FDC Bi-Monthly Update

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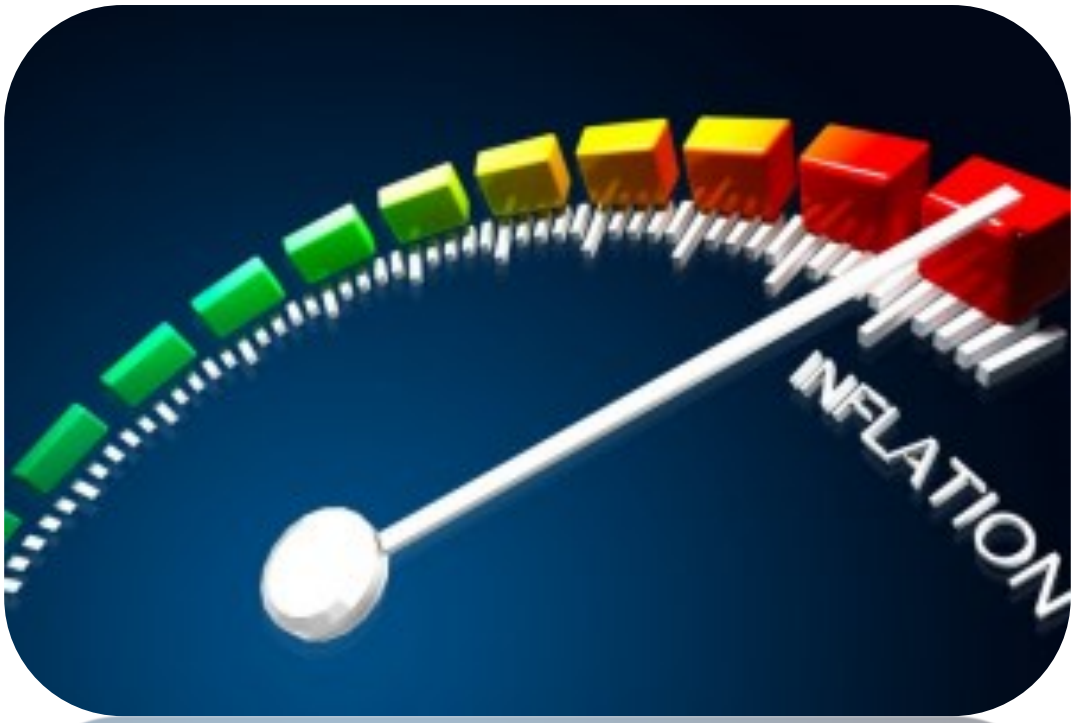
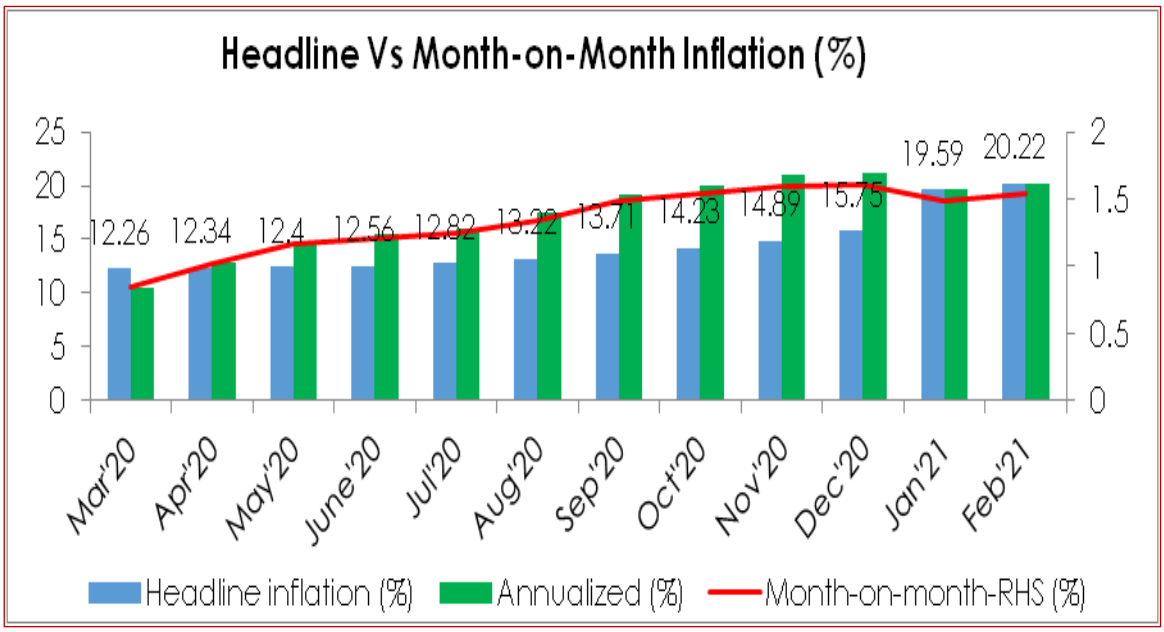
In This Issue . . .

Headline inflation jumps to a 4-year high (17.33%) – could rise further



The consumer price index spiked further in February by 0.86% to 17.33%, marginally higher than FDC forecast (17.27%). This is the highest inflation level in the last 48 months. Consumer price inflation jumped sharply since September 2019 after the land borders were closed to curb smuggling and encourage local production. At the current level, headline inflation is almost 100% above the upper band of the CBN's inflation target (9%).

The inflation spiral this time is driven mainly by rapidly increasing ways and means advances (money supply saturation), commodity supply disruptions, forex rationing & exchange rate pass-through. Currency adjustments have affected all imported commodities – wheat, dairy products, etc. Cost push inflation increased partly due to re-pricing of PMS and kerosene.



[1]

The month-on-month inflation has oscillated in the last few months. It increased by 0.05% to 1.54% (20.22% annualized) in February after a 0.12% decline in January. If the rise in the monthly rate becomes a point of inflection rather than a blip, the chances of a more hawkish monetary policy stance increases in H2'21.

Inflation breakdown

Core inflation rises to 12.38%

Core inflation, which is inflation less seasonalities rose sharply by 0.53% to 12.38% in February. However, on a monthly basis, it fell slightly by 0.05% to 1.21%. This is largely due to currency pressures, higher PMS price and electricity tariff hike. The highest price increases were recorded in air and road transport (PMS price increase), medical services, pharmaceutical products, repair and maintenance of vehicle.

Food inflation at a record high – 21.79%

The year-on-year food inflation jumped 1.22% to 21.79% in February. On a month-on-month basis, it inched up 0.06% to 1.89%. This rise in the food index was caused by supply shortages, currency pressures and forex restrictions. The commodities that recorded the highest price increases were bread and cereals, potatoes, yam and other tubers, meat, food products, fruits, vegetable, fish and oils and fats.

