Volume 11, Issue 03

February 18, 2021

FDC MONTHLY ECONOMIC UPDATE

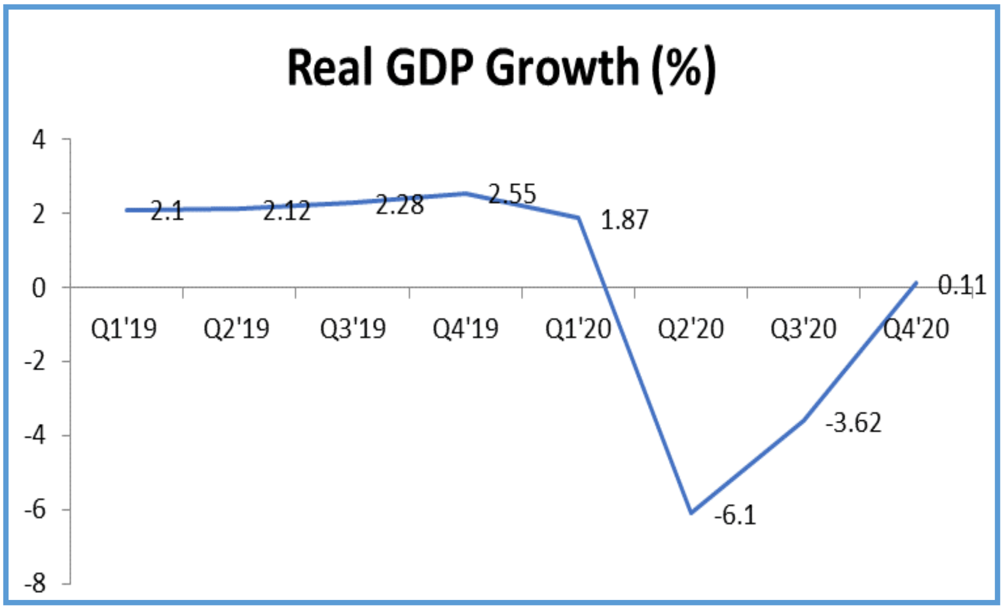
A Financial Derivatives Company Publication

☏:01-2715414, 6320213; Email: info@fdc-ng.com; Website: www.fdcng.com

In This Issue ...

Recession over as Nigerian economy surprisingly records positive growth of 0.11% in Q4'20

The just released GDP growth numbers affirm the fact that the Nigerian economy is on its recovery path. Contrary to market expectations, the Nigerian economy recorded positive growth of 0.11% (year-on-year) in Q4'20 after two consecutive quarters of negative growth. This puts full year growth for 2020 at -1.92% and implies that the recession is over. The surprise recovery was driven by the resumption in most business activities. The number of sectors that expanded increased from 14 in Q2 to 21 in Q3 and 29 in Q4. The fourth quarter is typically the fastest growing quarter in the year due to increased consumer spending during the festive period. However, 2020 was different because of the impact of the lockdown on revenues and livelihoods, which significantly lowered consumer spending in comparison to previous years. In Q4, the EndSARS impact was muted and the border reopening happened late in the quarter. The full impact of the border reopening will be felt in Q1'21. Forex rationing had an impact on manufacturing, which contracted by -1.51% and is a major employer of labour.



Oil and Non-oil Sectors

The oil sector contracted further, recording a negative growth rate of 19.76%. This was on the back of sharply lower oil production levels of 1.56mbpd compared to 1.67mbpd in Q3'20 and 2mbpd in the corresponding period of 2019. The reduction in Nigeria's oil output could be linked to its gradual movement towards adhering to its OPEC quota of 1.4mbpd. The sector's contribution to GDP also fell further to 5.87% from 8.73% in the preceding quarter and 7.32% in Q4'19. In 2020, the oil sector grew at -8.89% compared to 4.59% in 2019.

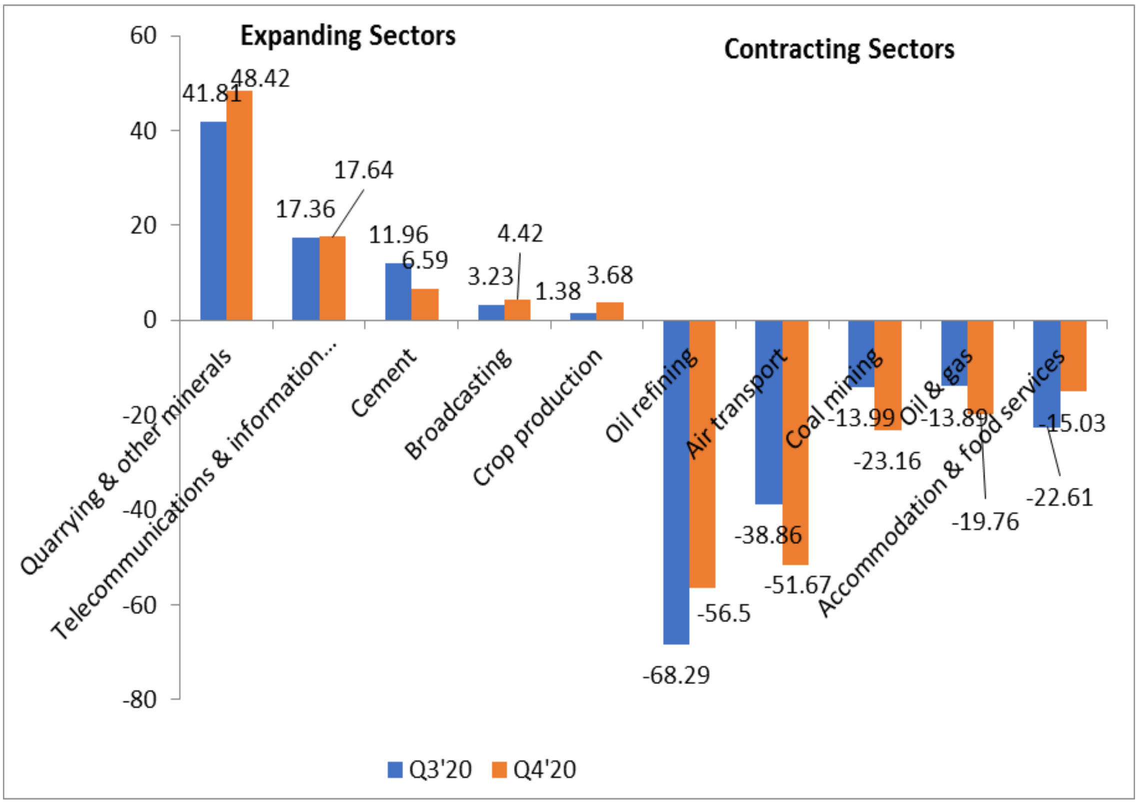
The non oil sector on the other hand returned to positive growth territory of 1.69% from -2.51% in Q3'20. However, this was a slower pace of growth when compared to Q4'19 of 2.26%. The non oil sector posted a full year growth of -1.25% compared to 2.06% in 2019. The sector's contribution to GDP increased to 94.13% from 91.27% in Q3'20 and 92.68% in Q4'19. The sector's positive performance was largely driven by the information and communication sector, agriculture (crop production), real estate and construction.

Sector breakdown – 29 positive, 17 negative (more sectors shifting into positive territory)

The number of sectors that moved into positive territory increased to 29 from 21 in Q3'20, while 17 were in negative territory (Q3'20: 25). This is indicative of the ongoing recovery process, coupled with seasonal factors.

Drivers of growth the usual suspects- services related

The fastest growing sectors are in the service business- quarrying & other minerals (48.42%), telecommunications & information services (17.64%), cement manufacturing (6.59%), broadcasting (4.42%) and crop production (3.68%). These top five sectors have a cumulative nominal contribution of 34.46% to total GDP. Meanwhile the laggards include oil refining (-56.5%), air transport (-51.67%), coal mining (-23.16%), oil & gas (-19.76%) and accommodation & food services (-15.03%). These sectors are still reeling from the impact of the lockdown and other restrictive measures still in place.



What does this mean for the policy environment in 2021?

The Nigerian economy is off to a strong start post-covid with the positive Q4'20 growth numbers. It is safe to say that the combination of the fiscal stimulus packages, accommodative monetary policy and other relief plans, have achieved the desired objective. This means that the central bank's focus can now shift to other pressing issues such as price and exchange rate stability, whilst ensuring that output levels are boosted.

