities									
Current liabilities									
Trade and other payables		22,542,842	32,476,502	33,408,820	38,610,839	34,719,709	28,214,692	32,994,462	38,599,668
Income tax		159,840	502,855	2,799,203	4,555,820	88,375	88,375	88,375	88,375
Bank overdrafts		4,535,672	-	-	-	-	-	989,433	1,103,587
Loans and borrowings		7,426,543	20,501,276	454,528	394	-	-	1,789,433	1,103,587
Deferred income		32,756	32,756	32,756	-	-			
	₦'000	**34,697,653**	**53,513,389**	**36,695,307**	**43,167,053**	**34,808,084**	**28,303,067**	**35,861,703**	**40,895,216**
Non-current liabilities									
Deferred tax liabilities		3,060,591	3,942,337	4,484,871	3,652,125	894,439	2,913,920	728,480	728,480
Unfunded retirement benefit obligations		3,369,353	2,613,268	3,454,370	2,021,360	422,830	419,599	419,599	419,599
Long service award obligation		266,548	181,166	205,745	209,510	318,096	334,325	334,325	334,325
Other employee benefits		88,494	74,150	85,902	-	-			
Deferred income		95,537	62,781	30,025	-	-			
Loans and borrowings		591,055	414,275	219,770	3,782	705,720	2,229,290	2,155,720	1,680,720
Total Liabilities	₦'000	**42,169,231**	**60,801,366**	**45,175,990**	**49,053,830**	**37,149,169**	**34,200,201**	**39,499,827**	**44,058,340**
Equity									
Ordinary share capital		1,891,649	1,891,649	2,872,503	2,872,503	2,872,503	**2,872,503**	**2,872,503**	**2,872,503**
Share premium		45,717	45,717	56,812,810	56,812,810	56,812,810	56,812,810	56,812,810	56,812,810
Retained earnings		6,065,887	9,752,577	16,223,062	23,104,230	6,843,037	8,192,864	9,821,658	11,318,525
Total equity		**8,003,253**	**11,689,943**	**75,908,375**	**82,789,543**	**66,528,350**	**67,878,177**	**69,506,971**	**71,003,838**
Total Equity and liabilities	₦'000	**50,172,484**	**72,491,309**	**121,084,365**	**131,843,373**	**103,677,519**	**102,078,379**	**109,006,799**	**115,062,178**

Industry Overview

The consumer goods industry, a sub-sector of the manufacturing sector of the economy, plays a vital role in driving economic growth, because consumer spending is a key contributor to aggregate output, which drives growth in an economy. With the current happenings (Covid-19), slow growth in consumer income has limited spending to more essential items like household supplies (food, groceries and personal care among others), rather than non-essential items (discretional spending).

The consumer goods industry in Nigeria is generally dominated with traditional retailing, discretional spending and lots of small indigenous players competing with the long birthed multinationals like Cadbury, Nestle, Unilever, and PZ Cusson. The sector remains highly fragmented as the barriers to entry remain minimal and competition intensifies. Although buyers' power continues to supersede suppliers' power, the threat of substitution and the impact of regulatory policies on this sector remain significantly high.

On the other hand, formal retailing, like hypermarkets and e-commerce, is still challenged with digital trust, distribution channels, and high cost of shipping, infrastructure and many more issues. However, Covid-19's arrival created a paradigm shift towards how and what consumers buy with their hard earned money. Consumers are still constrained by structural economic issues like rising unemployment and inflation. Although a strong economic recovery and increased access to credit will improve consumer spending and boost consumer confidence level in the short to medium term. As lockdown measures begin to ease, companies have incorporated safety measures to encourage consumer spending and approach new routes to market that limits physical contact with consumers.



The 2018 financial year recorded positive performance for companies across this sector, because the economy recovered from the 2016 recession and the middle-income earners increased their spending. However, 2019 was the exact opposite for companies in this sector; economic growth remained weak, protectionist policies from government increased and access to foreign exchange was restricted for food imports. The performance outlook for 2020 was already constrained by an increment to 7.5% on the value-added tax (VAT), a continued land border closure and a possible hike in the electricity tariff, coupled with the expected long impact of Covid-19. Since consumer disposable income has also been affected by the pandemic, consumers have reduced their discretionary spending. Any increase in selling prices will result in further revenue decline and companies should expect thinner margins.