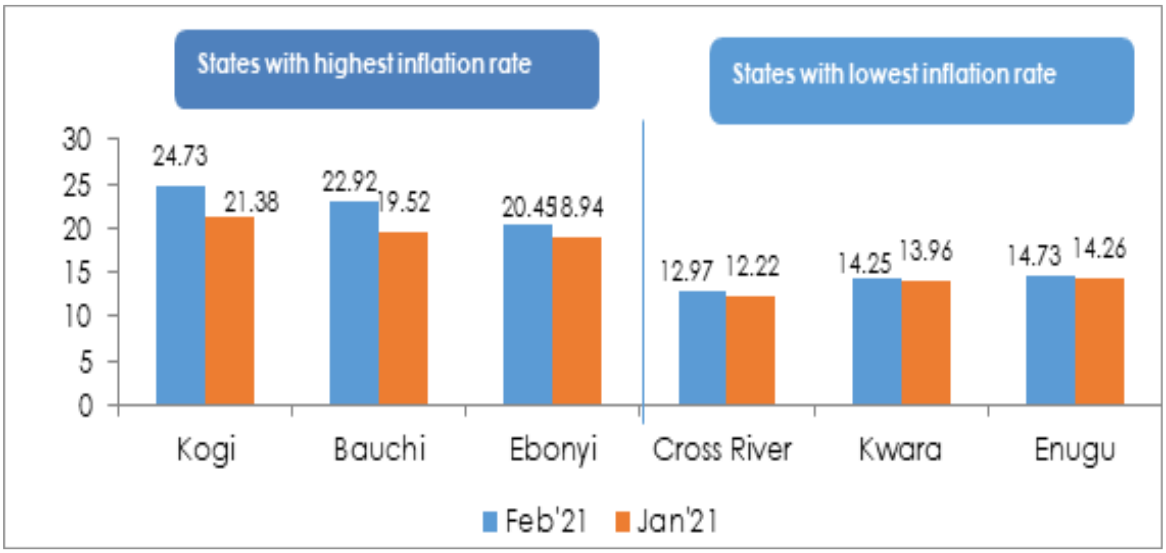
[1]NBS, FDC Think Tank

Rural and Urban

In February, the annual urban and rural sub-indices increased sharply. Urban inflation rose by 0.89% to 17.92% while the rural sub-index edged higher by 0.85% to 16.77%. On a monthly basis, both sub-indices recorded marginal increases. The urban sub-index was up 0.06% to 1.58% while the rural sub-index rose by 0.04% to 1.50%. The rural-urban inflation differential edged higher to 1.15% from 1.11% in January.

State-by-State Analysis

Cross River state recorded the lowest inflation rate (12.97%), followed by Kwara (14.25%) and Enugu (14.73%). However, the states with the highest inflation rates were mainly in the North - kogi (24.73%), Bauchi (22.92%), and Ebonyi (20.45%).

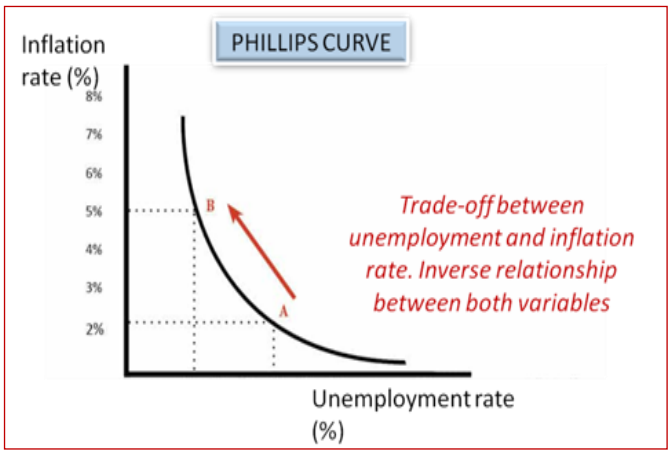


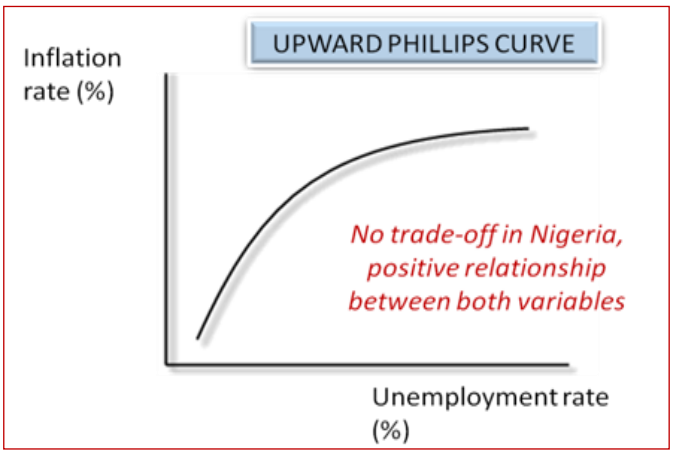
[2]

Nigeria defies macroeconomic logic as inflation and unemployment spike

The combination of rising inflation and higher unemployment (33.3%) suggests that the trade-off between inflation and unemployment as espoused by the Philips curve no longer exists i.e. Nigeria now has an upward Philips curve. The CBN noted that inflation above 12% is growth retarding. Output constraints will reduce the ability to create jobs, thus increasing the level of unemployment in the country. Rising inflation and unemployment will worsen the country's misery level and could trigger social unrest. Addressing both challenges will require 'sequencing' i.e. attacking one challenge before the other. Moreover, inflation is a monetary phenomenon while unemployment is a fiscal phenomenon.

[2]NBS, FDC Think Tank





SSA Regional Trend – All recorded price increases

The current inflation rate (17.33%) places Nigeria as the country with the 8th highest inflation rate in Africa. Inflation data released across sub-Saharan Africa (SSA) indicates a general increase in consumer prices. This upward price movement was largely driven by higher food and energy costs. With the exception of Zambia, all the SSA countries left their monetary policy rate unchanged. The increase in Zambia's policy rate was to anchor inflation expectations and restore macroeconomic stability.

Country	February Inflation (%)		Monetary Policy rate (%)	
Nigeria	17.33	↑	11.50 (Jan)	↔
Angola	24.85	↑	15.50 (Jan)	↔
Kenya	5.78	↑	7.00 (Jan)	↔
South Africa	3.20 (Jan)	↑	3.50 (Jan)	↔
Ghana	10.30	↑	14.50 (Jan)	↔
Uganda	3.80	↑	7.00 (Feb)	↔
Zambia	27.2	↑	8.50 (Feb)	↑

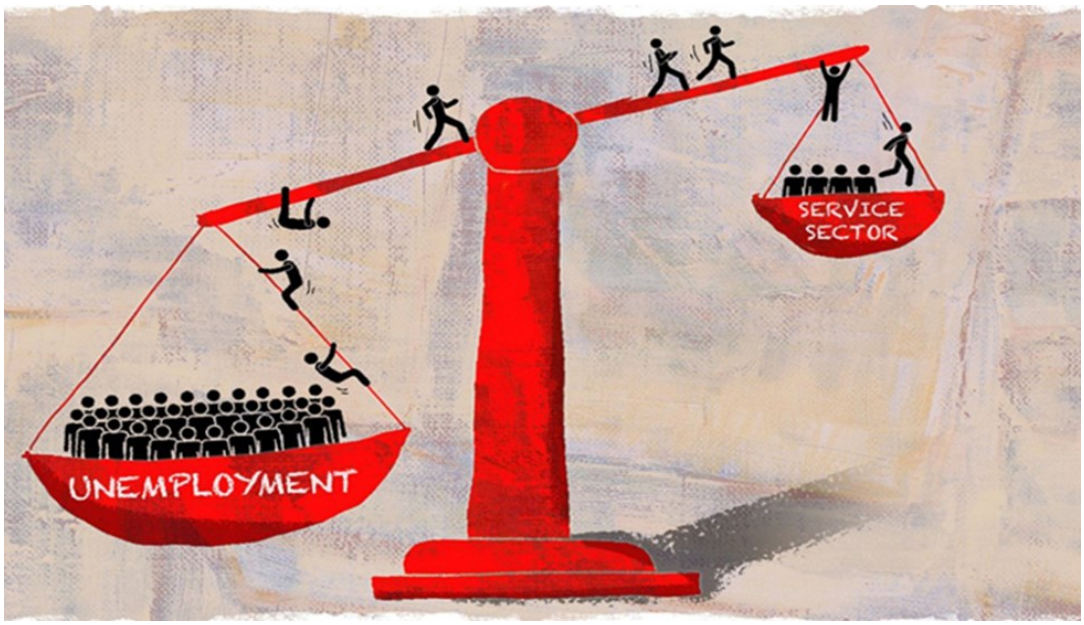
[3]

Inflation Outlook

We expect a further buildup in inflationary pressures in the coming months largely because of the persistent increase in the price of fuel and exchange rate pressures. The MPC is expected to meet on March 22-23. The increase in the headline inflation will become a major issue confronting the committee as they prepare for their meeting. The committee will need to come to terms with the fact that the absence of a unified flexible exchange rate will continue to be a recipe for macroeconomic and monetary instability.

