

Is the Economy Spiralling???

Uncertainty

Reforms

Recession

Inflation

Debt

GDP
Recovery?



Turning the Curve

&

Bungling the Vaccine

GDP Growth (%)



Outline

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January Highlights

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February Outlook



January Highlights

January Highlights

- High profile casualties as COVID-19 scourge expands
- Nigeria yet to test up to 1% of its population

Country	Population (mn)	% Tested	% Infected
South Africa	60	13.89	17.54
Kenya	54	2.19	8.47
USA	330	94.63	8.57
Sweden	10	48.5	11.73
Nigeria	200	0.62	10.13

January Highlights

- Economy faces a squeeze as PMI crashes by 19% to 44.5pts
 - Pointing towards a GDP contraction again in Q1'21 of -1.5%
- FAAC up marginally by 3.03% to N619.34bn
 - Even as oil prices have surged by 30% since December to \$55pb
 - Due to exemplary discipline by OPEC which supplied 25.36mbpd in Dec'20
- Broad money supply grew by 31.90% to N37.96trn in December 2020
 - Stroking headline inflation toward 16% and food inflation toward 20%
- Average opening position of the deposit money banks was N547.76bn

January Highlights

- Average interbank rates rose sharply to 10% p.a
 - After languishing at 1%p.a for the last 3 months
- Nigeria redeemed its \$500mn Eurobond at maturity on Jan 28th
- FGN is mulling the issuance of instruments to securitize its bloated O/D at the CBN estimated in excess of N10trn
- Total Nigerian debt as of Sept'20 is N32.22trn (\$84.57bn)
- Debt to GDP: 25.08%



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Global Developments

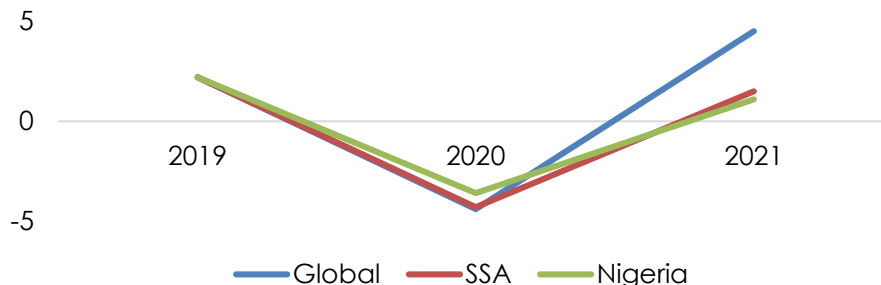
“Finally the V curve”

Finally the V curve

- The IMF is projecting global growth of 5.5% in 2021
- Sharply higher than the 5.2% earlier estimated
- For the first time in years, Nigeria is underperforming both global and SSA growth



GDP growth rate



- Sharp contraction of the base year makes astronomic growth possible

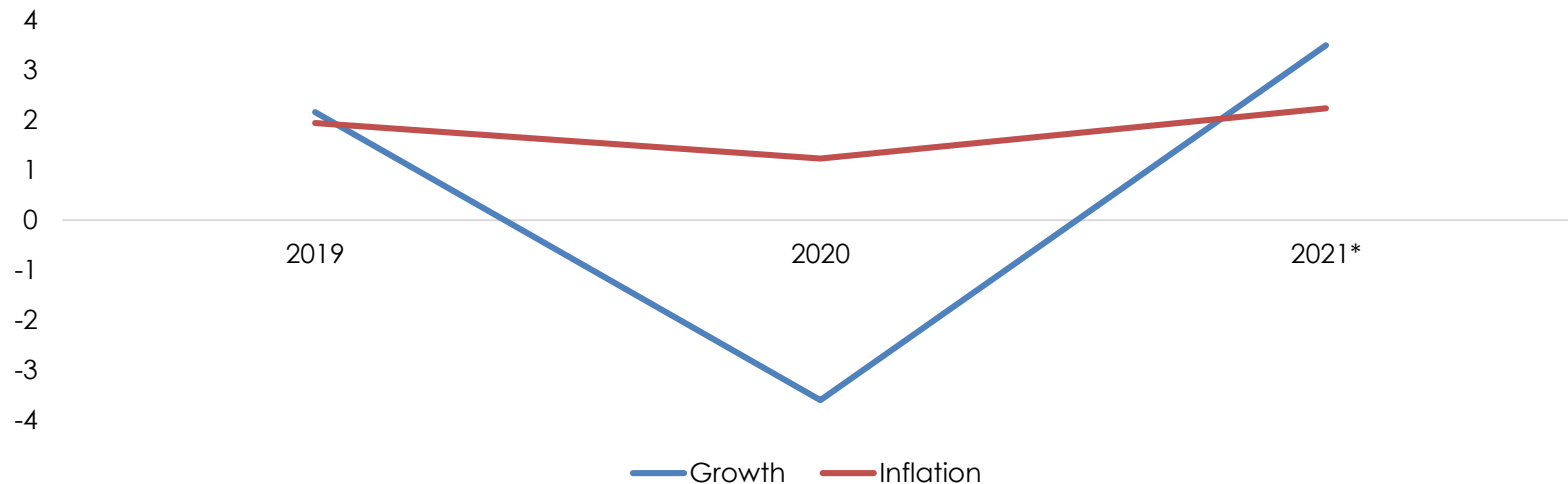
Finally the V curve

- Global poverty levels expected to increase by 90mn
- Nigeria likely to see at least 15mn fall into poverty according to the IMF
- Faster recovery in Asia – India
- Over 5mn people or 1.58% of the U.S. population already fully vaccinated
- The US wants to lead not dominate - Biden
- Going back to the established order
 - With Yellen and Powell in tango, expect more stimulus and low inflation



Finally the V curve

US GDP and Inflation Rate



Finally the V curve

Wall Street or Las Vegas



Robin Hood Peppers the hedge funds



Rana Faroohar

5 lessons from the hedge fund squeeze

Finally the V curve

- Markets are too speculative when the Dow rises because Fintech companies put restrictions on day trading
- The SEC is now looking closely at how to crackdown on apps
- There is something in common between the GameStop mob and the mob on capitol hill
- There is an overlap between the far right and the far left in America when it comes to losing money - Ted Cruz and Ocasio-Cortez
- Who is going to bail out the speculators or victims of a rigged system?



Finally the V curve

- Jeff Bezos Amazons, CEO and the world's richest man steps down
- As Apple sells over \$111bn in a quarter and mulls the **iCar**
- And Bitcoin slides back to \$34,000 as regulators scratch their heads



Artificial Intelligence and Displacement Unemployment

- Apple's stock price fell despite a record \$111 billion revenue in Q4'20
 - Stock price increased by 80% over the past year and by 24% in the last three months
- Total sales of Mac dropped while sales of iPhones skyrocketed
- Evidence of a transition from physical to a virtual world
- Signals a new capital intensive era is fast approaching and would replace labour demand
- Could increase unemployment levels



Electric Vehicles Now in Vogue

- India will totally transition to the use of electric vehicles by 2030
 - India is Nigeria's leading trading partner and purchases most of its crude oil - (\$1.17bn in Q3'20)
- The EU and most advanced economies are far ahead on the use of EVs
- No surprise that Elon Musk is now the world's richest man



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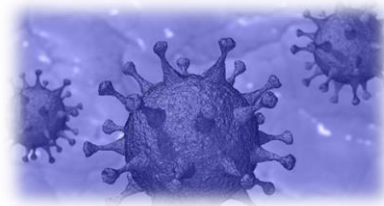


Regional Developments

“SSA – Behind the Curve for the First Time in a Decade”

Second Wave, Vaccines & Ignorance

- South Africa has ordered 20mn doses of COVID-19 vaccines
- Nigeria still contemplating a second lockdown
 - Oxygen scarcity in Lagos state increasing COVID-19 death toll
- Superstitious beliefs and ignorance increasing reluctance of people taking the vaccines
 - Further slowing the pace of vaccinations and stalling continent-wide economic recovery



AfCFTA Commences...