Corporate profile

Unilever Nigeria is a member of the Unilever Group, which is among the world's leading consumer goods companies. It creates food, home and personal care brands used by 2.5 billion people all around the world. In line with the global strategic direction of the group company, the name Unilever Nigeria PLC was birthed in 2001, stemming from a series of mergers and acquisition that brought in Lipton Nigeria Limited in 1985, Cheesebrough Industries Limited in 1988 and Unilever Nigeria Limited in 1996. It is a multinational company with international and local brands in its portfolio. International brands include Close-Up, and Pepsodent toothpaste, LUX, and Lifebuoy soap, Rexona, Vaseline lotion and petroleum jelly in the personal care unit of the business. The foods unit includes Lipton Yellow Label Tea and Knorr bouillon cubes and OMO detergent, Sunlight washing powder, Sunlight washing bar soap and Sunlight dish washing liquid in the home care unit. Other regional and local jewels include the Pears baby products range, Radiant washing powder and Royco bouillon cubes. With manufacturing sites in Oregun, Lagos state and Agbara in Ogun state, the company believes in taking small everyday actions that can make a big difference for consumers and boost its unwavering confidence to remain a major player.

Unilever Nigeria PLC									
Pre-forecast Vs forecast		Pre-forecast	Pre-forecast	Pre-forecast	Pre-forecast	Pre-forecast	Forecast	Forecast	Forecast
Financial year ending		31 Dec 15	31 Dec 16	31 Dec 17	31 Dec 18	31 Dec 19	31 Dec 20	31 Dec 21	31 Dec 22
Statement Of Cashflows									
Cash flows from operating activities									
(Loss) / profit before tax	₦'000	1,771,063	4,106,422	10,595,995	12,621,908	(10,071,943)	3,256,755	3,929,824	3,611,519
PBT- discontinued operations				611,218	2,230,814	-			
Adjustments for non-cash items									
Depreciation of PPE		1,906,568	2,313,444	4,099,064	2,672,245	4,265,782	1,837,098	1,953,383	1,876,365
Assets / Bad debt write off		10,132	2,656	-	74,523	-			
Profit on disposal of PPE		(77,506)	(8,189)	18,026	(159,890)	(23,543)			
(Gain) on sale of discontinued operation				-	(1,971,090)	-			
Impairment charge		433,659	-	-	(1,039,641)	200,042			
Amortisation of intangible assets		233,483	233,945	234,234	257,402	222,555	(26,580)	(85,404)	(144,227)
Interest income		(301,889)	(333,174)	(1,201,042)	(4,026,932)	(2,144,815)	(695,637)	(1,095,637)	(339,559)
Interest expense		3,170,516	2,721,135	1,167,929	602,800	135,869	(148,201)	(342,451)	(452,701)
Exchange loss/ (gain) on intercompany loan		-	(509,882)	592,863		-			
Net charge in retirement benefit obligations		647,835	708,941	564,188	692,385	342,823	48,208	48,208	48,208
Long service award obligations		(62,244)	(67,921)	45,822	34,863	142,360	80,408	80,408	80,408
Satute barred dividend		140,413	61,231	78,901	-	317,670			
Change in employee loan receivables		(7,617)	28,591	(25,105)	95,158	114,536			
Other employee benefits		44,390	(14,344)	11,749	(85,902)	-			
Derivative gain on forwards				(285,740)	-	-			
Decrease in other non-current assets		189,411	68,649	60,674	31,133	48,353			
	Naira '	**8,098,214**	**9,311,504**	**16,568,776**	**12,029,776**	**(6,450,311)**	**4,352,051**	**4,488,332**	**4,680,012**
Changes in working capital									
Increase in trade and other receivables		(1,598,414)	(8,802,733)	(8,675,911)	(2,566,700)	6,057,163	3,263,616	(1,264,875)	(3,759,904)
(Increase)/ decrease in inventory		2,441,484	(3,705,386)	(1,600,033)	(2,450,335)	2,059,572	2,711,327	(1,551,425)	(1,819,346)
Increase in payables and accrued expenses		7,431,679	9,930,884	932,318	5,153,343	(6,685,396)	(6,505,017)	4,779,769	5,605,206
Cash generated from operations		16,372,963	6,734,269	7,225,150	12,166,084	(5,018,972)	3,821,978	6,451,801	4,705,968
Retirement benefits paid		(529,948)	(567,002)	(567,951)	(2,190,856)	(2,302,786)	(65,892)	(16,473)	(16,473)
Long service award obligations paid		(13,079)	(17,461)	(21,243)	(31,098)	(33,774)	(15,492)	(15,492)	(15,492)
Tax paid		(239,989)	(159,300)	(598,165)	(3,000,960)	(4,168,785)	(977,026)	(1,178,947)	(1,083,456)
Net cash generated from operating activities	**₦'millio**	**15,589,947**	**5,990,506**	**6,037,791**	**6,943,170**	**(11,524,317)**	**2,763,567**	**5,240,889**	**3,590,547**
Cash flows from Investing activities									
Interest received		301,889	333,174	1,201,042	3,431,603	2,144,815	695,637	195,637	339,559
Purchase of intangible assets		(4,027)	(5,488)	-	-	-			
Purchase of PPE		(5,068,498)	(4,228,146)	(4,559,238)	(5,395,511)	(6,511,071)	(1,655,831)	(433,063)	(2,699,229)
Proceed from disposal of assets		86,094	16,967	5,043	5,057,411	32,362			
Net cash used in investing activities	**₦'millio**	**(4,684,542)**	**(3,883,493)**	**(3,353,153)**	**3,093,503**	**(4,333,894)**	**(960,194)**	**(237,426)**	**(2,359,670)**
Cashflows from Financing activities									
Repayment of long-term loan		(440,738)	(427,145)	(33,450,744)	(536,533)	(4,176)	925,000	525,000	(475,000)
Drawdown of loans and borrowing		15,000	15,491,446	17,529,069	-	-	1,900,000	1,500,000	500,000
Interest paid		(2,983,286)	(2,410,357)	(1,113,126)	(25,726)	-	(148,201)	(342,451)	(452,701)
Net proceed from rights issue		-	-	57,747,947	-	-			
Dividend paid		(378,330)	(186,388)	(378,330)	(2,872,503)	(5,820,974)	(2,796,534)	(929,901)	(1,122,083)
Net cash used in financing activities	**₦'millio**	**(3,787,354)**	**12,467,556**	**40,334,816**	**(3,434,762)**	**(5,825,150)**	**(119,735)**	**752,648**	**(1,549,784)**
(Decrease)/Increase in cash and cash equivalents		7,118,051	14,574,569	43,019,454	6,601,911	(21,683,361)	1,683,638	5,756,111	(318,907)
Impact of foreign exchange movement on cash balance					48,676	(2,268)			
Cash and cash equivalents at beginning of year		(14,218,479)	(7,100,428)	7,474,141	50,493,595	57,144,182	35,458,553	37,142,191	42,898,302
Cash and Cash Equivalents at year end Actu	**₦'millio**	**(7,100,428)**	**7,474,141**	**50,493,595**	**57,144,182**	**35,458,553**	**37,142,191**	**42,898,302**	**42,579,395**