The MPC left its policy stance unchanged at its first meeting of the year. It cited quickening the pace of the recovery through CBN interventions and targeted/ sustained fiscal spending as its current priority. The return to positive growth provides the monetary policy committee, of the CBN, with some headroom to strongly consider a different course of action. This may occur in the second half of the year, when the Q1 and Q2 2021 growth numbers would have been released and would confirm or refute the recovery process. Already, interest rates at the primary and secondary markets are on the increase, with the CBN using more of the orthodox monetary policy tools at its disposal to mop up liquidity.

On the fiscal front, the federal government's increased infrastructure drive cannot be occurring at a more opportune time. Collaborating with the private sector and other stakeholders to develop an infrastructure development agenda, to bridge the burgeoning infrastructure gap, will provide the necessary impetus required to support the recovery process.

Outlook

The recovery process in 2021 is expected to be gradual and tough, especially for sectors such as trade and manufacturing that are income elastic and forex dependent. We expect the CBN to ease its forex rationing and boost dollar supply in the forex market. This, coupled with the ongoing naira convergence, should provide some respite for these sectors.

The agriculture sector, which has been able to withstand the health pandemic, is facing a new and probably more severe crisis- growing insecurity. With the spread of attacks and tribal clashes to the South West, if left unchecked, agricultural output will reduce sharply. More so as it coincides with the planting season (end of Q1 into Q2), which is when output is typically lower. Civil works and construction activities will ride on increased government focus on bridging the infrastructure gap, while the likes of ICT and financial services will benefit from the increased use of data and electronic platforms to transact economic and business activities.

In summary, the GDP growth rate will rise this year but at a slow pace due to lingering structural challenges. The AfCFTA, border reopening, higher oil prices and availability of the vaccines will support the growth trend.

Based on the above, we expect that the policy thrust of the government will become more focused on ensuring price and exchange rate stability as output levels increase. This means that we are likely to see interest rates increase further in subsequent quarters.

Rapid urbanization and urban development: Implications for housing in Lagos state

Urbanization has been a key force of economic development throughout Nigeria and the world. Rural-urban migration provides access to employment and business opportunities, good healthcare, education, communication, transportation, and security. Globally, 55.3% of the world's 4.2 billion people lived in urban areas in 2018. By 2050, that percentage is projected to reach 68% according to a United Nations report.[1] Nigeria's urban population already makes up over 50% of its +200 million population; it is expected to add 189 million urban dwellers by 2050.[2]

Rural migrants are flocking to urban centers. This is particularly the case in Lagos state, Nigeria's economic and industrial hub. Its urbanization rate is about 5.8% per annum; it was ranked the 18th largest city in the world in 2018. However, the urban planning and development policies driving Lagos's megacity aspirations are disconnected from the livelihood realities of the majority in the state.[3] It is important that Lagos places a higher priority on housing in its overall development plan, as most of its population are poor, rural migrants and slum dwellers.

[1]United Nations. 2018 "The World's Cities in 2018-Data Booklet". https://www.un.org/en/events/citiesday/assets/pdf/the_worlds_cities_in_2018_data_booklet.pdf
[2]Ibid
[2]Oluwafemi, A. O. et al. 2018. "The realities of Lagos urban development vision on livelihoods of the urban poor". https://doi.org/10.1016/j.jum.2018.03.001

Lagos state: Case study

Lagos has grown from a tiny fishing village in the late 15th century to a state of more than 22 million residents today and is the most populous city in Nigeria. It occupies 3,577 km^2 making it the smallest state in the country by land mass. 21% of Lagos is wetlands consisting of creeks, lagoons and rivers.[4] Its concentration of industry, commerce and administration of capital, labor and technology accounts for over 60% of Nigeria's activities. It has experienced a much faster growth rate than any other urban center in the country.[5] In 1985, it was ranked the 31st largest city in the world, with a population of 5.8 million; in 1990, the population increased to 7.7 million, making it the 22nd largest city in the world.[6] The metro area population of Lagos was roughly 13.5 million as of 2018, making it the 18th largest city in the world.[7]

Lagos has been a powerful generator of national economic growth, contributing over 30% of Nigeria's gross domestic product (GDP). The development goal of the state is to become 'a model African megacity' and a global economic and financial hub that is safe, secure, functional, and productive. However, the urban development policies and regulations driving this megacity aspiration are disconnected from the realities of the majority.

[4]Ikechukwu, I & Isaac, B. 2019. "Lagos State Government: 2019 Municipal Rating Review Report". Agusto&Co. https://www.google.com/url?sa=t&source=web&rct=j&url=https://www.fmdqgroup.com/wp-content/uploads/2020/01/ISSUER-RATING-241219-Agusto-Co-Lagos-State-Bond.pdf&ved=2ahUKEwjD6dPqtYbtAhVJa8AKHQGuCWQQFjABegQICxAF&usg=AOvVaw1jjkaOqGLEu2IpiF-BrVWU
[5]Ibid
[6]UN-HABITAT. 2004. "The Challenges of Slums." UN-HABITAT's Global Report on Human Settlements. http://www.unhabitat.org/global_report.asp.
[7]United Nations. 2018 "The World's Cities in 2018-Data Booklet".
https://www.un.org/en/events/citiesday/assets/pdf/the_worlds_cities_in_2018_data_booklet.pdf

For the most part, people in Lagos are poor, rural migrants who live in informal and slum settlements with high infrastructure costs, habitat fragmentation, water and air pollution and reduction in overall quality of life.[8] Urbanization tends to increase land values and subsequently rental costs which poor migrants, the majority of Lagos's population, often cannot afford.[9] These settlements are often targeted for demolition under the cloak of urban development, which in most cases comes with no compensation or alternative living arrangements[10], leading to the displacement of the dwellers.

There is already a housing deficit of more than 17 million units.[11] Meanwhile, Lagos Affordable Public Housing (LAPH), an ongoing private-public partnership, intends to construct 20,000 affordable housing units within five years (2017–2022).[12] However, the scope of delivery is either not known or masked in a muddle. Given that many of these sub-par residential settlements require significant renewal investment, the shortage of decent affordable housing presents a good opportunity for prospective private sector players to improve the capacity of the construction sector to address these needs. The architectural design should drive affordable solutions and provide economies of scale through which large-scale production could be optimized. In addition, government intervention is needed in Lagos state to provide subsidized credit, cooperative housing and social support programs.[13]

[8]Oluwafemi, A. O. et al. 2018. "The realities of Lagos urban development vision on livelihoods of the urban poor". https://doi.org/10.1016/j.jum.2018.03.001
[9]John Campbell. 2019. "Middle Class Nigerians Struggle to Afford Housing in Lagos". COUNCILonFOREIGNRELATIONS. https://www.cfr.org/blog/middle-class-nigerians-struggle-afford-housing-lagos
[10]Ibid
[11]BBCNEWS. 2017. "Lagos living: Solving Nigeria's megacity housing crisis" https://www.bbc.com/news/amp/world-africa-38688796
[12]Heinrich Boll Stiftung. 2018. "Urban Planning Processes in Lagos: Policies, Laws, Planning Instruments, Strategies and Actors of Urban Projects, Urban Development, and Urban Services in Africa's Largest City." https://www.academia.edu/38614035/URBAN_PLANNING_PROCESSES_IN_LAGOS_Policies_Laws_Planning_Instruments_Strategies_and_Actors_of_Urban_Projects_Urban_Development_and_Urban_Services_in Africa_s_Largest_City_Second_Revised_Edition_2018_19
[13]Ibid

Lessons from Brazil and Egypt

A close examination of Brazil and Egypt provides important insights about urban development process and policy with greater emphasis on housing. Both countries have large populations (approximately 211 million in Brazil and 100 million in Egypt in 2019), and both were long classified as "over-urbanized" countries. Brazil and Egypt had similar challenges with predominantly informal and slum settlements in the urban cores several decades ago. Nevertheless, the two countries have had success in implementing appropriate urban development frameworks, such as community-based and city-wide upgrading programs, private-public partnerships and an elaborate national housing policy.