- The biggest trading bloc globally
 - A single market of about 1.2bn consumers and workers
- AfCFTA should:
 - Boost intra-African trade from 20% to over 50%
 - Increase GDP by 1,015% to \$29trn by 2050 from \$2.6trn (2019)
 - Drive rapid industrialization & specialization
 - Drive export diversification and structural transformation
 - Reduce unemployment and poverty levels



Creating One African Market

FDI Inflows into Africa Drops 18% to \$38bn in 2020

- Africa recorded a total FDI inflow of \$38bn in 2020
 - 18% lower than in 2019 (\$46bn)
- Nigeria was the 2nd largest recipient of FDI (\$2.6bn) after Egypt (\$5.5bn)
 - FDI flows into Nigeria declined by 21.21%
- Successful implementation of the AfCFTA could significantly increase FDI inflows

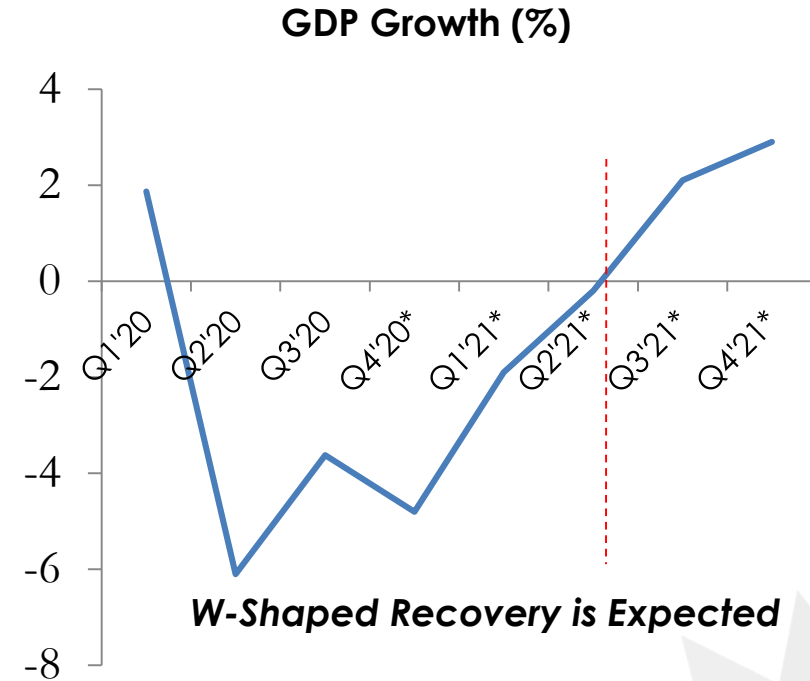




Domestic Economic Performance

Positive Growth Likely in Q2/Q3'21

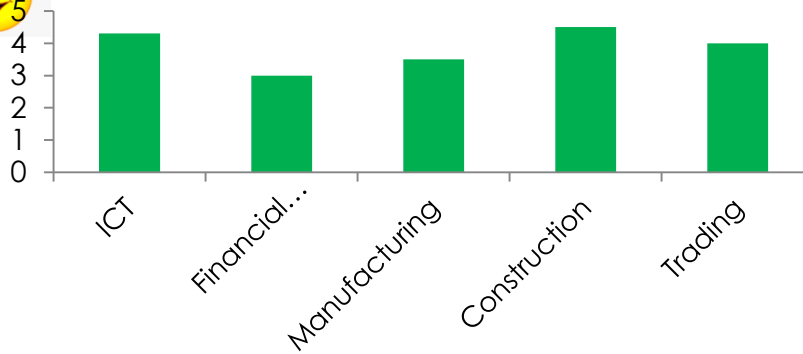
- Q4'20 GDP data would be released on Feb 22
 - Projection: -4.8%*
- GDP growth rate to rise but at a slow pace on lingering structural challenges
- AfCFTA, border reopening and vaccine availability expected to support growth
- Growth in Q2'21 will be better compared to Q2'20 due to higher oil prices and no lockdown effect



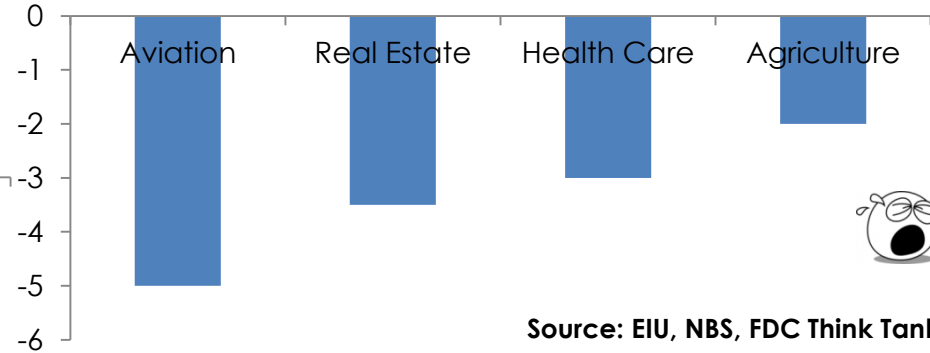
Uneven Recovery Expected Across Various Sectors



Positive Growth (%)



Slow/Contracting (%)



Source: EIU, NBS, FDC Think Tank

- Of the 46 activities, 20 are likely to record positive growth compared to 18 in Q3'20
- Gradual and tough recovery expected in manufacturing and trade as forex rationing lingers
- Growth in agric sector to slow if insecurity remains unchecked
- Construction, ICT and financial institutions to remain fast growing sectors

Sector Sensitivity Analysis

Sector	Covid sensitive	Interest rate sensitive	Exchange rate sensitive	Job elastic
Finance & Insurance	✓	✓	✓	✓
Aviation	✓	✓	✓	
Oil & Gas	✓	✓	✓	
Health	✓		✓	
Manufacturing	✓	✓	✓	✓
Agriculture	✓	✓	✓	✓
Wholesale & Retail Trade	✓	✓	✓	✓
Real estate	✓	✓	✓	

Big Players in the Positive Growth Sectors

Manufacturing

Telcoms

Finance & Insurance

Industrial

Trade



Food and Agro-Allied Group

Big Players in the Slow/Contracting Sectors

Aviation

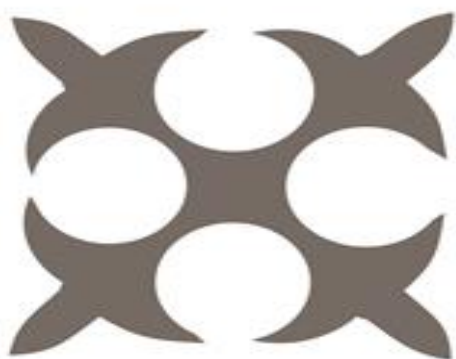
Real Estate

Health Care

Agriculture

FDC
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Headline Inflation to Set to Climb 16% in January 2021

- January inflation to be released Feb 16
 - Estimate: 16.2%*
- Inflationary pressures to persist in the near term
- Food inflation will be the major culprit but core inflation will also rise
- Rate of increase to slow from Q3'21 on border reopening and harvest season

Inflation Drivers

- M2 Growth
- PMS Price Deregulation
- Electricity Tariff Hike
- Forex Restrictions to Food Imports
- Exchange Rate Pass through
- Seasonality
- Insecurity in the food Belt

2021 Inflation Projections

Q1'21

16.55%

Assumptions

- Exchange rate pass through (1% devaluation = 0.02% inflation)
- Insecurity in the food belt and planting season effect (10% impact on food inflation)
- Forex restrictions on food imports (0.86% supply chain disruption)
- Logistics & distribution costs PMS price up 14% (yoy)
- Border re-opening has no effect

Q2'21

15.69%

Expectations

- Gradual ease in inflationary pressures
- Higher oil price feeds into the economy
- Likely adjustment of interest rate (6-7%)
- Impact of border re-opening on the economy (5%)
- Possible currency devaluation

Inflation - A Thief of Value!