[3]NBS, Trading Economics, FDC Think Tank

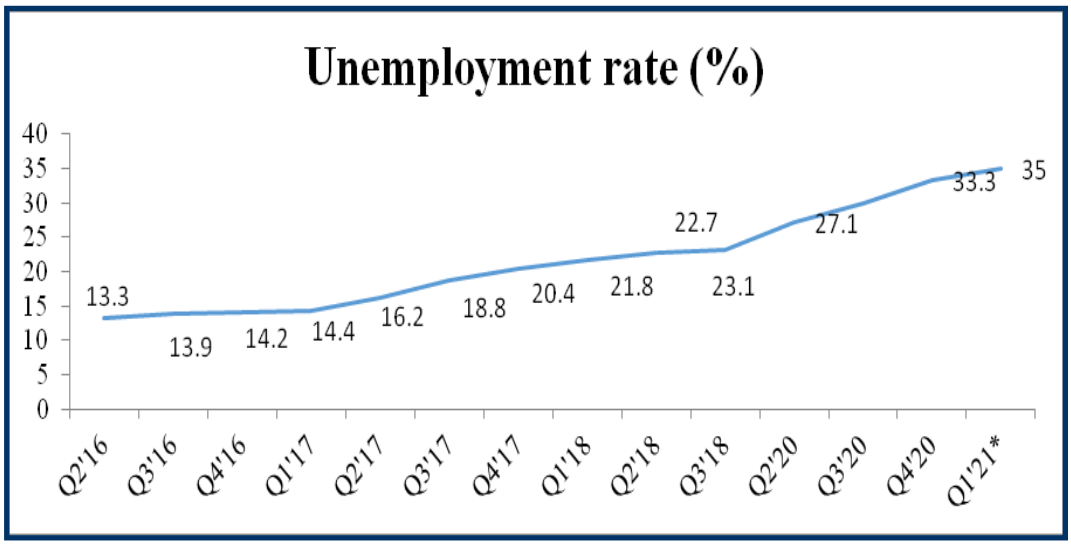
Unemployment up 6.2% to 33.3% in Q4'20



After a spasmodic schedule of data releases on unemployment and labour statistics, the NBS finally released the much awaited unemployment numbers for Q4'20 this week. Not surprisingly, the number spiked by 6.2% to 33.3% from 27.1% in Q2'20. The figure now makes Nigeria jump from No. 5 to the 3rd highest rate of unemployment in the world. The highest being Bosnia and Herzegovina (33.69%) and the 2nd highest in Africa next to Namibia, which has an unemployment rate of 33.4%.

This data point will be very disturbing to policy makers after the stimulus package of N2.3trn or 4% of GDP and the recent greatly heralded exit from recession. It is troubling to the extent that when conflated with the high level of multidimensional poverty of 64.8% in the Northwest of Nigeria, it shows that there is a simmering crisis of poverty, unemployment, debt and productivity in Nigeria. The misery index, which is the sum of unemployment and inflation is now 50.63%.

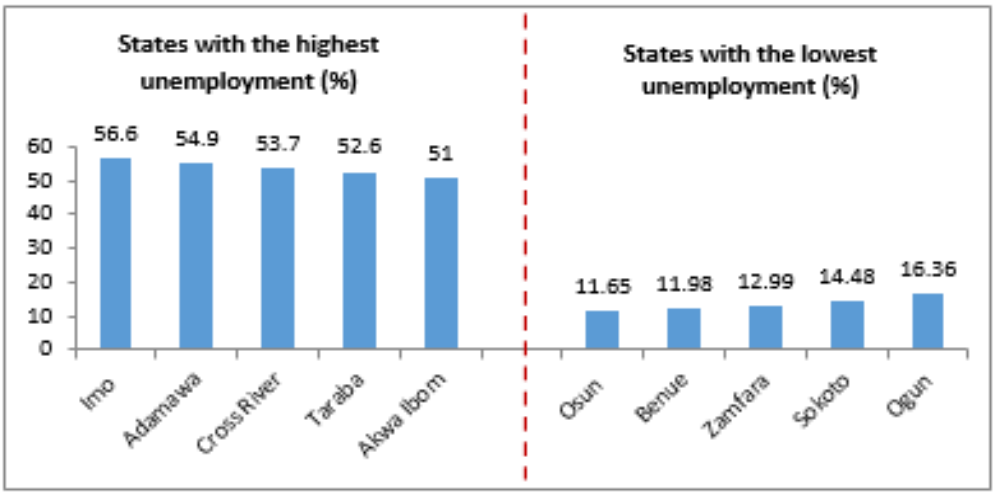
The good news, however, is that underemployment declined by approximately the same magnitude 5.8% as the increase in unemployment. It looks coincidental but it means that an underemployed man is less dangerous to society than a completely unemployed citizen.



[4]

Unemployment highest in the North East and South-South states

The state by state breakdown shows that Imo (56.6%) had the highest unemployment rate, followed by Adamawa (54.9%), Cross River (53.7%), Taraba (52.6%) and Akwa Ibom (51.0%). Apart from Imo, the worst performing states are in the South-south and North East, suggesting that oil revenue has not had the multiplier effect of leading to inclusive growth, creating jobs and lifting people out of poverty. Osun state had the lowest unemployment rate (11.7%).



The states with the highest underemployment rates are mostly in the North West - Benue (43.5%), followed by Zamfara (41.7%) and Jigawa (41.3%). Lagos state had the lowest rate of underemployment (4.5%).

[4]NBS, FDC Think tank

Youth unemployment - A ticking time bomb!

Youth unemployment in Nigeria is a ticking time bomb and a recruitment ground for banditry, kidnappers and ransom seekers. Unemployment increased across all age brackets but young people were particularly hard hit, with those aged 15-24 years suffering the biggest drop in employment (53.4%). Youth unemployment increased to 42.5% from 34.9% in Q2'20. An alarmingly high unemployment rate among the youths has major social and economic consequences. It slows down economic growth, contributes to crime rates and has an adverse effect on both physical and mental health. Crimes such as robbing, kidnapping, and fraud increase when unemployment increases, because of the widening disparity between the rich and poor.