Brazil, for instance, rebuilt its urban governance policy to accommodate the participation of all urban dwellers in decision-making processes, which played a decisive role in affirming the socio-political right to adequate housing. The 'City Statute', a 2001 federal law that governs urban development, explicitly requires the participation of residents in the urban planning process.[14] In addition, Brazil's social housing program, Minha Casa, Minha Vida (My House, My Life) launched in 2009, in combination with the Growth Acceleration Program for Slum Upgrading effective from 2007, is a notable example of housing development in the country. These programs primarily target low-income groups and slum dwellers. At the same time, there are curative and preventive measures to develop the prevalent inadequate housing conditions in slums and minimize both the growth of existing ones and the emergence of new ones.[15] A robust policy of initial subsidy grants and enhanced housing credits, benefiting from a steady economic growth and a well-focused social agenda for Brazil, culminated in the success of these initiatives.

The low prevalence of slums in Egypt reflects its long-term political commitment to slum upgrading, slum prevention and housing alternatives for the urban poor.[16] The Egyptian government's initiative of slum upgrading, which began in Hai El Salam, Ismailia in 1978, is a pioneer in international best practice. The strategy that was used in this context was to allow the slum dwellers to upgrade their houses incrementally.

[14]Fernanad Magalhães, et al. 2013. 'Slum Upgrading: Lessons Learned from Brazil.' Inter-American Development Bank. https://publications.iadb.org/en/slum-upgrading-lessons-learned-brazil

[15]UN-Habitat. 2013. "Scaling Up Affordable Housing Supply in Brazil: The 'My House, My Life' Program." United Nations Human Settlements Program. https://unhabitat.org/sites/default/files/download-manager-files/Scaling-up%20Affordable%20Housing%20Supply%20in%20Brazil.pdf

[16]Arimah, Ben C. 2010. 'Slums as Expressions of Social Exclusion: Explaining the Prevalence of Slums in African Countries.' United Nations Human Settlements Program (UN-Habitat).
https://www.researchgate.net/publication/228856797_Slums_As_Expressions_of_Social_Exclusion_Explaining_The_Prevalence_of_Slums_in_African_Countries

In Lagos state, it is worth exploring this instance of self-redevelopment of a slum with minimal government interference, particularly in view of the limited resources available to the government. In Egypt, non-governmental initiatives for slum upgrading were also implemented in the 2000s through influential non-governmental organizations. They introduced valuable pilots for on-site redevelopment of homes for the slum dwellers as an alternative to the predominant approach of local governments resettling slum dwellers in new remote locations. As the region became more developed, the initial poor-quality homes were completely replaced by high-quality, well-designed dwellings over time.[17]

How Lagos can integrate the complex realities of the majority into its development goal

Investment in upgrading programs: Implementing citywide, slum-upgrading programs that can improve the housing conditions and the quality of life in existing slums in Lagos is a first and crucial step for the state government to achieve urban modernity. Just like Egypt, Lagos state government should allow self-redevelopment of slums with financial support where needed and in so doing, offer the slum dwellers the prospect of contributing a significant share of domestic capital formation through self-built housing.

Comprehensive development plans: Secondly, urban development plans need to be modified around citizen participation, which could be adopted by the local government councils. The transparency in the planning process is central for promoting urban development in Lagos. For instance, in approaching affordable housing delivery in a large city like Lagos, multiple housing delivery outlets are required. This will be difficult to implement without the participation of urban dwellers.

Innovations: Everyone in urban centers is affected by the problem of urban slum growth. It, therefore, should be the responsibility of both the public and private sectors to create innovative methods, like mixed use and low-income housing, for decent affordable homes for the residents of the state, especially those within the low-income bracket. Also, policies enabling investment in quality housing, such as a real estate finance support scheme, should be considered by the state government in order to prevent the rise in slums and informal settlements in the future.

[17] AUC (American University in Cairo). 2014. 'Egypt's Strategy for Dealing with Slums.' http://schools.aucegypt.edu/Sustainability/CSD/Documents/Community/AUC%20Report%20web%20file%2020-2.pdf

Conclusion

Urban areas are considered to have multifaceted roles in nations. They are at the center of a nation's technical advancement and economic growth as seen in Lagos state. That is why populations will continue to move to urban settings. Thus, the Lagos state government and development agencies should focus on adapting to the trend of urbanization.

Global Perspective - culled from the FT

Nigeria infrastructure splurge to boost economy

Buhari launches big-ticket rail projects as critics complain about focus on north and lack of transparency

Nigeria's government is stepping up a drive to improve its decrepit infrastructure with a series of billion dollar projects as President Muhammadu Buhari seeks to pull Africa's largest economy out of its worst recession in 40 years.

While the move should boost an economy hit by plunging oil prices and the coronavirus pandemic, critics have complained that they favour his native north and question a lack of transparency as well as the involvement of Chinese backers.

The government this month broke ground on a $2bn internationally-funded rail line connecting the country's north to neighbouring Niger, and announced it was forming Infraco, a public-private infrastructure fund with N1tn ($2.6bn) in seed capital from the Central Bank of Nigeria, Nigeria Sovereign Investment Authority and the Africa Finance Corporation, a mostly privately owned pan-African project finance firm.

Next month, it expects to start work on a $3bn railway line that would link the country's east side, from oil-rich Port Harcourt in the south to Maiduguri in the north. "The president is trying to grow all the sectors of the economy that would improve and increase production — he's focusing on power, on roads, on transportation, and rail networks and maritime," said minister of transport Rotimi Amaechi.

Africa's largest crude producer has generated billions of dollars in oil revenues each year for decades, but has little to show for it developmentally — its ports are congested, its road network decrepit, its rail system almost nonexistent and its power grid too weak to carry even a fraction of the meagre amount of electricity it generates.

The Buhari administration's latest moves will barely make a dent in the $3tn Moody's estimates that Africa's largest economy will need to spend over the next 30 years to close its infrastructure gap.

Still the rail connection to Niger — being built by Portuguese firm Mota-Engil and with financing structured by organizations including Credit Suisse — could be a "game-changer" for Africa's biggest economy that "will allow Nigeria to become a clearing house for trade all over West Africa", said Amaka Anku, Africa director at Washington-based consultancy Eurasia Group.

However, while the infrastructure drive was "commendable", Idayat Hassan, director of the Abuja-based Centre for Democracy and Development, voiced concerns about the process. "The contracting process is also quite opaque and. . . seen as a conduit for corruption," she added.

Some critics argue that a rail connection to Niger, one of the world's poorest countries with a gross domestic product about one-fortieth the size of Nigeria's, is a poor use of scarce government resources. The focus on the country's north, Buhari's home region, has upset others.

"There's a clear political imperative to apportion infrastructure projects on the basis of political and ethnic loyalty," said Cheta Nwanze, partner at Lagos-based consultancy SBM Intelligence. "Most of the administration's big ticket projects have been in the North: that's far from a coincidence."

Amaechi, a former governor in the oil-rich Niger Delta region in the south, points to the recently completed Lagos-Ibadan railway, along with major port and road projects in the south.

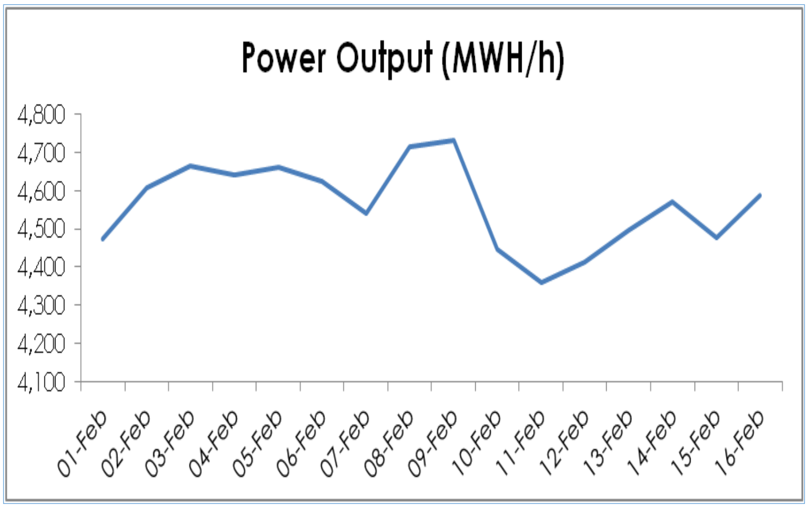
Some of the projects — Lagos-Ibadan rail, airport terminals, a gas pipeline and two highways — are being built by Chinese construction companies and partly financed by Chinese loans. The legislature approved Buhari's plan to borrow $22.7bn last year, including $17bn from the China Exim Bank. Critics have called for greater transparency. "The use of foreign loans to finance the infrastructural drive without adequate oversight remains a challenge," Hassan said.