“N1,000 under your mattress in Jan 2019 now equals N730”

Down 28% in 2 years



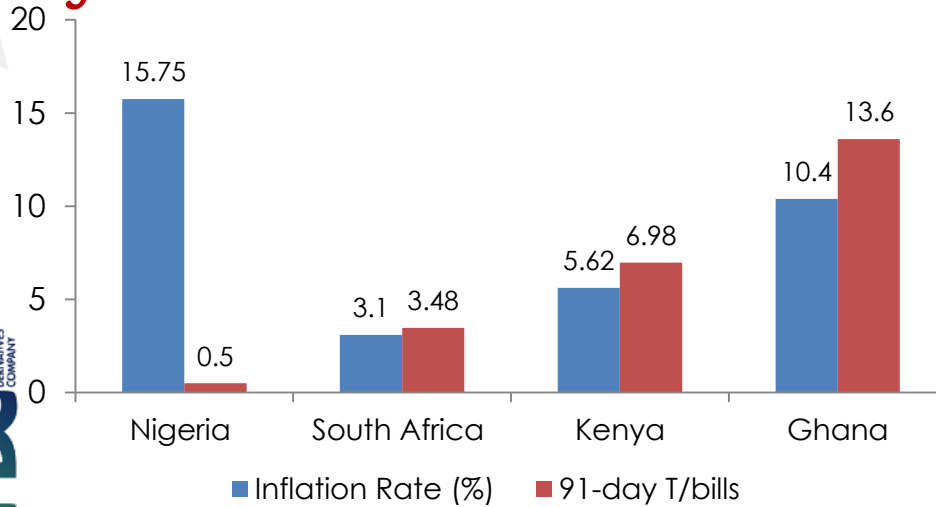
“\$1,000 under your mattress in New York is now worth \$997”

Down 0.3% in 2 years

“GH¢1,000 under your mattress is now worth GH¢ 821”

Down 18% in 2 years

Inflation Vs Interest Rates – Peer Comparison



	Savings to GDP ratio (%)	Investment to GDP ratio (%)
Nigeria	20.62	26
South Africa	14.95	18
Kenya	4.45	17
Ghana	20.95	26

- Inflation in SSA to rise to 8.6% in 2021 from an estimated 8.1% in 2020 - **EIU**
- Countries with interest rates above inflation typically have stable currencies
- Nigeria has the widest inflation-interest rate differential (-15.25%)

Inflation Rate will Moderate with Changes in Policy Direction



Stop forex rationing and adopt forex auctioning



Reduce funding of the overdraft by about N6 trillion



Increase interest rates (5%-7%)

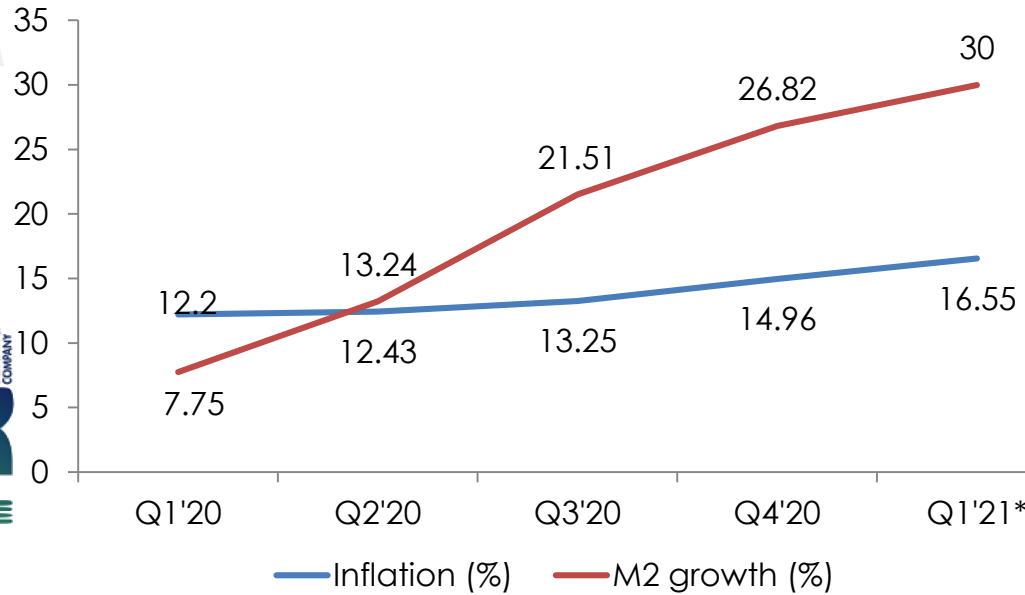


Border reopening effect



Total removal of subsidy

Money Supply to Keep Rising



	M2 growth (%)	Inflation (%)
Q1'20	7.75	12.20
Q2'20	13.24	12.43
Q3'20	21.51	13.25
Q4'20	26.82	14.96

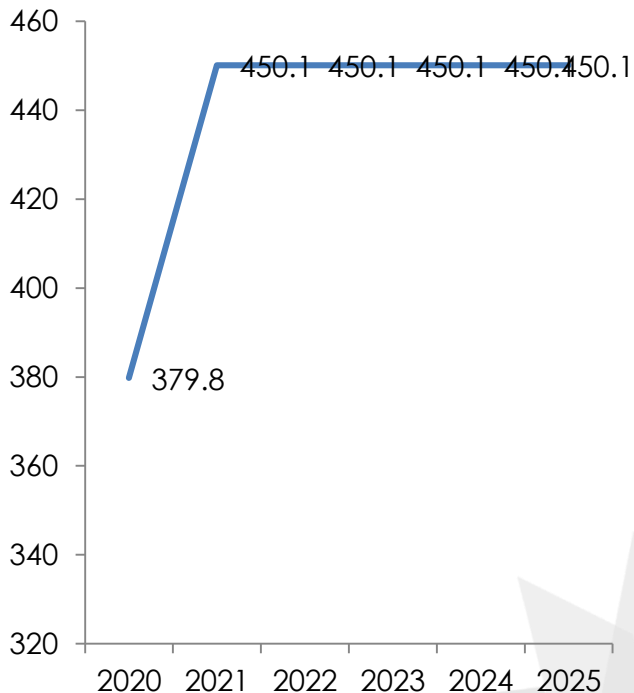
- Money supply projected to rise further on increased money printing by the CBN
 - To service FG borrowing
- M2 growth estimate: 16.8% in 2021 - **EIU**
- Will continue to heighten inflationary pressures

Exchange Rate Pressures to Continue

- Currency pressures to persist at both parallel market and I & E window on increased forex demand
- Another currency adjustment likely to keep the NAFEX & official rates closer
 - Official rate could be devalued to N450.1/\$ - **EIU**
- Exchange rate convergence to continue but unification is unlikely in the near term



Exchange Rate Official Avg
(N/\$)



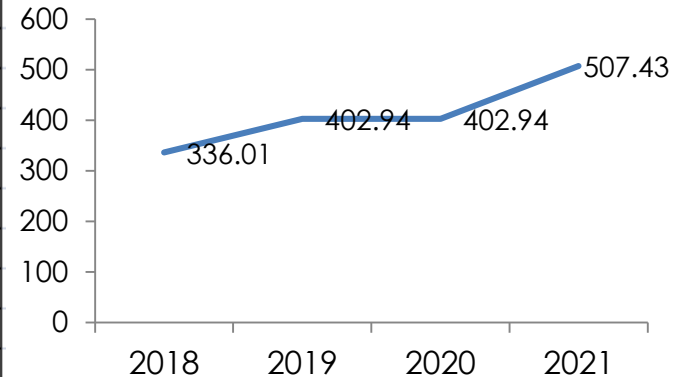
The Fair Value of the Naira – Rencap's View

- The fair value of the naira is N499/\$ (with oil price at \$66pb)
 - Which is 2% stronger than the N506/\$ earlier cited in November 2020
- Naira is not currently at the market rate
- Increases the likelihood of weakening the currency to compensate for double-digit inflation
- The I & E window queue is still not cleared, and is part of the reason dollars are not supplied to various import categories

Naira Moving Further Away From Its PPP Value (N507.43/\$)

Purchasing Power Parity			
		Jan-21	
	=N=	US \$	PPP ('=N=/US\$)
Bottle of Pepsi (50cl)	100	1.43	69.93
Beer (60cl)	400	2.91	137.46
Hamburger (Johnny Rockets)	4,800	4.59	1045.75
Indomie	2,400	5.90	406.78
Toyota Corolla	16,500,000	20,025	823.97
Bottled Water (150cl)	200	1.50	133.33
Big Loaf Bread	500	2.50	200.00
Irish Spring Soap (1 cake)	300	0.19	1578.95
Chicken Drumsticks (1 kilo)	1,700	4.15	409.64
Eggs (Big Size)	1,200	4.47	268.46
Average PPP			507.43
Naira Price at IEFX			394.00
PPP (%)			
Decision: Naira is		Overvalued	28.79%
Spot Rate (Parallel)			480
Outcome: Compared to IFEX rate of N394/\$1, the Naira is Overvalued by 28.79%			

PPP (N/\$)



Big Culprits in this Urban Basket

Beer (60cl)	↑
Hamburger (Johnny Rockets)	↑
Indomie	↑
Bottled water (150cl)	↑
Toyota Corolla	↓
Big Loaf of Bread	↑
Eggs	↑
Chicken drumsticks	↑

Currency Overvalued by 28.79%

Exchange Rate projection February/March

- PPP value shows a significant overvaluation of 28.79% (N507.43/\$)

- NDF's:

	NDF (Feb 3rd)
90-days	N421.06/\$
180-days	N438.49/\$
360-days	N465.95/\$

	90-day T/Bills	Inflation	Differential
Today	0.55%	15.75%	-15.2
By March	4.5%	16.55%	-12.05