Age Group (years)	**Unemployment rate (%)**	**Underemployment rate (%)**
15-24	53.4	19.8
25-34	37.2	21.6
35-44	27.2	23.6
45-54	25.4	24.4
55-64	25.9	25.7

Outlook

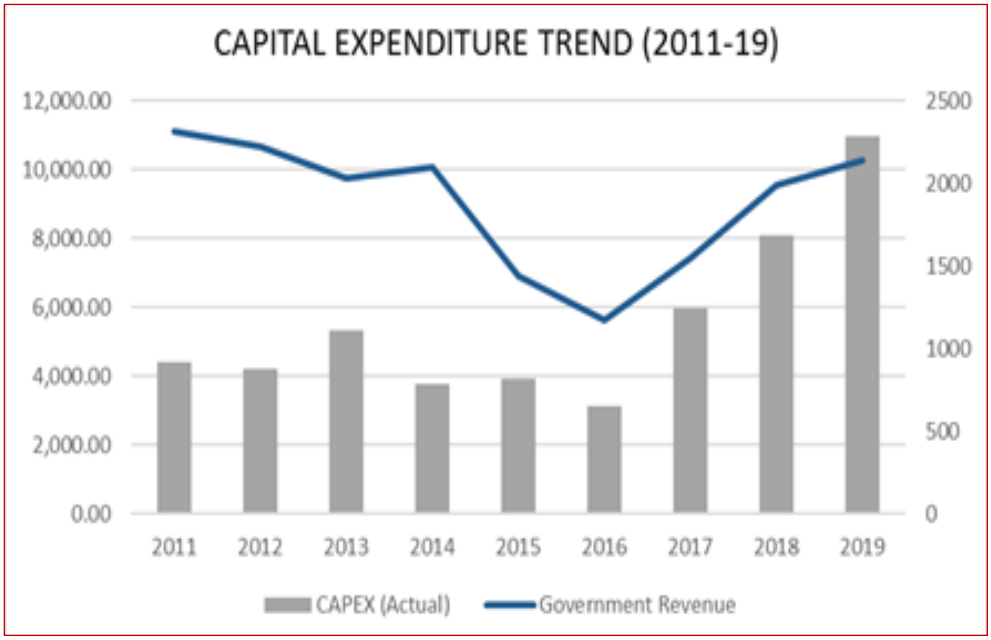
Our projections based on the FBN PMI employment subset is that unemployment is likely to increase but at a slower pace in the coming quarters. It is estimated to rise to 35% in Q1'21.

Infrastructure deficit as a constraint to economic development

Infrastructural development plays a pivotal role in enhancing economic growth, improving living standards, reducing poverty, and contributing to environmental sustainability. Between 2009 and 2013, Nigeria invested a paltry $664 per capita per annum in infrastructure (3% of GDP), compared with an average investment of $3,060 (5% of GDP) in developed countries.[5] This has widened the country's infrastructure gap and has been a major impediment to economic growth. According to Moody's, a leading rating agency, Nigeria's infrastructure gap is estimated at $3trn, which is six times the size of its annual GDP. This poses a major funding challenge in the face of the current fiscal imbalances. Besides, the country is currently grappling with the hydra headed problems of inflation (17.33%), unemployment (33.3%) and rising debt.

The good news is that the Federal government has reiterated its commitment to tackle the infrastructure challenge with a combination of initiatives ranging from the PPP model, concessioning and privatization of state owned enterprises. A reduction in the country's infrastructure gap will not only boost economic growth, it will also give the country a competitive advantage under the African Free Trade Continental Area (AfCFTA) agreement.

[5]Obinna Chima and Nume Eheghe, Sept 2017. "Filling Nigeria's Infrastructure Gap;" This Day. https://www.thisdaylive.com/index.php/2017/09/20/filling-nigerias-infrastructure-gap/



[6]

How closing the infrastructure gap will help the economy and engender industrial development

Foster industrial development

The level of capital formation and an increase in productivity are key variables in determining the optimal levels of industrial development. Infrastructure development helps to reduce the constraints to growth. The industrial sector accounts for about 21.59% of Nigeria's GDP. South Africa is a great example. The country is one of the top five countries in Africa with the best infrastructure and it is the most industrialized and technologically advanced country on the continent.

Provision of employment opportunities

Anecdotal and empirical evidences have shown a positive correlation between infrastructure development and employment generation. Countries with adequate infrastructure seem to attract more investment, which in turn helps in creating more employment opportunities. According to the African Infrastructure Development Index, Nigeria ranks 23 out of 54 African economies in Infrastructure development. The country has the 2nd highest unemployment rate in Africa (33.3%) after Namibia (33.4%).

[6]CBN Statistical Bulletin and FDC Economic Think tank

Catalyst for growth

Infrastructure development plays a crucial role in the economic development of a country. Investing in key infrastructure projects such as transportation and communication networks, and reliable electricity infrastructure will impact positively on growth and development. This is because improved infrastructure helps to lower production costs and has positive impact on the ease of doing business.

The solution – public-private partnerships

It is evident that the government has taken steps to bridge the country's infrastructure deficit. The President recently approved the establishment of InfraCo, a PPP infrastructure company with an initial capital of N1 trillion to tackle the deficit problem. However, more needs to be done to quickly address the challenge as it would spur output growth, attract more investment and boost employment levels.

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The transformation of retailing - 21st-century consumers will change capitalism for the better

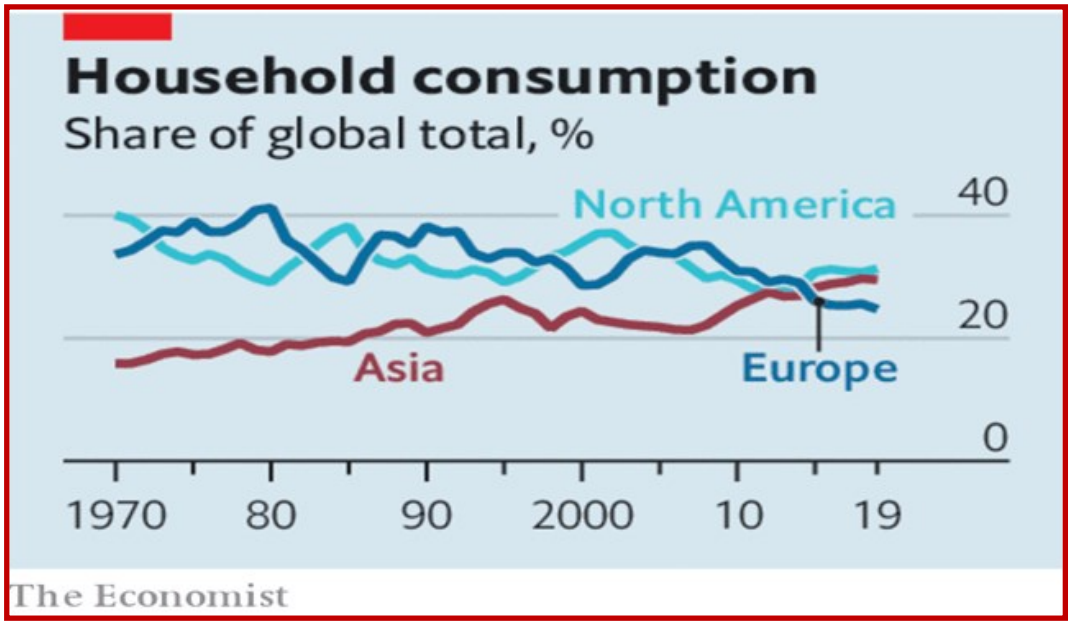
Global Perspective- culled from The Economist

New shopping behaviours should be welcomed, not feared

At the dawn of the 20th century the notion emerged that people were consumers, as well as being workers, neighbors and voters. These bag-carrying, stuff-accumulating shopaholics went on to transform the way the world works. Today you may tut at their hamster-on-a-wheel mindlessness and its environmental impact. Or you may celebrate their freedom to choose goods, experiences and ways of life. But you cannot dispute their economic and political clout. A new species of shopper is emerging: less centred on America, more intent on ensuring that what they buy reflects what they believe, and technologically dexterous. This latest incarnation of the global consumer looks likely to change how capitalism works—for the better.