Future projects will be funded by Infraco, which the government said expects to grow to N15tn in the coming years. The government is also likely to tap international debt markets to finance the infrastructure drive, said minister of works Babatunde Fashola. "Most, if not all our external borrowing and fundraising is really to finance the deficit created by our commitment to infrastructure expansion."

Macroeconomic Indicators Feb 1st-17th

Power Sector

Average power sent out from the national grid during the review period was 4,564MWh/h, 1.97% above 4,476MWh/h recorded in the corresponding period of January. Gas remained the dominant constraint to power generation and average water constraints stood at 270.28MW.



[18]

Outlook

As the rainy season commences, we expect an increase in hydropower generation. The combined effects of water, gas and grid constraints would weigh on total power output from the national grid in the near term.

Impact

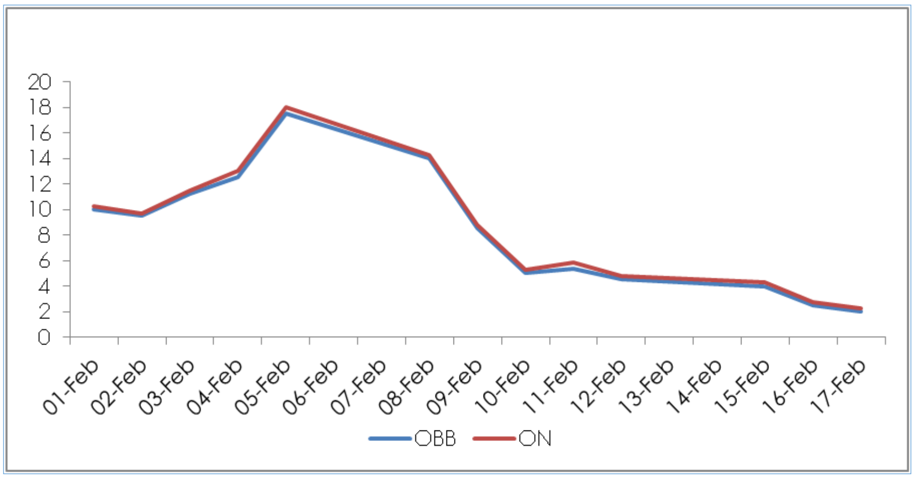
A decline in power supply would negatively affect the productivity of households and businesses. It points to an increase in the use of alternative energy sources like generators and this would increase both living and operating costs as the pump price of PMS climbs.

Money Market

In the review period, average opening position decreased by 52.39% to N298.63bn from N627.25bn in corresponding period in January. However, total OMO sales in the period (N240.66bn) was 53.8% lower than total OMO maturities (N520.88bn), resulting in a net inflow of N280.22bn.

In tandem, average short term interbank rates (OBB/ON) fell sharply by 8% to close the period at 2.13% from 10.13% recorded on February 1. Total opening position for banks on February 17 increased by 452.14% to N591.01bn from N107.04bn on February 1.

[18] FDC Think Tank



19

Impact

Higher interest rates will push up borrowing costs in the money market.

Outlook

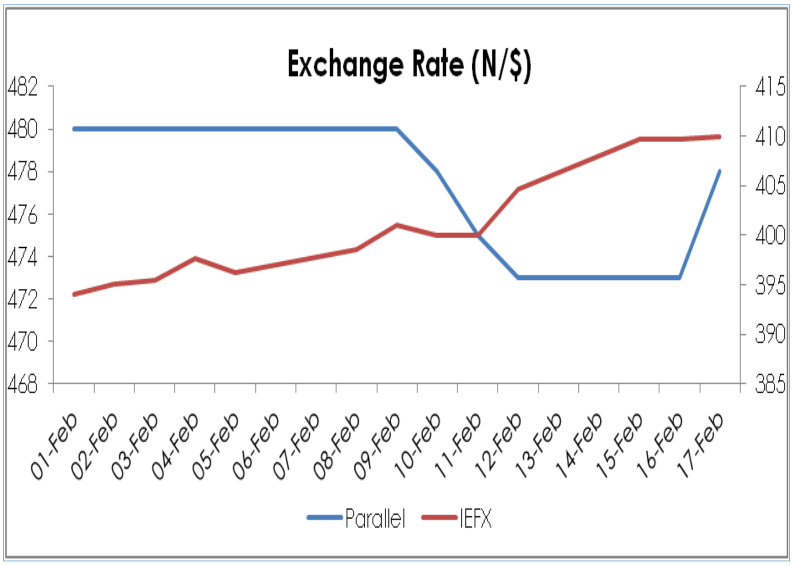
We expect the CBN to continually mop up excess liquidity through OMO sales and the use of other monetary policy instruments. This would significantly push up interest rates.

Forex Market

The Nigerian forex market is segmented with multiple exchange rates. The most important rate being the Investors and Exporters window (IEFX). No less than 55%-60% of Nigerian forex transactions are traded at this window. The CBN and most exporters and investors use this window. It serves as not only a source of price discovery but also a barometer for measuring potential and actual CBN intervention in the market. Some of the exchange rate determinants are balance of payments, capital inflows and trade balance.

Exchange Rate

At the parallel market, the naira appreciated by 0.42% to close at N478/$ on February 17. Conversely, the IEFX rate has depreciated by approximately 4% to N410/$ so far in 2021. This signals currency convergence to bring the parallel market and IEFX rates closer.



20

[19]FDC Think Tank
[20]FDC Think Tank

Outlook

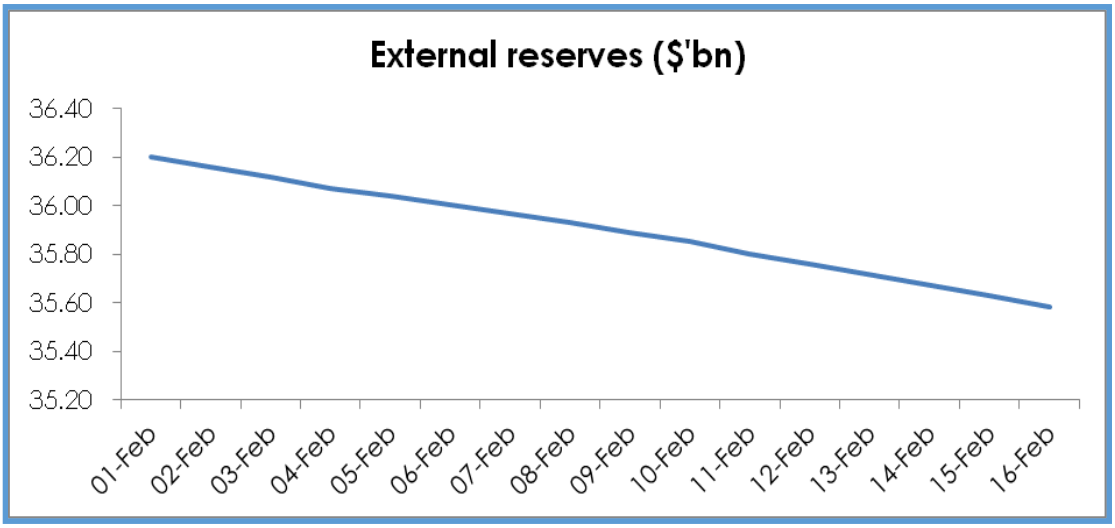
Currency pressures are likely to persist as the level of general economic activities pick up. The CBN is expected to increase its dollar sales and the ongoing convergence at the forex market would continue around the IEFX window.

Impact

Currency volatility would continue to heighten import costs and in turn increase the price of imported goods in the near term.

External Reserves

Gross external reserves slipped by 1.98% to close the review period at $35.58bn from $36.3bn recorded at the end of January. The country's import cover is now down to 9.55months from 9.74months. The decline in external reserves was partly driven by the CBN increasing its efforts to support the naira.



[21]

Outlook

Gross external reserves are expected to increase on higher oil prices. Brent is currently trading at pre-pandemic levels ($63pb) and this would strengthen the government's buffers.

Impact

Higher reserves would boost the CBN's ability to support the naira in the near term.