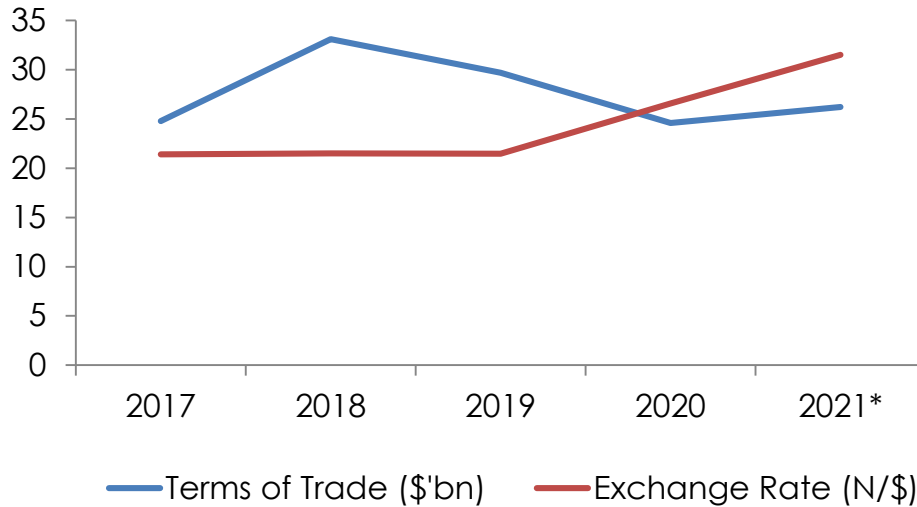
- Oil prices up 11% to \$59pb YTD, External reserves: down 0.88% (\$320mn) to \$36.2bn since Jan 26
- Based on this, the exchange rate (IEFX) could weaken to N400/\$ - N410/\$ by March

Exchange Rate Determinants

	2020	2021*
Balance of trade (\$'bn)	-5.70	-3.50
Terms of trade (\$'bn)	24.60	26.20
Current account deficit (\$'bn)	-10.7	-8.1
External Reserves (\$'bn)	35.37	34
PPP Value (N/\$)	402.94	507.43
Parallel market(N/\$)	470	480
I & E window(N/\$)	394	420

- Widening current account deficit and dollar liquidity shortages to increase currency pressures
- Debt servicing would remain top priority (2021-2023)
- Fiscal deficit to stay above 3%

Terms of Trade Vs Exchange Rate Devaluation



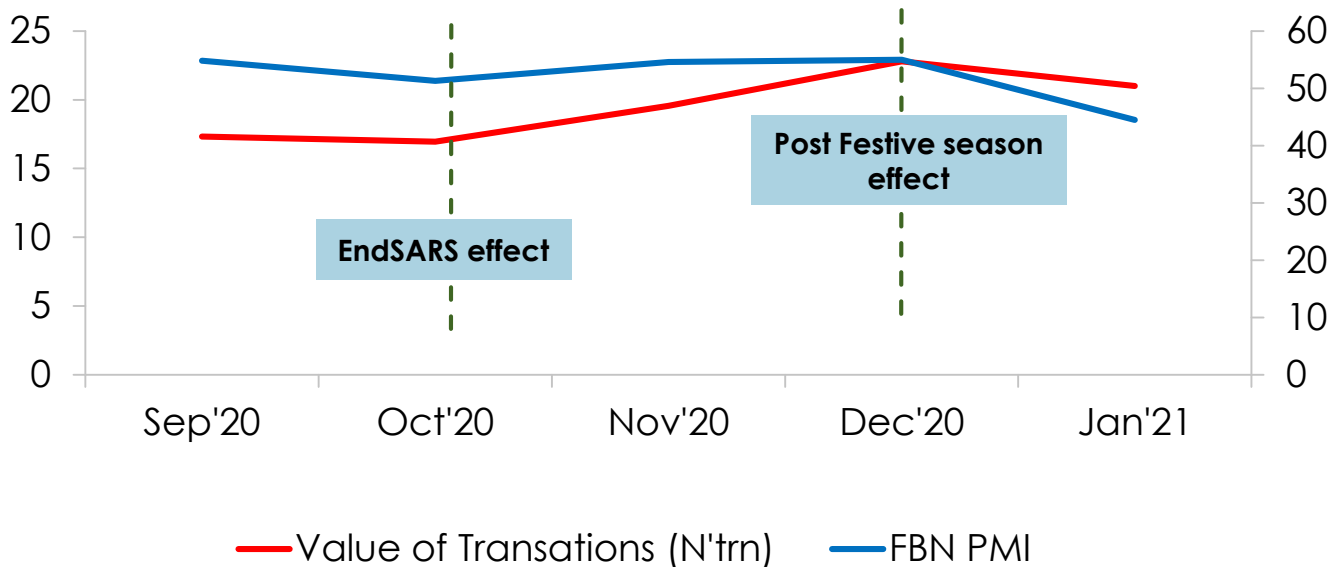
	Terms of Trade(\$'bn)	Exchange Rate (\$'bn)
2017	24.8	306
2018	33.1	307
2019	29.7	306.5
2020	24.6	379.8
2021*	26.2	450.1

- Currency devaluation typically improves T-O-T as export prices > import prices
- But 2020 was an outlier – **COVID-19 effect on trade**
- Another devaluation of the official rate to N450.1/\$ in 2021 could boost terms of trade to \$26.2bn



Market Proxies

Value of Transactions

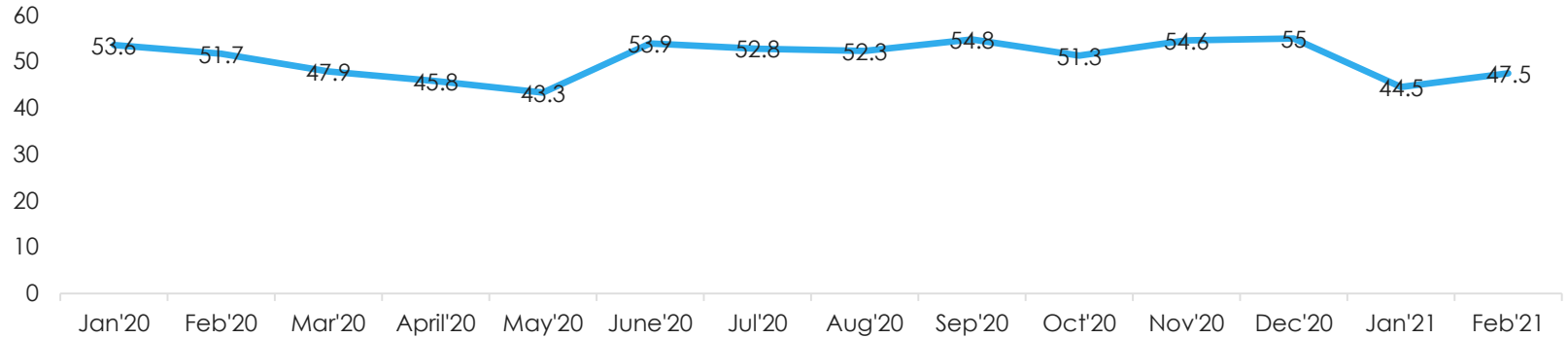


- Total value of transactions across the e-payment channels down 8.52% to N21trn compared to N22.79trn recorded in December
- Reflects the typical slow down in consumer demand post-festive season
- Value of transactions moving in the same direction with the FBN PMI