Today's shoppers are no longer epitomized by Westerners stuffing mountains of groceries into the boots of their cars and loading up on monolithic, all-American brands. For one thing, they are increasingly Asian. Last year China and America were almost neck-and-neck as the world's biggest retail markets. China's two biggest online market places, Alibaba's Taobao and tmall, both do more third-party business than Amazon, the American juggernaut. Just as American consumers once popularized the shopping catalogue and the mall, now Asia's shoppers are at the frontier of retail innovations, whether that is live streaming, a store that sells a single book in Tokyo, or browsing by WhatsApp in India.

Another change is that all around the world the new shoppers are not just value-conscious, but also increasingly project their ethical and political values onto their decisions about what to buy. So, for example, they select firms on the basis of their environmental credentials and supply-chain standards. Shoppers are using their power to support trends from veganism to Xinjiang-free cotton. Fashion is increasingly conscious of its carbon footprint. Even Kraft Heinz, the hardest-nosed of Western food giants, is trying to rebrand itself as a force for environmental clean-up, as well as ketchup. It is a mistake to view these trends as mere virtue-signalling, or a fad. One way that capitalism adapts to society's changing preferences is through government regulation and laws, which voters influence, at least in democracies. But the dynamic response of companies to the signals that consumers send is a force for change, too.



The final big change is digital—but not in the way you might think. Many people worry that dominant retail platforms like Amazon and Alibaba, reinforced by giant logistics networks, will snuff the life out of commerce, leaving shopping centres barren and destroying jobs. In fact the implications of technology, for producers and consumers, are more exciting and benign. More accurate and voluminous data about shopping patterns are breaking down the decades-long relationship between mass consumption and mass production. In its place is a more varied world in which the shopper can decide whether to buy online or in store, whether to shop via platforms or from individual brands, and whether to accept targeted ads or not. The store will not die, but producers and consumers will have a more direct relationship with each other. Increasingly, middlemen will be squeezed out of the supply chain. The boundaries between entertainment, communication and shopping will blur.

One result is a surge in creativity. Shopify, a Canadian-owned tech platform that gives brands the chance to bypass Amazon, sold $120bn of merchants' goods last year, double the level of 2019. It hosts the first-ever sale by a first-time retailer every 28 seconds. In China Pinduoduo, an e-commerce firm started in 2015, may overtake Alibaba in its number of users this year, partly by enabling Chinese villagers to club together and buy groceries online. Companies like Nike are cutting their dependency on wholesalers and selling trainers via their websites and even vending machines. Giant retailers like Walmart are going "omni"—online and offline—and diversifying into new services for their digital customers. Even Amazon has opened its first cashierless grocery store outside America, in Ealing, in London.

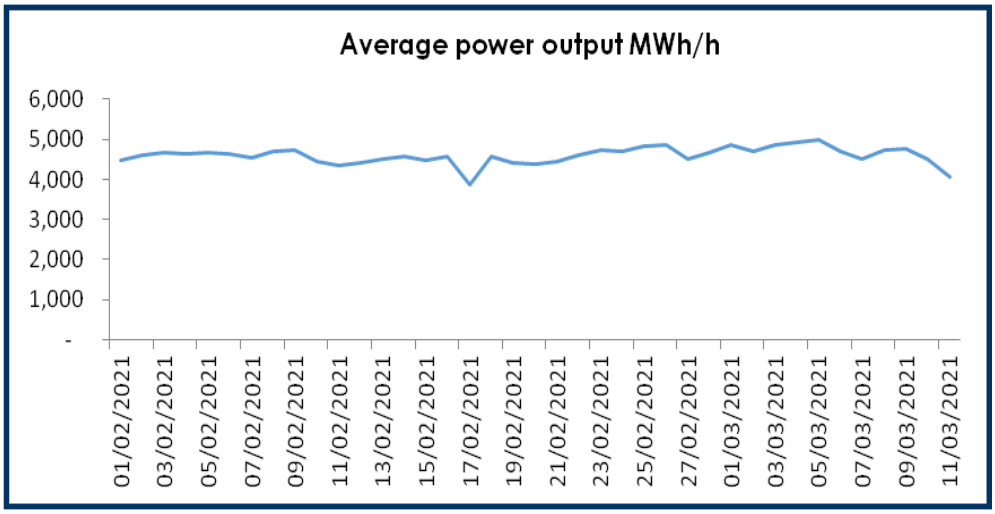
The pandemic has boosted online retail, but make no mistake, the new generation of shoppers have yet to hit their stride. Worldwide e-commerce sales last year were $4.2trn. Consumer spending is above $65trn. The consumer was crowned king over a century ago but endless new aisles remain unexplored.

Macroeconomic Indicators

Power Sector

In February 2021, the average on grid power output was 4,559MWh/h, 1.40% higher than the average of 4,496MWh/h recorded in the corresponding period in January. Major constraints to the sector were gas and water distribution challenges, which have restrained the ability of the Disco's from generating power optimally. The sector's revenue constraint was N25.28bn annualized at N303.36trn. During the review period, Geregu, Omotosho, sapele and Olorunsogo NIPP plants were the most affected by the gas constraints while the Shiroro plant was affected by high level of water constraint. Total constraints for the review period averaged 1,881MWH/H.

So far in March, power output averaged 4,693MWh/h with a total constraint of 1,902MWH/H. During this period, Geregu, Omotosho, and Afam VI NIPP plants were the most affected by the gas constraints while Shiroro plant had the highest high level of water constraints.



[7]

Outlook

The rainy season has commenced and we expect water constraints to decline significantly and a gradual pickup in hydro power. This is expected to boost power output in the coming weeks. However, gas shortages will remain the principal challenge as gas fired thermal power plants account for approximately 70% of total power generation.

[7]FDC Think Tank

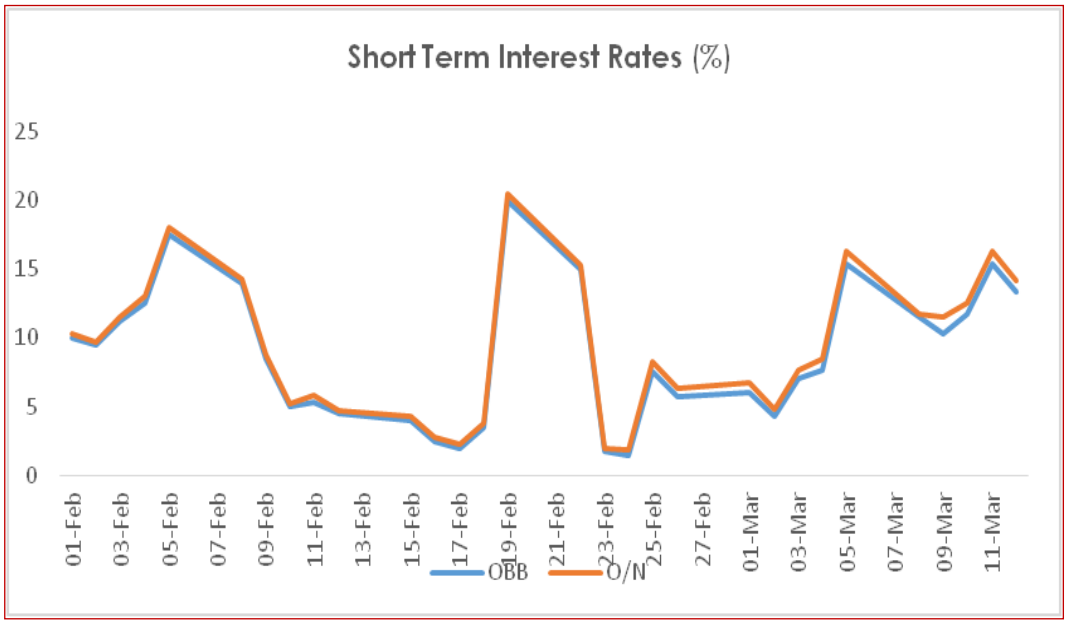
Impact

With water constraints falling, an increase in hydropower generation would increase available power supply and reduce the demand for alternative energy like diesel/ fuel powered generators.