[21] FDC Think Tank

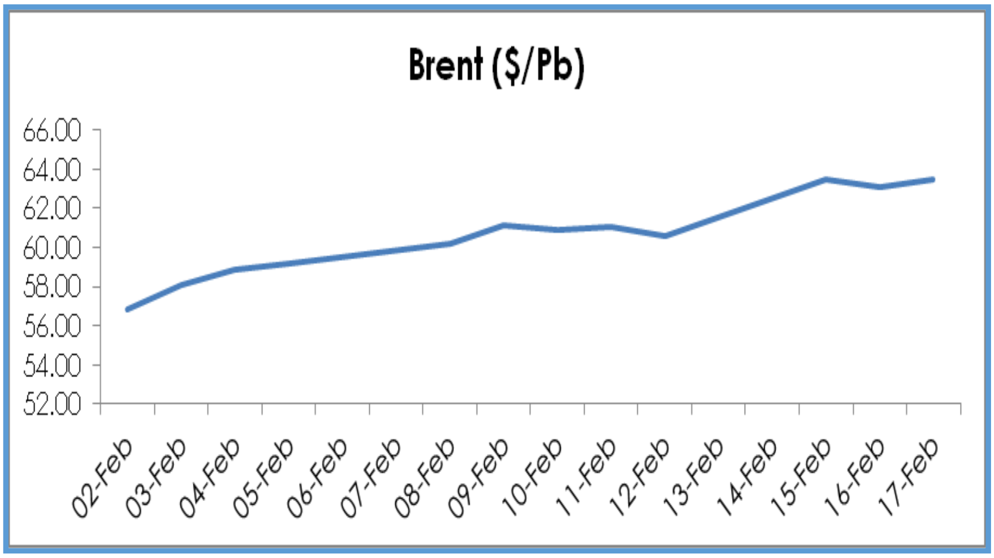
UBA
United Bank for Africa
Leo
on WhatsApp
Chat on +234-903-000-2455
Check Account Balance?
Top up your airtime?
Bank Transfers?
Bills Payment?
https://m.me/ubachatbanking
Leo@ubagroup.com
CFC (+234-1-2807400)
Africa
New York
London
Paris
Web: www.ubagroup.com
Email: cfc@ubagroup.com
Africa's global bank

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 average, oil prices increased by 10.07% to $60.25pb within the review period from $54.74pb recorded in the corresponding period in January. This was primarily driven by tight global supply, increased vaccine rollout and most recently the harsh winter weather in Texas disrupting oil production.



[22]

Outlook

We expect oil prices to maintain the upward trend. Brent may likely trade within the range of $63pb - $65pb in the next few weeks. This would be due to sustained supply tightness and a gradual recovery in global oil demand on increased Covid-19 vaccine inoculations.

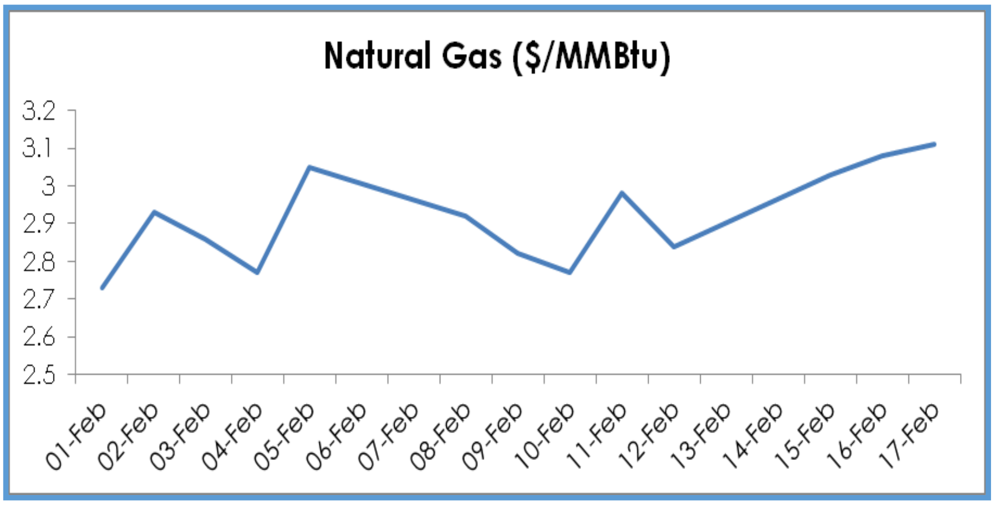
Impact

Higher oil prices would increase oil revenue and support the government in meeting up with the 2021 budget obligations. Brent at $63pb is 57.5% higher than the 2021 oil price budget benchmark ($40pb). However, the downside is that the retail price of PMS would increase, further stoking inflationary pressures in the near term.

[22]FDC Think Tank

Natural Gas

In the review period the global price of LNG increased sharply by 7.78% to an average of $2.91/mmbtu from $2.70/mmbtu recorded in the corresponding period in January. This was largely due to high global demand for natural gas as the winter season persists.



[23]

Outlook

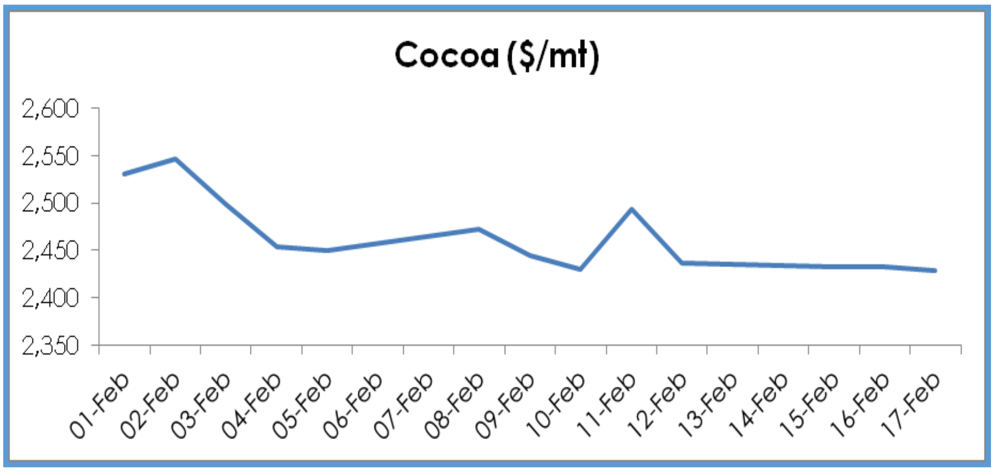
The demand for heat particularly in temperate regions is expected to keep the price of LNG high.

Impact

An increase in the global price of LNG would boost Nigeria's export earnings in the short term.

Cocoa

The average price of cocoa fell by 2.14% to $2,466/mt from $2,520/mt in corresponding period in January. This was primarily driven by the drop in global chocolate demand especially from Europe and the US.



[24]

[23]FDC Think Tank
[24]FDC Think Tank

Outlook

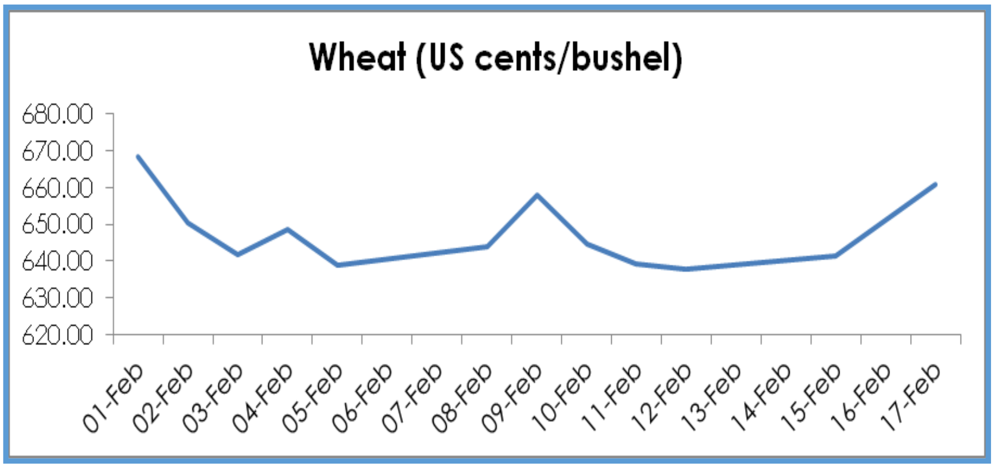
Cocoa prices could remain bearish as global demand for chocolates remains tepid on rising Covid cases. Although, there could be a slight uptick in prices as the Easter season approaches.