Purchasing Managers' Index

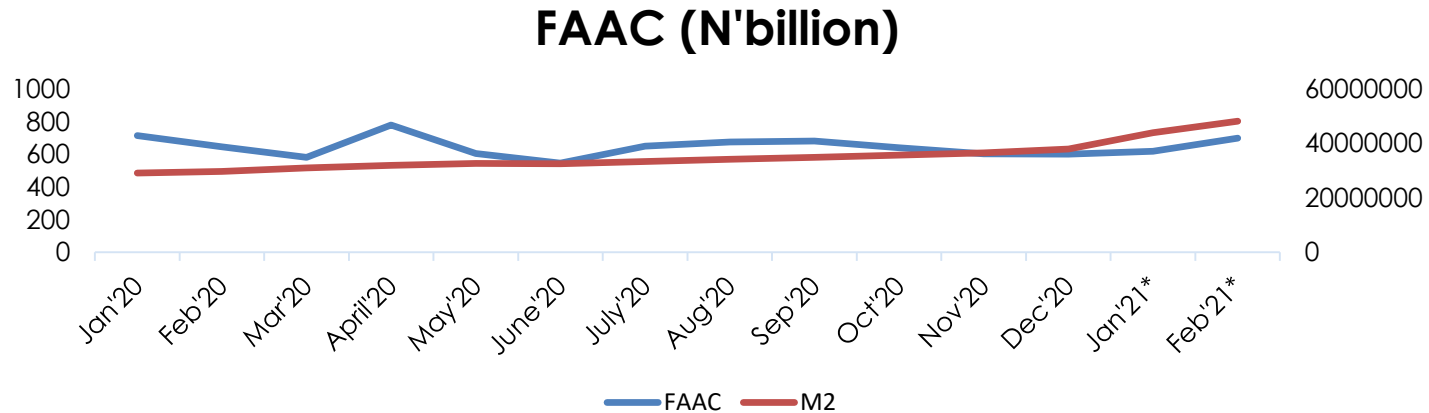


FBN PMI



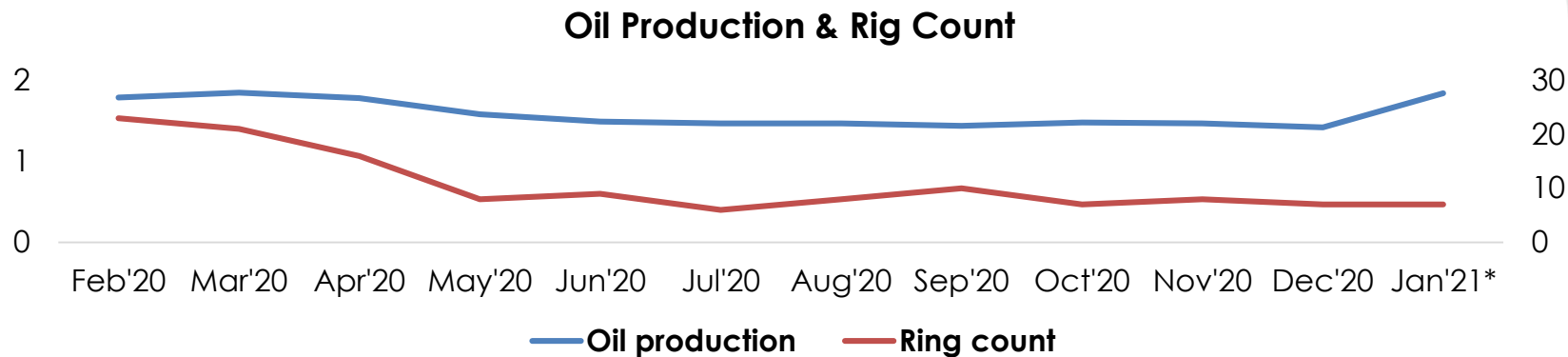
- FBN PMI reading in January declined by 19.1% in January to 44.5pts from 55pts
- Demand and supply are often slow at the beginning of the year
 - This is fast becoming the normal trend - **Post festive season blues**
 - Which reflects the typical lull in general economic activities
- PMI will increase on hopes of vaccine availability, border reopening and AFCFTA in the coming months

FAAC as an Impetus for M2 growth



- FAAC is a major factor that fuels money supply saturation
- FAAC disbursement likely to increase on higher oil prices and VAT revenue
- This means more naira funds for states to embark on capital projects and deficit financing needs

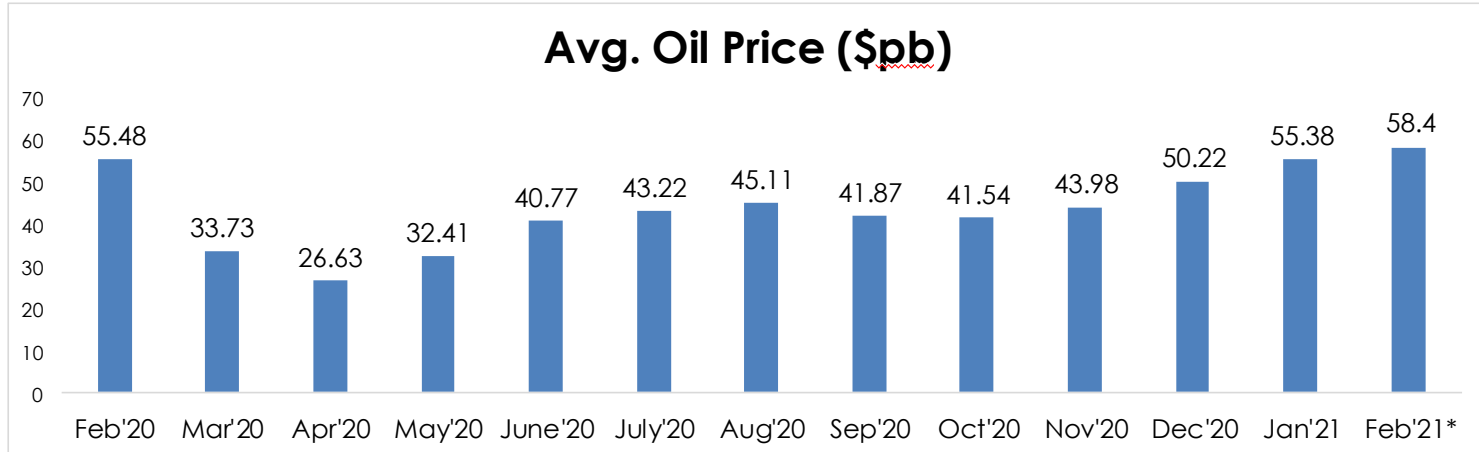
OPEC Strict with Output Cut Compliance



- OPEC recorded 103% compliance with January oil supply cuts
- Nigeria's oil production and active rigs to increase as OPEC+ gradually eases output
- January estimate: 1.8mbpd
- Rig count fell to 7 in Dec'20 from 8 in Nov'20

Source: OPEC, Baker Hughes

Oil Price



- Oil price traded on the average of \$55.38pb in January it is expected to remain above \$55pb in Q1'21
- Oil prices will trend upward on hopes of demand recovery as COVID vaccines roll out
- Higher oil revenues will boost foreign exchange earnings and increase government revenue

Ships Awaiting Berth

Vessels Awaiting Berth	Dec '20	Jan '21
Lagos - Apapa	22	22
Lagos - Tincan	6	18

- Vessels awaiting berth at Lagos ports up 53.84% to 40 in January
- Seaport activities to improve as global trade climbs
- New NPA electronic truck call-up system to boost port clearing activities especially at Apapa port



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Power Update – No Grid Collapses



5,584MW

Peak Energy
Generated



4,502MWH

Average Energy
Generated



0

Total Grid
Collapses



28,282

Constrained Revenue
(Million Naira)

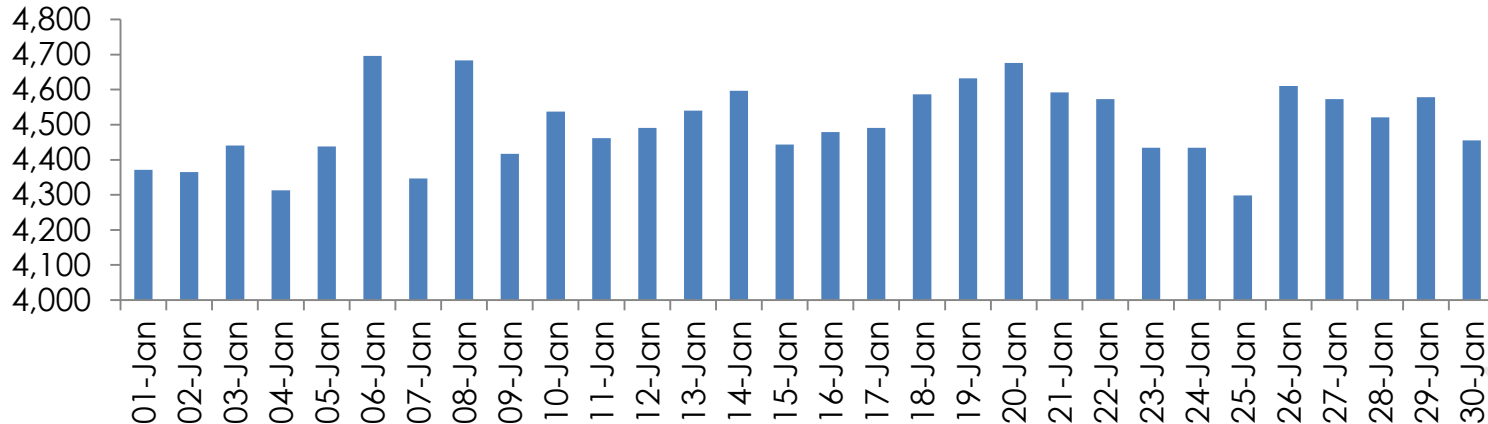


1,964MWH/H

Total
constrained
energy

- Power transmission hits new peak of 5,584MW

Power Output (MWH)