Money Market

In the month of February, the average opening position at the interbank money market decreased by 36.26% to N349.14billion from N547.77billion in the corresponding period in January. Meanwhile, the short-term interbank rates (OBB, O/N) rose by an average of 470bps to 8.25% p.a. from an average of 3.55% p.a. recorded in the review period of January respectively.

So far in March, the average opening position was N250.83billion. Average NIBOR in March was 10.28%. In the review period, short term interbank interest rates decreased to 13.33%(OBB) and 14.17%(ON) to close the review period in March.



[8]

Outlook

While we await the outcome of the MPC meeting scheduled for March 23, we expect the CBN to continue to mop up liquidity with the use of its traditional tools.

Impact

As interest rates increase, we expect to see a shift from equities to more yield bearing instruments. In addition, the yield curve at the primary market is positive which indicates that investors are anticipating an increase in interest rates.

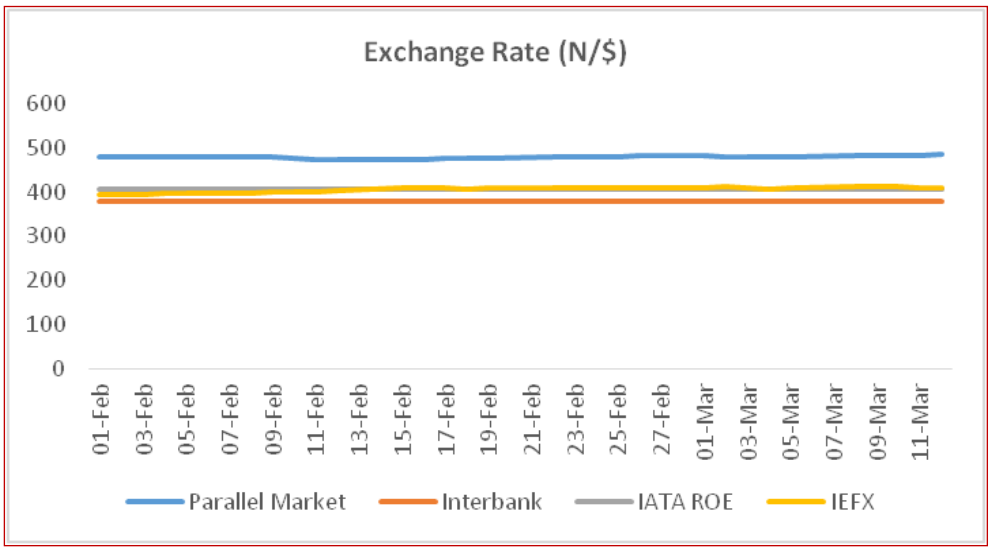
[8]FDC Think Tank

Forex Market

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

Exchange Rate

At the parallel market, the naira traded flat at N480/$ in February before depreciating by 0.42% to close at N482/$ on February 26. At the interbank market, the currency traded flat at N379/$ to close the period in February. The naira lost 0.71% at the investors and exporters' window to close at N410.25/$ on February 26 from N394/$ at the beginning of the month. This was due to demand pressures for the dollar at the IEFEX market. So far in March, the exchange rates at the parallel market and IEFX window have lost 0.62% and 0.19% to N485/$ and N410/$ respectively as at March 12.



[9]

Outlook

Currency pressures on the naira at the parallel market and I & E window are likely to persist in the near term. This could further stoke inflationary pressures on domestic commodities.

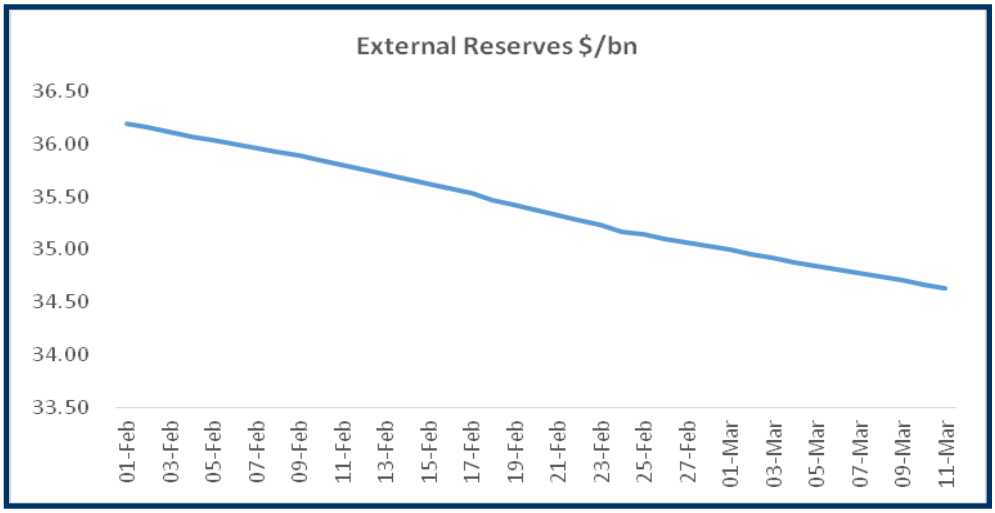
Impact

Currency depreciation will increase the cost of imports and in turn increase the price of imported goods in the near term.

[9]FDC Think Tank

External Reserves

The gross external reserves continued its depletion trend in February, losing 3.33% ($1.21bn) to close at $35.09bn on February 26 from $36.30bn on January 29th. The country's payment and import cover declined to 9.72 months from 9.42 months at the beginning of the month. So far in March, the reserves level has maintained its downward trend, losing 1.03% ($360mn) to close at $34.63bn as at March 11. The import cover fell to 9.30 months from 9.39 months on March 11th.



[10]

Outlook

External reserves are likely to deplete further, towards $33billion in the coming month despite higher oil prices. This is due to heightened uncertainty about the CBN's forex policy and a growing dollar demand backlog.

Impact

The depletion in external reserves will continue to limit the CBN's ability to defend the naira in the near term.

[10]FDC Think Tank

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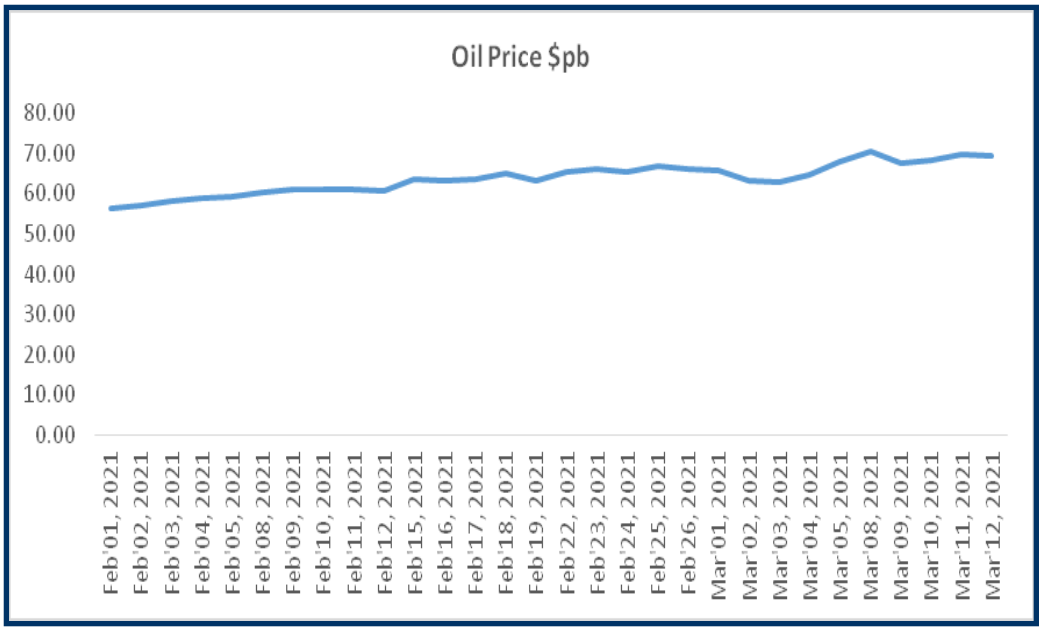
Commodities Market - Exports

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

Oil Prices

In February, the average price of Brent rose by 12.49% to $62.06pb from $55.17pb in January. Oil prices maintained an increasing trend to close the month at $66.00pb. This was driven by tight global supply, concerns due to the bad weather in the US, increased vaccine rollout and on the recovery in Asia's fuel demand.