Governance

The board of Unilever Nigeria consists of seasoned professionals with good knowledge (both company and industry knowledge) and technical skills in the consumer goods space. The management of Unilever Nigeria has had to review its strategy not only because of the likely impact of Covid-19, but also to amend its structural and operational issues. It reiterated the company's commitment to compete and grow sustainably, as it improves shareholders' value and its environmental footprint. Hopefully, revised cost control policies will positively impact the company and reverse the recorded poor performance.

Unilever Nigeria's board is led by His Majesty Nnaemeka A. Achebe CFR, MNI, Obi of Onitsha. He is a well-travelled monarch, with extensive leadership experience having served as director on numerous company boards. Likewise, other directors like Mr Chika Nwobi, Mr Felix Enwemadu, Mrs Abiola Alabi, Mrs Ammuna Lawan Ali, Mr Atedo N.A. Peterside, Mrs Adesola Sotande-Peters, Mr Mutiu Sunmonu and Mr Carl Cruz are all experienced and specialists in their various fields.

Mr. Carl Raymond R. Cruz, a Filipino is the managing director of Unilever Nigeria. He holds a Bachelor of Science degree in Marketing from De La Salle University, Philippines. He comes with an extensive career in Unilever D & E Markets in Asia (Philippines, Thailand, India and Sri Lanka). Since joining Unilever in 1992, Carl has gained over 26 years experience working in customer development and in marketing roles across home care, beauty & personal care and foods. Most recently, as Chairman of Unilever Sri Lanka, Carl successfully steered the business to a sustainable and competitive growth trajectory.

More than 70% of Unilever Nigeria's ownership is strategically owned by these parent companies; Unilever Oversees Holdings BV Holland (UK) and Unilever Oversees Holdings BV control 72.32%, while Stanbic Nominees Nigeria Limited through a cumulative holding, controls 7.59% of the total shares. The parent companies (Unilever UK and Unilever NV) retain a strong grip on the company, as the initial strategic intent to grow their holdings from 50.4% to 75% of Unilever Nigeria is almost a reality. Coupled with the on-going legal structure unification between the two parent companies to emerge Unilever PLC as the single parent company for the group. This demonstrates the commitment from parent company and growth potential of the Nigerian market.