Impact

A fall in global cocoa prices will negatively affect Nigeria's cocoa export earnings. Good fermented Nigerian cocoa beans was the third most traded agricultural traded product in Q3'20 after sesamum seeds and cashew nuts.

Wheat

On the average, wheat prices dropped by 0.49% to $648.02/bushel from $651.20/bushel in the corresponding period in January. This was despite the increase in global wheat demand. Also, prices began to climb as Russia commenced its export quota on wheat.



[25]

Outlook

Wheat prices could maintain the bullish trend as Russia remains stringent on its export tax on wheat. In addition, limited supply from the US amid rising global demand would also support prices.

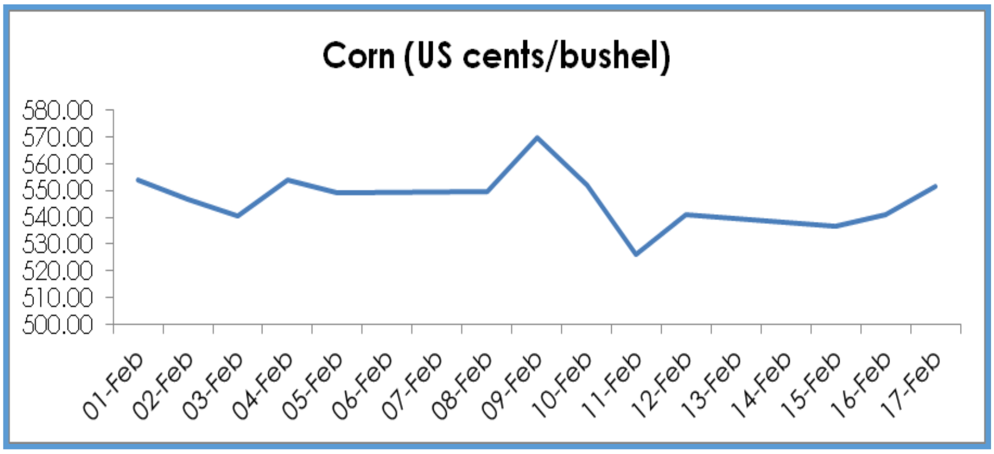
Impact

An increase in the price of wheat would increase the country's import bill. This could also push up the price of flour in the domestic market above N15,000 per 50kg bag. In addition, the price of flour related goods could climb or manufacturers would increase miniaturization of the commodities.

[25]FDC Think Tank

Corn

Corn prices averaged $547.12/bushel during the review period, 8.27% higher than the average of $505.35/bushel recorded in January. The increase in price was driven by strong Chinese demand for US.



[26]

Outlook

Strong global demand for corn would continue to buoy prices in the near term.

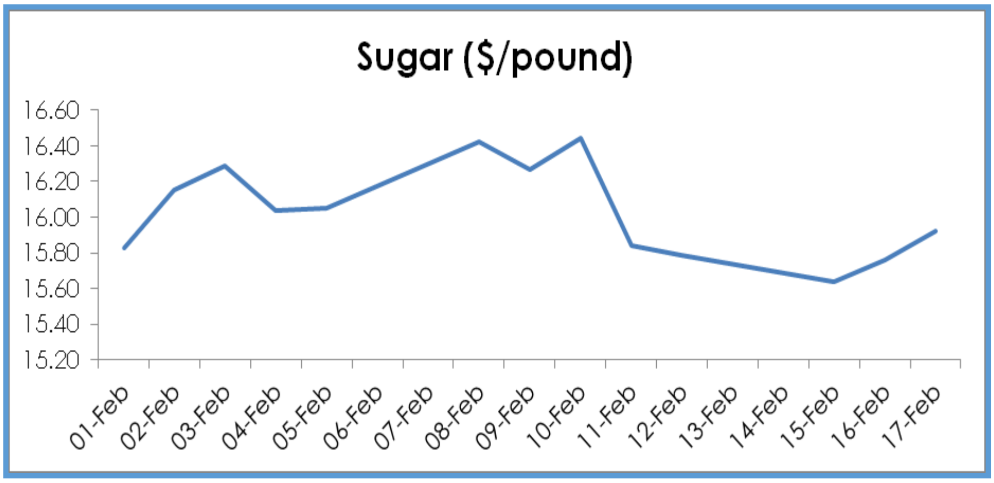
Impact

Higher corn prices would increase the import costs for manufacturers who use the commodity as a major input raw material. This could increase the cost of production and push up the price of corn related commodities like cereals.

Sugar

The average price of sugar gained 1.07% to $16.03/pound compared to $15.86/pound in January. This was supported by tight supply from Thailand, India, Brazil and the EU. In addition, the gradual pickup in global economic activities boosted demand for refined sugar further supporting prices.

[26]FDC Think Tank



[27]

Outlook

Lingering unfavourable weather conditions in Brazil and Thailand will keep sugar prices high. This would also be supported by the recent increase in demand for refined sugar ahead of the Easter holiday.

Impact

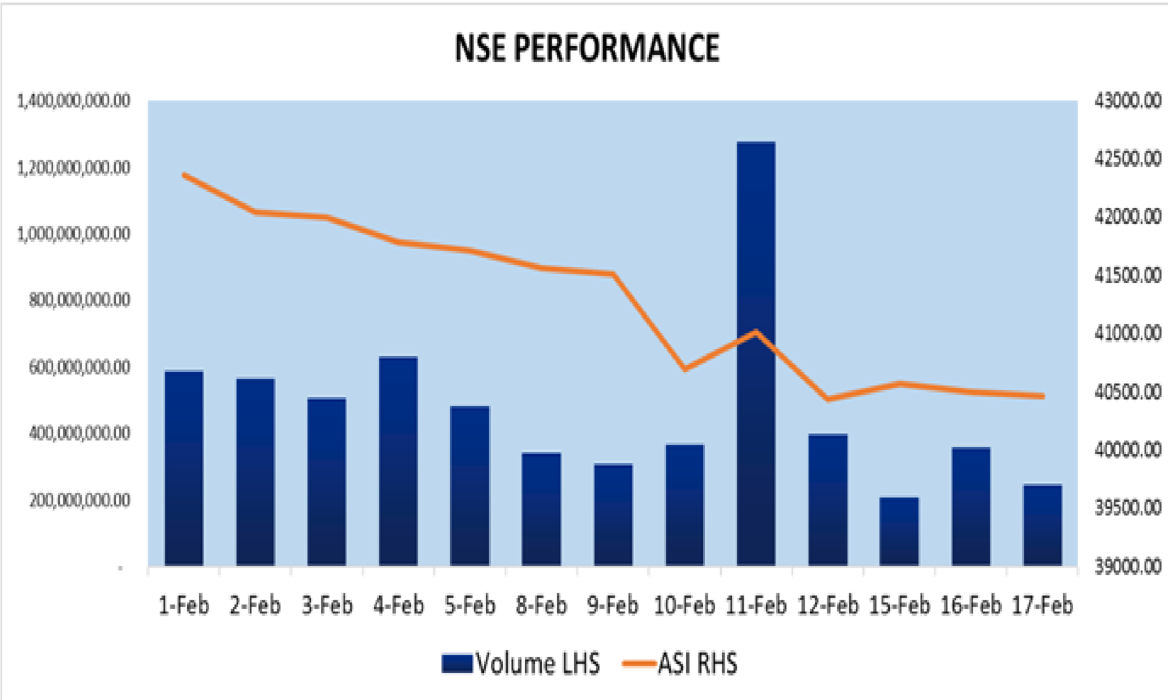
Higher sugar prices would increase Nigeria's sugar import bill.

[27]FDC Think Tank

Stock Market Review

The NSE closed on a negative note in the review period (February 1-17). It lost 4.59% to close at 40,465.32 points on February 17th from 42,412.66 points on January 29th. Similarly, market capitalization was down 4.60% (N1.02trn) to N21.17trn relative to its close of N22.19trn on January 29th. The market traded positive in 7 of the 14 trading days within the review period with a cumulative gain of 0.38%. Year to date, the index has recorded a gain of 0.48%.