Power Sector News

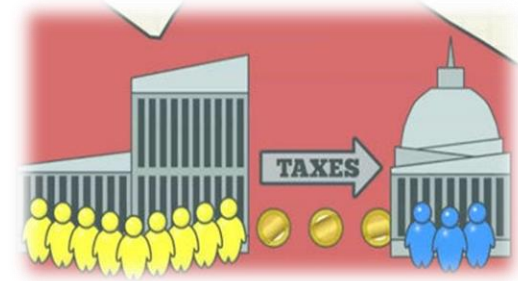
- Electricity grid collapse occurred 27 times in three years
- Power sector loses N20.5bn as load rejection lingers
- CBN disbursed N14.35bn to discos for meter procurement
- Nigeria can generate 30,000MW of electricity by 2030, says Gencos
- Post privatization - Nigeria's stranded power rises 263% to 3,742MW
- AFDB okays \$7mn for mini-grid program
- Electricity tariff - Labour condemns billing of Nigerians in foreign currency



Policy

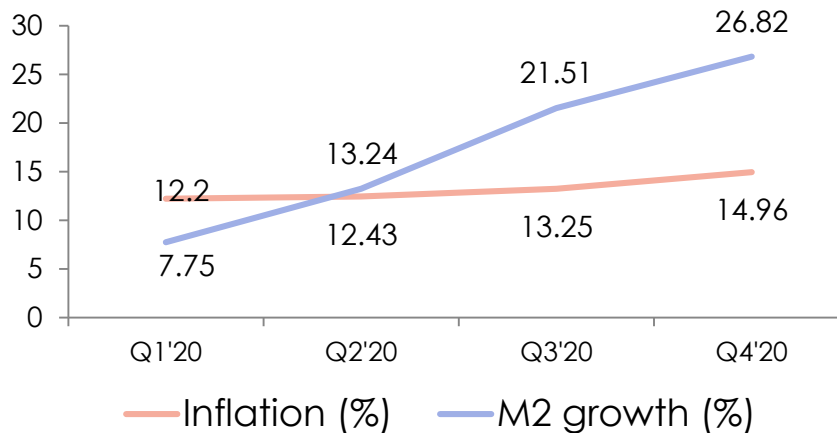
Fiscal Policy

- FG rules out further borrowing from the IMF
 - Partly as a psychological spillover of the past
 - And partly due to stringent conditionalities
- Likely to ease pressures on growing external debt and exchange rate volatility
- Will trigger an increase in domestic debt issuances
- Leading to a crowding out of the private sector



Securitization of FGN Debt

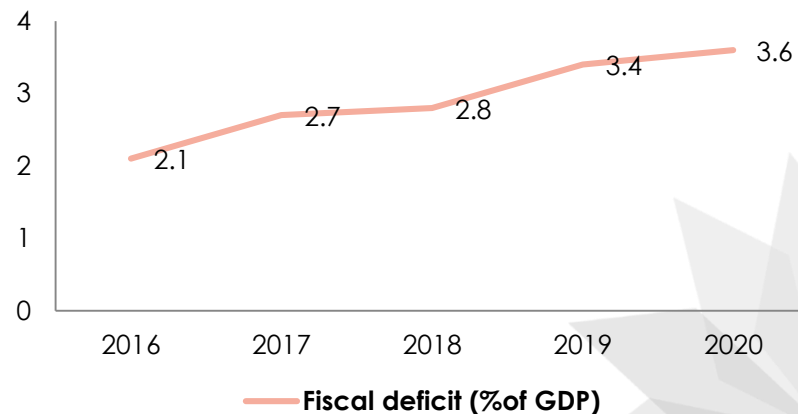
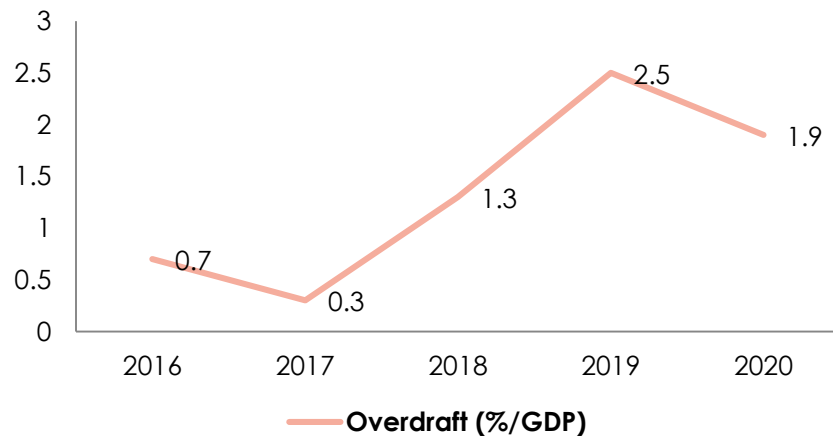
- FG to securitize its debt – overdraft estimated at N11trn (30% of FGN debt)
- M1 (N15.92trn), M2 (N37.95trn), M3 (N38.67trn)
- M1+M2+M3 = N92.54trn
- Securitization of N11trn debt to mop up liquidity and lower M2 by 30%



***Inflation is increasing as
Money Supply climbs***

Securitization of FGN Debt

- The Fiscal Responsibility Act limits the amount available to the FG under its Ways and Means Facility to 5% of previous year's fiscal revenues.
- The CBN's primary mandate is price stability
- Money Supply not the only cause of inflation



Monetary Policy

- MPC Maintains status quo in unanimous vote
 - MPR: 11.50% p.a., CRR: 27.50%p.a., Liquidity ratio: 30%p.a., Asymmetric corridor around the MPR at +100/-700bps

○ Rationale:

- Inflation stoking factors on the increase
 - Higher cost reflective tariffs and PMS pump price
- Monetary policy tightening will stifle the economic recovery

○ Impact:

- Will be inflation neutral
- Will have minimal impact on credit availability



Monetary Policy Outlook

- Inflationary pressures expected to moderate as the economy returns to positive growth
- “Combating inflation vs. stimulating growth” remains the MPC’s dilemma
- Committee will continue to pursue its current stance of systematic synchronization of monetary and fiscal policy accommodation through its developmental finance initiatives
- Unlikely to shift stance until Q2’21 – 100bps hike in MPR to 12.5%



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Exchange Rate Policy Outlook

- Policy likely to be more market determined
- CBN likely to reduce forex rationing and bolster external reserves
- Will allow a crawling peg to bring inflation under control

A crawling peg will effectively allow the naira to fluctuate within a band – permitting a managed depreciation

- Rather than a one-off devaluation
- This will be transparent for investors and reduce uncertainty
- The crawling peg could be based on (Nigeria-US) inflation differential – currently at 14.35%.

The New Auto Policy – You Can Now Buy a New Car or Tokunbo??



- FG reduced import duty on auto mobiles from 35% to 10%
- Declining the landing cost of brand new cars
- Could taper transportation and logistics cost
- Will boost activities in automobile industry


year	Prado Price (N'mn)	Corolla Price (N'mn)	Exchange rate (avg)
2018	53.5	15.5	361.96
2019	50	12.9	361.92
2020	52	16.5	382.09
2021*	49.4	15.675	420