Chairman

His Majesty Nnaemeka A. Achebe CFR, MNI

Managing Director

Mr. Carl Raymond R. Cruz

Bulls and Bears say

Bulls Say:

- Strong brand equity
- Large footprint in Nigeria
- Strategic alliance and support from parent companies provide a competitive advantage
- Potential to increase forex earnings by intensifying export drive
- Move to achieve 100% local sourcing by 2020 would reduce costs
- Growing awareness and sophistication to drive sales in personal care segment

Bears Say:

- Maturing food product segment and intense competition
- Difficult operating environment
- Weak consumer spending
- Increasing competition from smaller brands
- Cost containment remains a key constraint
- Slow economic growth
- Increase in parent company control to threaten minority shareholders' interest
- High import dependence exposes Unilever Nigeria to forex volatility

Risk and outlook

After a thorough analysis of Unilever's books and management process, we can see the importance of good leadership. The misalignment between the group and Unilever Nigeria can be attributable to internal issues stemming from the on-going legal structure unification between the two parent companies. As a result, the company's aim to achieve more sustainable growth was not well executed, which resulted into unsustainable aggressive sales growth with consequences.

Unilever imports a greater percentage of its material inputs and services, hence the negative impact of the pandemic on supply chain will compel the company to source local alternatives, thereby minimizing the company's exposure to market and currency risk to the barest minimum, if the product outcome suits its customers taste preference.

Known for being a transformational leader, Carl Cruz the new MD, is expected to steer the company towards competitiveness, resilience and achieving sustainable business growth. This will be accomplished by minimizing the impact of supply chain disruptions on the company's operations, ensuring adequate liquidity and prompt recovery of cash from distributors, revising partnership with key stakeholders, and developing alternative suppliers and restructuring existing payment terms.

Valuation Summary

Using Discounted Cash Flow (DCF) methodology, we estimated a stock price of ₦8.81, which is a 31.4% decline from the current price of stock of ₦12.85 as at July 21, 2020. With a discount rate (Weighted Average Cost of Capital (WACC)) of 18.9% derived using a 12.5% risk free rate (FGN 15-year Bond as at June 17, 2020), a Beta of 0.80, after cost of debt of 14.7%, and a market risk premium of 7.89%. The long-term cash flow growth rate to perpetuity (4.8%) was derived by multiplying the average return on equity of 8% by the retention rate of 60%.

DCF Valuation for Unilever Plc					
Naira '000'	**2020E**	**2021E**	**2022E**		
EBIT	2,709,319	3,176,639	3,724,661	**WACC**	
Less: Taxes	(977,026)	(1,178,947)	(1,083,456)	Debt-to-Total Capitalization	1.0%
EBIAT	1,732,293	1,997,691	2,641,206	Equity-to-Total Capitalization	99.0%
Plus: depreciation expense	1,837,098	1,953,383	1,876,365	Interest Expense as a % of debt	21.00%
Less: CAPEX	(1,655,831)	(433,063)	(2,699,229)	Cost of Debt	21.00%
Less: Change in working capital	530,073	(1,963,470)	(25,956)	Tax Rate	30.00%
Free Cash Flow (FCF)	2,443,633	1,554,542	1,792,386	**After-tax Cost of Debt**	14.7%
WACC	18.9%	18.9%	18.9%		
Present value (PV) of FCF	2,443,633	1,307,608	1,268,182	Risk-free Rate	12.50%
				Market Risk Premium (Rm-Rf)	8.00%
				Beta	0.8036
Terminal value @ perpetual growth rate (2020)	**2020**	**2021**	**2022**	**Cost of Equity**	18.9%
Terminal value as of 2020	-	-	13,336,875	**WACC**	18.9%
Present value of terminal value	9,436,355				
2020				Infinite growth rate	4.8%
DCF Calculation	**Valuation**			Payout ratio	40.0%
PV of explicit period	5,019,423			Retention rate	60.0%
PV of terminal value	9,436,355			Return on Invested capital	8%
Enterprise Value	14,455,778			Total Capital	67,234,070
+ Cash	35,458,553			EBIT	(11,763,219)
- Borrowings	705,720				
Equity value	50,620,051				
Share Price ₦	**8.81**				
Shares outstanding ('000)	5,745,005.42				

Economic Outlook

In the coming month, Q2 GDP report is scheduled to be released on August 26. This will be a key economic data point showing the extent of the economic fallout of the pandemic. We expect Q2 GDP to contract to -2.5% owing to the pandemic-induced slowdown in economic activities across most sectors. The hardest hit sectors will be aviation, education and hospitality services. On the other hand, sectors such as telecommunications will be bright spots in the growth report.

Other indicators and business proxies to watch out for in the short term include inflation, exchange rate and PMI. Inflationary pressures are expected to persist amidst the planting season and exchange rate pass through effect. We estimate inflation climbing to 12.7% - 12.8% by July-end.

With the gradual reopening of the Nigerian economy and other economies globally and regionally, manufacturers are able to restock their inventories. This could push the PMI reading above 55pts in July but it is unlikely to affect the contraction in Q2 GDP growth. Q3 numbers will remain in negative territory albeit an improvement from Q2.