In March, oil prices continued to maintain the upward trend to $67.85pb on March 5 following OPEC+ decision to extend its output cut (7.2mbpd) until April with some exceptions to Russia and Kazakhstan before rising to $70.44pb on March 8. The increase in oil price was partly driven by a drone attack on Saudi Arabia's oil facilities before losing by 4.15% to $67.52pb on March 9 to close the review period at $69.21pb.



[11]

Outlook

We expect oil prices to trade within the $68-$70pb band on tight global oil supply and demand recovery in major markets in Asia.

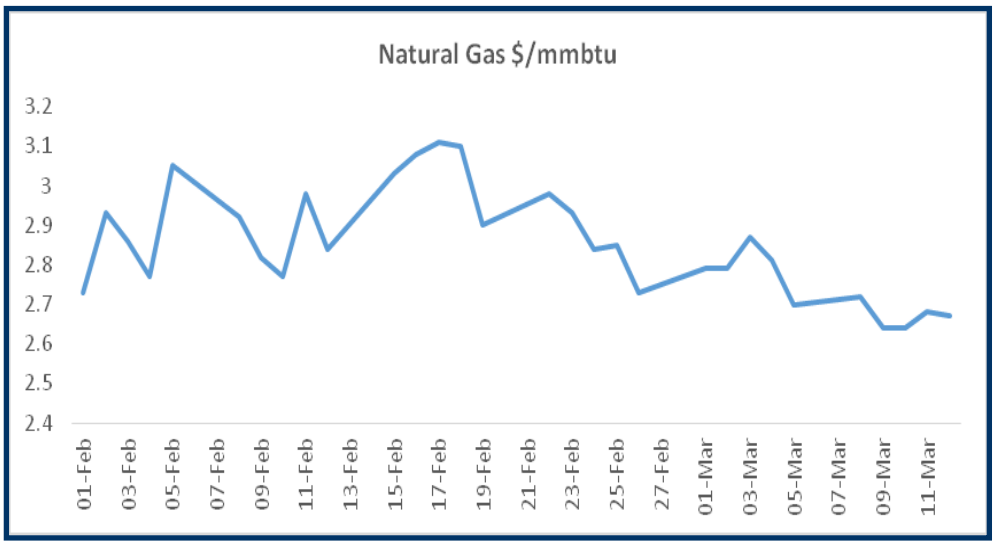
[11] FDC Think Tank

Impact

Brent at $69pb is 72.5% higher than Nigeria's 2021 oil price budget benchmark ($40pb). A higher oil price is positive for Nigeria's export earnings and will slow the pace of external reserves depletion. On the other hand, oil prices above $69pb would increase the retail price of PMS, which could further stoke inflationary pressures in the near term

Natural Gas

In February, the average price for Natural gas stood at $2.91/mmbtu, 9.81% higher than the $2.65/mmbtu average recorded in January. In the month, LNG price spiked to $3.11/mmbtu on February 17 due to increased demand for heat energy from Europe and US, before declining to close the period at $2.73/mmbtu in February 26. So far in March, LNG lost 4.30% to $2.67/mmbtu as at March 12. The fall in prices was primarily driven by a decrease in heat energy in Europe as the winter season ends.



[12]

Outlook

We expect LNG prices to maintain the bearish trend in the near term. This is attributed to the soft demand for heat energy as the spring season commences in the US

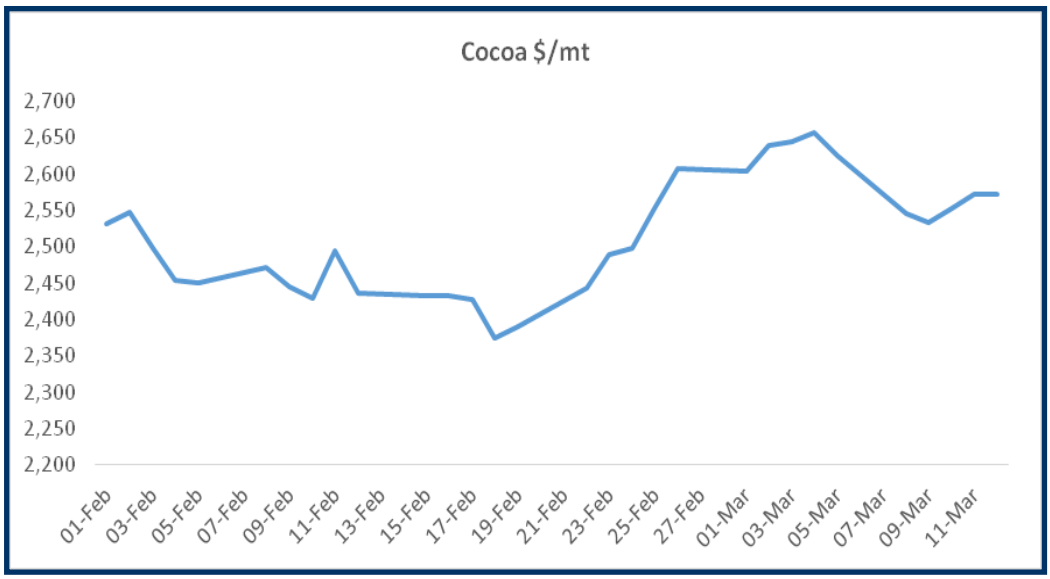
Impact

Natural gas is a top export commodity for Nigeria. A decline in the global price of LNG will adversely affect the country's LNG export earnings and lead to an unfavourable balance of trade.

[12]FDC Think Tank

Cocoa

In February, the average price of cocoa fell by 2.25% to $2,528/mt from an average of $2,471/mt in January. During the period, prices steadily declined to $2,499/mt in February 24 before prices picked up at $2,604/mt on March 1. The price fall was primarily driven by a weak global demand for chocolate in Europe amid vaccine rollouts across countries. Meanwhile, the slight pickup in cocoa prices between February 26 and March 1 was triggered by a rise in demand for cocoa beans amid stronger global economic outlook on vaccine rollouts. In March 8, prices fell by 3.01% to $2,546/mt from $2,625/mt on March 5 before closing the review period at $2,572/mt, which was primarily driven by a reduced global demand for cocoa bean.



[13]

Outlook

The onset of the rains will boost the cocoa harvest for the 2020/21 season. Nigeria is projected to produce 280,000mt this season.