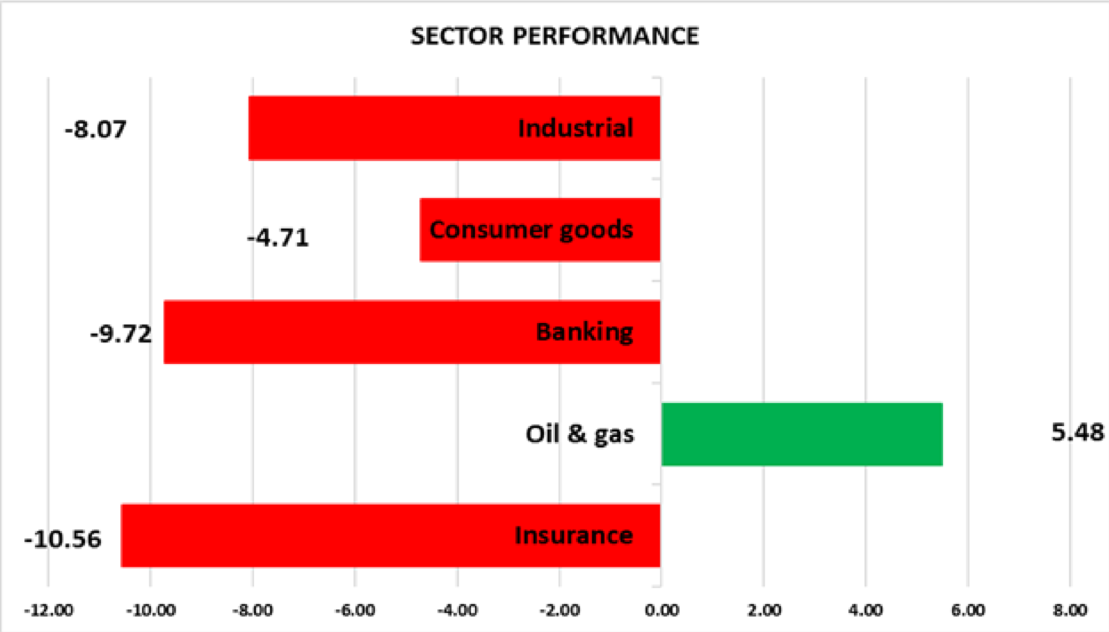
The NSE traded at a price to earnings (P/E) ratio of 15.32x as of February 17, 4.49% lower than the close of January 29 (16.04x). The market breadth was negative at 0.38x as 27 stocks gained, 72 lost while 63 stocks remained unchanged.



[28]

Market activity level was negative in the review period. The average volume traded fell by 26.90% to 481.31mn units from 658.43mn units in the previous period. Similarly, the average value of trades fell by 8.21% to N4.92bn from N5.36bn in the review period.

[28]NSE and FDC Think tank



[29]

The sector indices were negative during the review period. The insurance sector lost the most (-10.56%), followed by banking (-9.72%), industrial (-8.07%) and consumer goods (-4.71%). Only the oil & gas sector gained (5.48%) driven by higher oil prices.

McNichols Consolidated Plc topped the gainers' list with a 56.86% increase in its share price. This was followed by Multiverse Mining and Exploration Plc (18.18%), Living Trust Mortgage Bank Plc (13.33%), Seplat Petroleum Development Co Plc (12.04%) and Guinness Nigeria Plc (11.84%).

TOP 5 GAINERS				
Company	**Jan-29 (N)**	**Feb-17 (N)**	**Absolute Change**	**Change (%)**
McNichols Consolidated Plc	0.51	0.80	0.29	56.86
Multiverse Mining and Exploration Plc	0.22	0.26	0.04	18.18
Living Trust Mortgage Bank Plc	0.60	0.68	0.08	13.33
Seplat Petroleum Development Co Plc	490.00	549.00	59.00	12.04
Guinness Nigeria Plc	19.00	21.25	2.25	11.84

The laggards were led by Linkage Assurance Plc (-37.78%), Royal Exchange Plc (-37.50%), Northern Nigeria Flour Mills Plc (-27.48%), Vitafoam Nigeria Plc (-20.90%) and Japaul Gold and Ventures Plc (-20.88%).

[29]NSE and FDC Think tank

TOP 5 LOSERS				
Company	Jan-29 (N)	Feb-17 (N)	Absolute Change	Change (%)
Linkage Assurance Plc	0.90	0.56	0.34	-37.78
Royal Exchange Plc	0.40	0.25	0.15	-37.50
Northern Nigeria Flour Mills Plc	9.68	7.02	2.66	-27.48
Vitafoam Nigeria Plc	10.05	7.95	2.10	-20.90
Japaul Gold and Ventures Plc	0.91	0.72	0.19	-20.88

Summary of Corporate disclosures released during the review period

Company	Topline	PBT	PAT	EPS
UAC of Nigeria Plc	N81.59 billion (3.02%) ↑	N5.36 billion (28.1%) ↓	N3.86 billion (27.85%) ↓	85 kobo (35.6%) ↓
Conoil Plc	N117.47 billion (15.95%) ↓	N2.15 billion (24.03%) ↓	N1.52 billion (22.84%) ↓	N2.19 (22.89%) ↓
Fidelity Bank Plc	N205.18 billion (4.79%) ↓	N30.21 billion (0.46%) ↓	N28.03 billion (1.41%) ↓	26 kobo (18.75%) ↓
Sterling Bank Plc	N144.39bn (3.87%) ↓	N12.60 billion (18.09%) ↑	N11.69 billion (10.28%) ↑	41 kobo (10.81%) ↑
Fidson Healthcare Plc	N18.28 billion (30.01%) ↑	N1.74 billion (201.84%) ↑	N1.18 billion (190.18%) ↑	
AXA Mansard Insurance Plc	N62.01 billion (23.67%) ↑	N6.27 billion (4.67%) ↑	N6.71 billion (17.31%) ↑	20 kobo (23.08%) ↑
BUA Cement Plc	N209.47 billion (19.34%) ↑	N79.07 billion (19.37%) ↑	N70.52 billion (16.35%) ↑	N2.08 (16.20%) ↑
UPDC Real Investment Trust Plc	N2.19 billion (12.05%) ↓	N1.69 billion (11.98%) ↓	N1.69 billion (11.98%) ↓	N0.63 (12.5%) ↓
University Press Plc	N955.36 million (48.97%) ↓	-N19.09 million ↓	-N19.09 million ↓	4.42 kobo (90.98%) ↓
Skyway Aviation Handling Co Plc	N6.98 billion (9%) ↓	N962.49 million (76.44%) ↑	N639.10 million (43.13%) ↑	
Presco Plc	N23.91 billion (21.25%) ↑	N8.95 billion (47.69%) ↑	N7.03 billion (87.97%) ↑	N7.03 (87.97%) ↑
Transcorp Hotel Plc	N10.15 billion (50.25%) ↓	-N8.93 billion ↓	-N8.98 billion ↓	88 kobo ↓
AIICO Insurance Plc	N62.01 billion (23.67%) ↑	N6.27 billion (4.67%) ↑	N6.71 billion (17.31%) ↑	
Mutual Benefits Assurance Plc	N20.19 billion (7.97%) ↑	N5.11 billion (36.27%) ↑	N4.55 billion (26.04%) ↑	40 kobo (11.11%) ↑

Outlook

There was a mixed performance in the 14 corporate earnings reported during the review period. Insurance, construction, consumer goods and healthcare sectors recorded positive performance while the real estate, banking, oil and services sectors recorded a negative performance. The P/E ratio of the market is now trading at 15.32x. Nigeria's inflation is now at near 4-yr high of 16.47% and this trend is likely to continue in the coming months. This increases the possibility of the CBN raising interest rates, with the use of its orthodox monetary policy tools. This will lead to lower stock prices due to the inverse relationship between the two variables.

Corporate focus – Dangote Cement

Market Capitalization: N3.75trn

Current Price: N220

Industry: CEMENT

Analyst Note

Resilient operating performance

Dangote Cement Plc delivered an impressive top and bottom line performance in its 9M'20 result. The company's top line grew by 12% to N761.44 billion from N679.79 billion recorded in 9M'19. The 12% growth in revenue was driven by a 6.6% increase in sales volume to 19.2 million tonnes. The increase in sales volume was primarily driven by the 10.2% growth in its Nigerian market on the back of a strong promotion strategy and increased real estate activities that spurred demand in Q3'2020. This affirms that Nigeria remains the main driver of the company's performance. Gross profit also increased by 14% to N443.9 billion, the 14% increase in gross profit is attributable to the 12% growth in revenue despite a 9.5% increase in cost of sales to N317.5 million from N290 million. The surge in energy consumed contributed to the 9.5% rise in cost of sales.