Stock Market Review

Nigerian Stock Market in January




○ Market cap  5.4% to N22.19trn

○ P/E  0.8 % to 16.04 x

○ NSE ASI  5.3% to 40,270.72

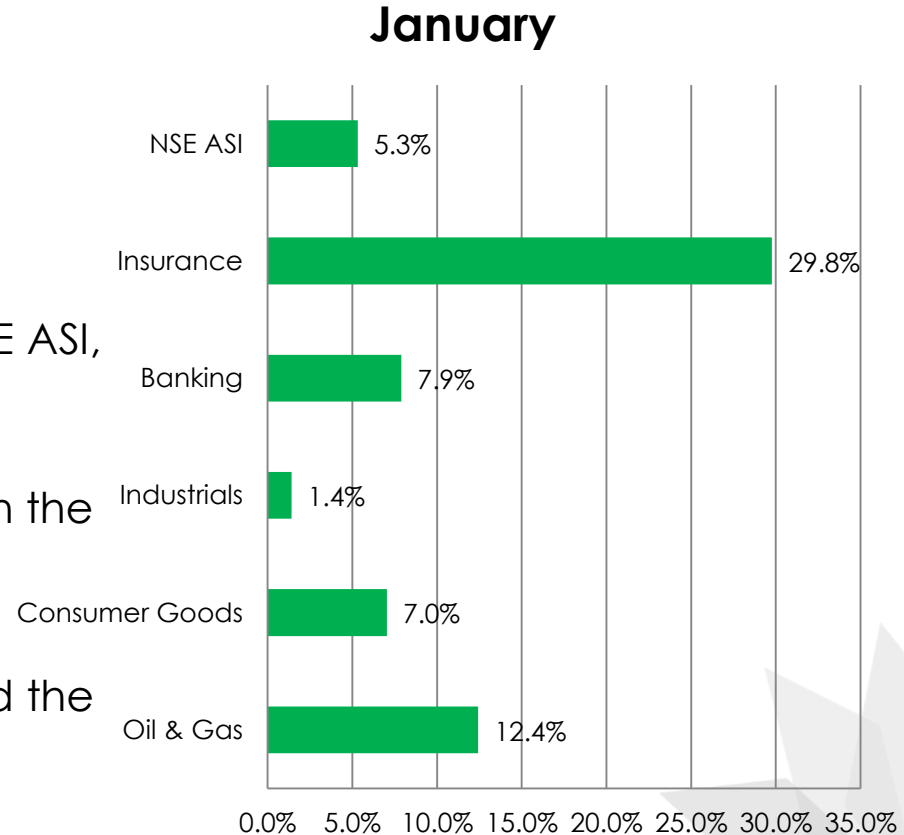
○ 14 days positive, 6 days negative

Peer Comparison

Exchange		YTD Return	Driver
NSE ASI		5.3%	<ul style="list-style-type: none">• Liquidity from institutional investors• Hunt for attractive yields• Declining yields on fixed income instruments
JSE ASI		5.16%	<ul style="list-style-type: none">• Need to finance investments that promote social and environmental growth• Optimism among global investors for stimulus and relief packages
GSE		4.41%	<ul style="list-style-type: none">• Investors keenly took advantage of current undervaluation of equities• Market benefitting from low interest rate environment in advanced market

Sector Performance In January

- All sub indices recorded positive returns, driven by
 - Declining yields on debt instruments
 - Hunt for attractive yields
- Insurance sector outperformed the NSE ASI, driven by
 - Investor sentiment towards growth in the industry
 - Recent economic events enhanced the importance for insurance products
- Investors' position for possible M&A



Stocks Indicating an Asset Bubble

STOCKS	INDUSTRY	Change in Earnings		Share Price Change (One Year Return)		P/E ratio
BUA	Industrial	↑	16.33%	↑	103.59%	37.98x
BOC Gases	Chemical	↑	47.8%	↑	204.44%	21.40x
Neimeth	Health care	↓	316.3%	↑	298.04%	17.7x
FTN Cocoa	Agriculture	↑	17.12%	↑	175%	N/A
Maybaker	Healthcare	↑	43.9%	↑	116%	4.99x
Vitafoam	Consumer goods	↑	35.7%	↑	79.25%	7.02x
Mobil	Oil & gas	↓	35%	↑	48.75%	5.97x
Japaul Gold	Oil & gas	↑	104%	↑	340%	N/A
Mansard	Insurance	↑	48.3%	↑	138.29%	10.6x
Stanbic IBTC	Banking	↑	10.9%	↑	16.34%	9.27x
Airtelafrika	Telecom	↓	21.1%	↑	209.47%	15.81x
Average		↓	4.4%	↑	157.2%	12x

Stocks Indicating an Asset Bubble

- The higher the P/E ratio, the more unattractive the market
- Stock market correction is imminent and inevitable
 - Share prices not reflecting earnings
 - Share prices appreciating faster than earnings growth
 - Share prices above fair value
- High P/E ratios
- Stock prices expensive relative to the industry

FMCG Industry

	Flourmills	Cadbury	Unilever
Revenue	↑ 31% to N555.34bn	↓ 10% to N35.41bn	↑ 1.3% to N61.57bn
Operating Profit	↑ 42.7% to N35.21bn	↓ 91.2% to N119mn	↑ 70.5% to -N3.05bn
Profit After Tax	↑ 90.9% to N15.58bn	↓ 83.8% to N173mn	↑ 62.3% to -N1.59bn
FCF	↑ 22.4% to N40.27bn	↑ 1215% to N7.4bn	↑ 103% to N61mn
P/E ratio	5.91x	92.10x	26.2x
Dividend Yield	4.03%	5.57%	4.69%
YTD Stock return	↑ 33.46%	↓ 2.78%	↓ 2.88%

- Mixed performance recorded amongst players
- Players in a stable cash position – positive growth potential
- Flourmill's stock performance reflecting earnings performance
 - Benefitting from gravitation towards value brands

FMCG Industry - Outlook

- The industry will benefit from AfCFTA implementation
 - Penetrate other African countries
 - Increase market access for locally made goods
- FMCGs with strong export operations will benefit from the border re-opening
 - Lower production cost
 - Lower distribution cost
- Low purchasing power to continue to weigh on revenue
- Pricing has become a key source of competitive advantage
 - Smaller brands with lower prices gain market share from larger players
- Players to benefit from low cost of borrowing

Breweries Industry

	Nigerian Breweries	Guinness	International Breweries
Revenue	↓ 0.7% to N234.03bn	↑ 5.9% to N72.35bn	↓ 1.5% to N95.77bn
Operating Profit	↓ 10.6% to N22.49bn	↑ 4.5% to N3.72bn	↓ 45.8% to -N15.89bn
Profit After Tax	↓ 43.5% to N6.94bn	↓ 124% to -N317mn	↑ 33.9% to -N10.88bn
FCF	↑ 166.4% to N14.85bn	↑ 277.4% to N39.36bn	↑ 349% to N10.64mn
P/E ratio	46.73x	17.21x	N/A
Dividend Yield	2.84%	5.03%	N/A
YTD Stock return	↑ 12.5%	↑ 0.79%	↑ 4.2%

- Mixed performance recorded amongst players
- Potential for business growth amongst players as measured by increased free cash flow
- Lingering weak economic fundamentals continue to weigh on bottom line figures

Breweries Industry - Outlook

- Increased competition
 - Rapid population growth will continue to drive demand
 - Nigeria's brewery space remains under utilized
- Pricing has become a key source of competitive advantage
 - Smaller brands with lower prices gain market share from larger players
- Brewery industry to benefit from AfCFTA implementation
 - Penetrate other African countries
 - Increase market access for locally made goods
- Players to benefit from low cost of borrowing

Banking Industry – Q3'2020 Result

	FBN Holdings	Stanbic IBTC Holdings	Fidelity	Sterling
Gross Earnings	↓ 2.7% to N574.4bn	↑ 0.3% to N234.4bn	↓ 4.8% to N205.2bn	↓ 3.9% to N144.4bn
Net Interest Income	↓ 8.2% to N256.4bn	↓ 4.6% to N74.2bn	↑ 25.2% to N104bn	↑ 4.3% to N67.5bn
Non-Interest Income	↑ 21.8% to N168bn	↑ 14.6% to N124.7bn	↑ 2.9% to N24.7bn	↑ 21.4% to N27.8bn
Profit After Tax	↑ 8.1% to N79.7bn	↑ 10.9% to N83.2bn	↓ 1.4% to N28bn	↑ 10% to N11.7bn
Impairment	↑ 0.4% to N50.9bn	↑ 519% to N9.9bn	↑ 402% to N15.7bn	↑ 131% to N13.4bn
Dividend Yield	5.07%	5.33%	7.41%	1.52%
P/E Ratio	4.18x	5.99x	2.94x	4.90x
YTD Change	↑ 5.59%	↑ 2.16%	↑ 7.94%	↓ 3.43%



- Mixed performance amongst players
- Players recorded an increase in non-interest income
 - Improved digital services across players
- Increased impairment charges driven by higher probability of default
- Fidelity and Sterling bank delivered optimal pricing despite a low yield environment as measured by the increase in net interest income

Banking Industry - Outlook

- Competition to intensify – especially in the retail space
 - Possible mergers and acquisitions within and across tiers
- Macroeconomic weaknesses likely to be reflected in FY result
 - Significant increase in impairment charges
 - A drag on capital adequacy
- Lower deposit repricing to support growth in net interest income
- Further naira devaluations will present the industry with revaluation gains
 - Broadly net positive foreign assets position