On the operations side, the company recorded a 24.6% increase in operating profit to N287.9 billion relative to N231 billion in the same period in 2019. This increase in operating profit could be partly attributed to the 14% increase in gross profit, 70% increase in other income to N3.4 billion from N2 billion and a 0.58% decline in operating expenses to N159 billion.

The company recorded a 35.5% increase in bottom-line to N208.7 billion driven by the 24.6% growth in operating profit, 43% increase in finance income to N8.57 billion and a 15% reduction in finance cost to N34 billion (driven by a foreign exchange gain of N9.76 billion).

Fundamentals Compared with Peers

9M'2020 FINANCIALS			
	DANGOTE	WAPCO	BUA
Revenue	12% to N761.44bn	10% to N179.8bn	21% to N156.6bn
Operating Profit	24.6% to N287.9bn	15.5% to N41bn	15.7% to N62.4bn
PAT	35.5% to N208.7bn	76.5% to N28bn	23.9% to N53.57bn
Free Cash flow	5.2% to N264bn	94% to N50.6bn	1521% to N51.91bn
EPS	34.6% to N12.25	36.7% to N1.75	23.9% to N1.58
EBITDA	17% to N355.0bn	25% to N81.5bn	13.1% to N72.7bn
YTD Return	10%	24%	6.9%
Total Assets	6.2% to N1.8trn	2.65% to N510bn	34% to N621bn
P/E ratio	14.59x	18.04x	35.20x
Dividend Yield	7.34%	3.85%	2.57%

Industry and Company Overview

The Nigerian cement industry has experienced substantial growth over the past few years. With a population of about 200 million people and a population growth rate of approximately 3% per annum, the demand for and consumption of cement is expected to increase. The cumulative average growth rate for global cement consumption in the last three years is about 2.96%. Global cement consumption is expected to rise to about 4.4 billion ton in 2021.

Increased government infrastructural projects and maintenance coupled with urbanization growth will likely drive the growth of the market. The demand for cement is driven by infrastructure, commercial and residential real estate development. The government, especially at the federal level, is usually the major driver of cement demand in Nigeria with an estimated 50% of total cement consumption. The frequency of road and bridge reconstruction as well as rehabilitation of social infrastructure emphasizes the government's continued patronage of the industry. The increase in government expenditure on infrastructure will also spur private construction.

Nigeria is currently the largest cement producer in Africa. Cement manufacturers have identified an opportunity in the existing infrastructure gap, estimated at 35% of GDP relative to 70% for larger economies. The use of cement roads has a higher initial cost but lower maintenance cost and relatively longer life span (27 years vs. 17 years for asphalt roads).

The sector is also expected to benefit from the commencement of AfCFTA (African Continental Free Trade Area). Cement manufacturers will be faced with the opportunity to produce more in order to compete with member nations and penetrate new markets.

Company Overview

Dangote Cement Plc a Nigerian publicly traded cement manufacturer, headquartered in Lagos. The company is engaged in the manufacture, preparation, import, packaging, and distribution of cement and related products across the African continent. Dangote Cement operates three manufacturing plants in Obajana, Ibese and Gboko, with longer-term plans to expand its capacity to meet Africa's growing demand for cement.

Dangote cement plans to serve the West African countries in order to make the region cement independent. The company's clinker strategy is expected to take advantage of the absence of limestone in majority of West African countries who import bulk cement and clinker usually from Asia and Europe. The company has made a total of seven clinker shipment from Nigeria as at September 2020 and is ready to do more. This project will foster production and increase capacity utilization resulting in additional earnings for the company.

Dangote cement is ready to take advantage of the commencement of the African Continental Free Trade Area (AfCFTA). Its cement expansion plan and fertilizer investments will open new trade routes for the company and Nigeria under the trade deal. This move is essential for Africa to deliberately improve its per capita cement consumption to aid infrastructure development by stimulating further demand, which will help reduce the cost of cement.

Dangote cements' share buyback is expected to further boost shareholders fund and reported earnings per share resulting in higher share price. The share price of the company has shown resilience compared to its peers and the share price also presents an attractive upside potential for long term investors.


DANGOTE CEMENT
BAG OF GOODIES 2
CONSUMER PROMO
1000 MILLIONAIRES
SPELL D-A-N-G-O-T-E & BE A MILLIONAIRE
9 Millionaires Everyday for 16 Weeks
LOTS OF INSTANT PRIZES
BIGGER AND BETTER
HOW TO WIN
• Buy any "Bag of Goodies 2"- Dangote cement- 42.5R, 42.5N, Falcon or BlockMaster
• Pick out the scratch card inside the bag
INSTANT WIN
-Scratch and stand a chance of winning any of instant prizes as revealed on the card
-Instant win prize items to include:
• Airtime(N100, N200, N500 worth), Dangote food packs, Refrigerators, TV sets, Motorcycles, Tricycles
• Keep your scratch card for Spell and Win Star Prize
WEEKLY STAR PRIZE
• Each scratch card carries an alphabet + instant win
• Each complete set of 7 alphabets "D-A-N-G-O-T-E" wins 1 million naira
• 9 millionaires everyday for 16 weeks across Nigeria
• Multiple entries are allowed, You can win as many times as possible
• Look out for over 200 Dangote Cement Redemption Centers across Nigeria to redeem all your prizes
etisalat
airtel
MTN
glo
Approved by National Lotteries Regulatory Commission
Approved by the Consumer Protection Council
DANGOTE CEMENT
*All Dangote staff, families and vendors are exempted from this promotion
Customer Care Hotline: 01-460643, 08152093122, 081520193152, 08152093153
E-mail: customercare@dangote.com www.dangote.com
Terms and conditions apply
PLEASE STAY SAFE

Management & Government Overview

Dangote Cement's management has successfully operated the company since inception as evidenced by the firm's continuing record of excellent returns on invested capital. Management has done remarkably well in maintaining the firm's reputation as a force to contend with in the industry.

We find most of the qualities of the board to be in line with best practices. The board members have the necessary skills and vast experience across regions that make them more than capable to implement sound decisions. The role of the Chairman is separated from the CEO's and the board looks at risk and strategy on both short and long-term basis.

Alhaji Aliko Dangote is the Chairman of the Board of Directors. He holds a BSc in Business Studies from the Al-Azahar University, Egypt. He is the founder and Chief Executive Officer of the Dangote Group. He serves on various boards, foundations, institutes and committees of the Federal Government of Nigeria.

Chairman

Alhaji Aliko Dangote

The Bulls Say and the Bears Say

Bulls say:

- African Continental Free Trade Area (AfCFTA) advantage
- Increased clinker exports and lower clinker cost
- Presence across Africa
- 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 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
- Naira devaluation could affect costs and reduce purchasing power
- Real estate sector negative growth could affect demand and price of cement

Risks

The major risks that could prevent DangCem from achieving its goals of boosting earnings, increasing sales and managing costs is its exposure to credit, liquidity and market risk (currency and interest rates) arising from financial instruments.

The company manages foreign currency risk by monitoring its financial position in each country where it operates. In addition, the company manages credit risk by ensuring that it transacts with only credit worthy counterparties.

DangCem manages liquidity risk by managing adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecasts and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Outlook

The cement industry is expected to post an impressive performance in 2021, driven by the anticipated W-shaped recovery of the Nigerian economy and faster global economic growth. In addition, vaccine rollouts will reduce the rate of covid infections. There are significant opportunities available to cement manufacturers, which will facilitate the industry's growth potentials. These include the wide infrastructure gap in Nigeria ($100bn annually) and Africa ($60-108bn annually), widespread affordable housing projects that are being embarked upon by the government, etc.

In addition, the AFCFTA presents opportunities for expansion and a readily available market, which Dangote Cement is poised to benefit from due to its pan African strategy.

Economic outlook for the next month

The ongoing naira convergence around the IEFX window is expected to continue as the CBN increases its dollar supply in the forex market. This will facilitate a further appreciation of the naira in the parallel market.

Oil prices are likely to continue trading above $60pb next month on tighter global oil supply. The downside for Nigeria is the resultant increase in petrol prices. Independent fuel marketers have increased the pump price of fuel to N170/litre from N162-165. This means that transport fares will increase. Despite the low contribution of transport fares to the consumer price index (6%), the impact on consumer prices is usually significant. Nigeria's inflation rate increased further in January to 16.47%. A spike in petrol prices coupled with the start of the planting season will keep consumer prices elevated.