Banking Industry - Outlook

- Tier 1 banks switching to hold co. structure
 - To diversify revenue base and hedge against currency volatility as well as low interest rate environment
- Banks also expanding footprints to other African countries to take advantage of AfCFTA
- Asset quality volatility to remain a feature of the Nigerian banking system
 - Largely due to increased exposure to the oil & gas industry and foreign currency denominated loans
 - Foreign-currency loans accounted for approx. 38% of outstanding loans as of March 20
 - Banks have also extended outsized loans to single borrowers



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Telecoms Industry

		MTN		AIRTEL
Revenue	↑	13.9% to N975.8bn	↑	13% to \$2.9bn
EBIDTA	↑	9.1% to N497.9bn	↑	16% to \$1.3bn
PAT	↓	3.3% to N144.2bn	↓	21% to \$261mn
FCF	↑	0.4% to N303.6bn	↑	20% to \$466mn
P/E ratio		18.69x		15.14x
YTD Stock return	↑	6.53%	↑	9.18%

- Top line figures resilient despite the pandemic and economic downturn
- Increased financial leverage weigh on bottom line
 - Resulted in an increase in finance cost
- Players also recorded increase in operating cost
- MTN affected by exchange rate pass-through

Telecoms Industry- Outlook

- Increased operational and financial resilience to persist
 - Telecoms to further compete with financial institutions
 - Pursue PSB license
 - Partner with digital content providers
- Telecoms to focus on increased network capacity
 - Expanding rural coverage
 - Focus on 4G coverage
- Deepened multi-products propositions
- Projected to grow at 14 – 15% in 2021

Telecoms Industry- Outlook

- Compulsory sim registration to weigh on profitability
 - Ban on new customer acquisition until the customer has obtained a National Identification Number
 - Possible penalties for late submission of NIN customers
 - Further extension of NIN-SIM integration deadline to April 6, 2021

Insurance Industry

	AIICO	NEM	Mansard
Gross Premium Written	↑ 24% to N62bn	↑ 11.1% to N22bn	↑ 9.2% to N47.6bn
Net Premium Income	↑ 21% to N52.8bn	↑ 17.5% to N14.8bn	↑ 20.5% to N31.7bn
PAT	↑ 17.5% to N6.7bn	↑ 70.8% to N4.1	↑ 48.3% to N4.3bn
YTD Return	↑ 23.89%	↑ 2.56%	↑ 33.33%

- Impressive performance driven by
 - Improved regulatory support
 - Innovation of improved insurance products
- Likely consolidation across the industry driven by:
 - Need to meet up with the new capital requirement
- Industry stock return in concurrent with earnings performance

Insurance Industry- Outlook

- Need for players to offer specific products desirable to various income and demographic levels
 - Gradual demand for insurance products by the elite and middle class, driven by recent economic issues and events
 - Increasing poverty rate and decline in purchasing power makes the idea of insurance unthinkable to many Nigerians
- Need for awareness campaigns on relevant insurance cover for lives and property of individuals and all businesses
- Projected to grow at 5 - 7% in 2021
- Improved regulatory support
 - Technology driving insurance penetration

Stock Market Outlook – February 2021

- Release of more full year earnings
 - Expected resilient results from blue chip companies
 - Rally for capitalised stocks
 - Banking stocks to dominate activity due to high sensitivity to liquidity
- Bullish trend in the market will continue to ride on the wings of low yields in the fixed income environment in the short term
- Further consolidation in the insurance space
- Net foreign outflow to persist especially with improved FX liquidity



Aviation Update

Global Aviation Update



- 2021 will remain challenging for the aviation industry
- Spike in COVID-19 cases and new strain renewing travel restrictions
- Widespread vaccine availability and implementation of successful testing will be key for the recovery in travel demand and share prices
- Global airline shares fell by 30% in 2020 diverging from the wider equity markets (+14.1%)
- Cash burn rate could remain high if the recovery in travel demand stalls
- Cargo revenues will stay strong as economic activity picks up gradually

Global Aviation Update

- Reducing operating costs will be the main focus of airlines in 2021
- UK bans direct flights from Dubai and rest of UAE to stop spread of new strain
- Germany restricting travel from Britain and South Africa
- Biden orders travel restrictions- South Africa, Brazil, Ireland, the UK and 26 other European countries
- Recovery in global aviation industry to slow

Domestic Aviation Update

- FG suspends 7.5% VAT deductions from air transport fares and aviation services
- Air Peace orders 30 new Embraer E195-E2 aircrafts from Brazil - Estimated at \$2.2bn
- Making it the first African carrier to receive the brand new aircraft and second to Lufthansa globally, which ordered 35
- Average air fare rose by 18.54% y-o-y to N36,454.59 in Dec'20 from N36,301.74 in Nov'20
- States with highest air fare were Anambra, Lagos & Cross River



Political Update - 2023

“On your marks, Set, Go...”

Political Update

- APC plays for legacy while trying a political reset
- The INEC timetable turns 2023 into 2021
- The squabbling, splintering and gathering starts
- From P.H. to Sokoto and Jigawa, the chickens have started dancing before the music begins
- Keep your eyes on Awka – the litmus test for 2023 in November 2021
- Will professionalism trump political jockeying in Onitsha, Nnewi, Abagana and Aguleri?

Political Update

- There is everything to play for the elites vs the traders – let's go
- The replacement of the service chiefs is long overdue
- The omission of the S.East was considered as a misstep
- The politics of “zoning or not to be” will dominate the discourse
- The Lagos APC are considering all options in pulling their weight
- The assenting to the Electoral Amendment Act and the national census could be game changers

Political Update

- Also, the full enforcement of the NIN as a proxy for a census and gagging of the social media are key developments
- We remain of the view that both the APC and PDP will face major internal revolts
- Leading to a splintering into 4 parties
- Gravitating around personalities rather than ideologies
- The southwest will attempt to galvanize



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Political Update

- But as usual, will fail in its attempt to rally around a leader
- The APC will hold its convention and elect a NWC which will lead to some exits
- Success in 2023 will, to a large extent, depend on tenuous endorsements from Abuja

Concluding Remarks

- The indicators and data throw up or validate the following structural problems
 - Fiscal deficit as a percentage of GDP is higher than the comfort zone at 3%
 - Multidimensional poverty and lack of opportunity is a social economic problem that needs frontal attack
 - The economy is in a state of dynamic disequilibrium with factor prices distorting the allocation of resources
 - The inflation basket needs to be reconstituted

Concluding Remarks

- The output constraint, fiscal imbalance and deteriorating terms of trade are responsible for a near perpetual state of disequilibrium



- The cocktail of policy required to address these symptoms include:

- Auto policy
- Trade policy
- Exchange rate realignment
- Investment sentiments



February Outlook

February Outlook – Spending Valentine's in Isolation

- Inflation will come in at 16.2% on February 16
- Q4 GDP growth will come in at -4.8%
- Bringing the annual average to 3.11%
- The naira will trade horizontally at the parallel market at 480
- Interest rates have started climbing on tighter liquidity
- Expect interest rates on financial instruments to climb towards 4-5% p.a
- Corporate earnings will not be able to justify current valuations

February Outlook – Spending Valentine's in Isolation

- A stock market correction is now inevitable
- Major restructuring of banking exposures to reduce impairments will take centre stage
- Nigeria will attempt to get over the vaccine shortage
- As usual, no shortcuts to doing the right thing at the right time
- Oil prices might test \$60pb before retreating to \$55pb
- External reserves will be stuck at the \$35-36bn level on more forex rationing

Corporate Humour

Biologically speaking, if something bites you, it is more likely to be female

– *Desmond Morris*

Save a boyfriend for a rainy day and another in case it doesn't.

– *Mae West*

Bad weather always looks worse through a window

– *John Kieran*

Corporate Humour

A homeless musician is one without a girlfriend

– *Dame Barry*

Hollywood is a place where they shoot too many pictures and not enough actors.

– *Walter Winchell*

The word duck is 75% obscene

– *Lenny Bruce*

Corporate Humour

Hard work never killed anybody, but I figure why take the chance

– *Edgar Bergen*

I have been a success: For sixty years I have eaten, and have avoided being eaten

– *Logan Smith*

Behind every successful man stands a woman. And behind her stands his wife

– *Fay Weldon*

Corporate Humour

If you want to feel rich, just count all the things money cannot buy
– *Chinese Proverbs*

Don't give up, Don't lose hope, Don't sell out
– *Christopher Reeve*

When the burdens of the presidency seem heavy, I always remind myself IT COULD BE WORSE. I could be a major
– *Lyndon B. Johnson*



Thank
you



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