Impact

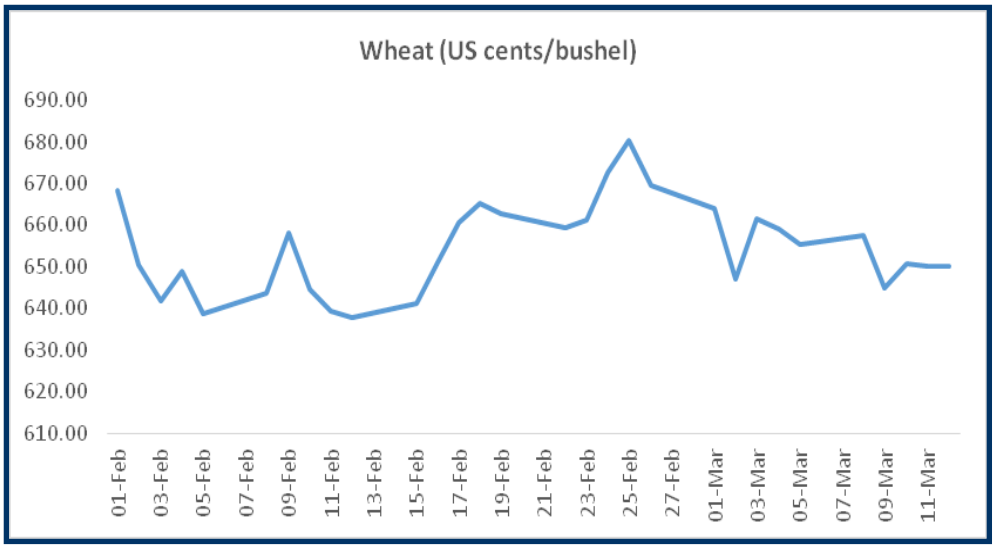
Cocoa is one of Nigeria's major non-oil exports. An increase in its cocoa output will lead to higher cocoa export earnings.

[13] FDC Think Tank

Imports

Wheat

On the average, wheat prices declined by 0.04% to $654.76/bushel in February from $655.03/bushel in the corresponding period in January. This decline was as a result of lower demand from China amid the covid-19 pandemic. Towards the end of the period, wheat prices fell further to close at $650/bushel on March 11. The fall in wheat prices was been driven by increased supply from Russia & Ukraine on favorable weather conditions.



[14]

Outlook

Favorable weather conditions in one of the major wheat producing countries globally will continue to dampen prices.

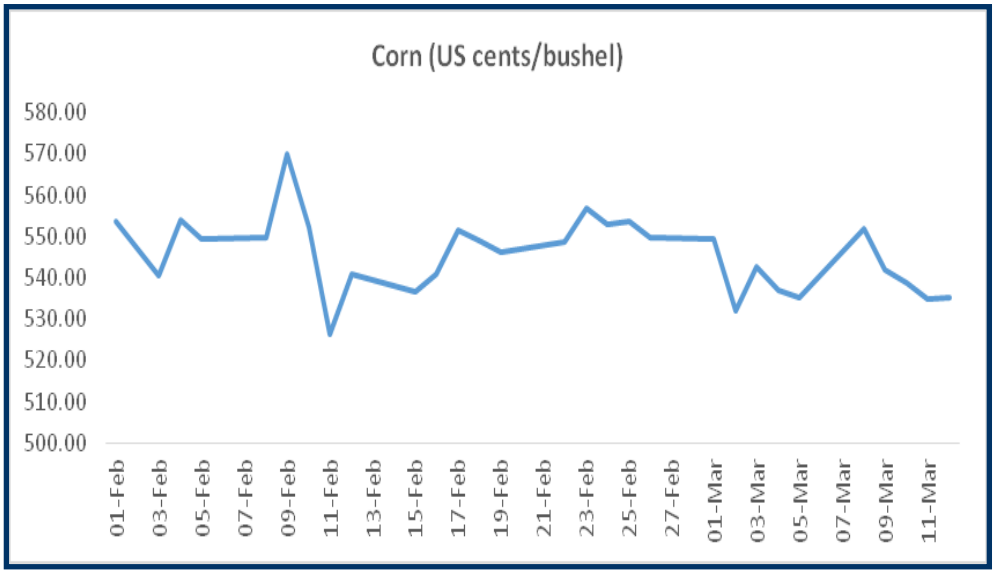
Impact

Lower global price of wheat will impact positively on the domestic price of flour in Nigeria. However, flour milling companies are struggling to meet their forex needs. This coupled with the depreciating naira has increased cost of production. The price of flour is expected to increase to N15,000 by April 1.

[14]FDC Think Tank

Corn

Corn prices averaged $548.48/bushel in February, 6.53% higher than the average of $514.86/bushel recorded in the corresponding period in January. The uptick in corn prices was highly supported by a continued increase in global demand for Chinese corn from the US. So far in March, corn prices fell by 2.55% to $535.25/bushel in March 5 from $549.25/bushel in March 1 before closing the period at $535.10/bushel on March 12. The fall in price so far in March was driven by a weak global demand for corn and ethanol production.



[15]

Outlook

We expect corn prices to maintain the bullish trend in the near term owing to the weak demand for Chinese corn

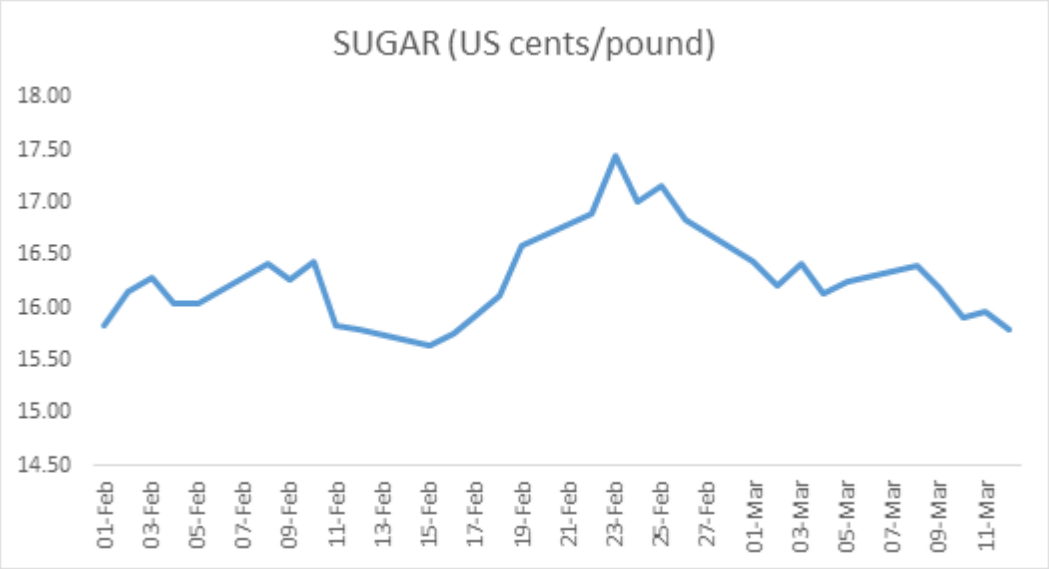
Impact

Nigeria is a major importer of grains. Therefore, lower corn prices mean a reduced import bill for the country. This would reduce the cost of production of firms who depend on grains for their output like cereals and flour.

Sugar

The average price of sugar rose by 2.38% to $16.32/pound in February compared to the average of $15.94/pound in the corresponding period in January. The increase in prices was primarily driven by indications of supply tightness for sugarcane in February. So far in March, sugar prices declined further to close the period at $15.80/pound from $16.45/pound recorded on March 1st. The decrease in prices is partly due to decrease in demand for soft drinks and beverages.

[15]FDC Think Tank



[16]

Outlook

We expect sugar prices to trend downwards in the near term on surplus production of sugarcane from Brazil & India amid tapered demand

Impact

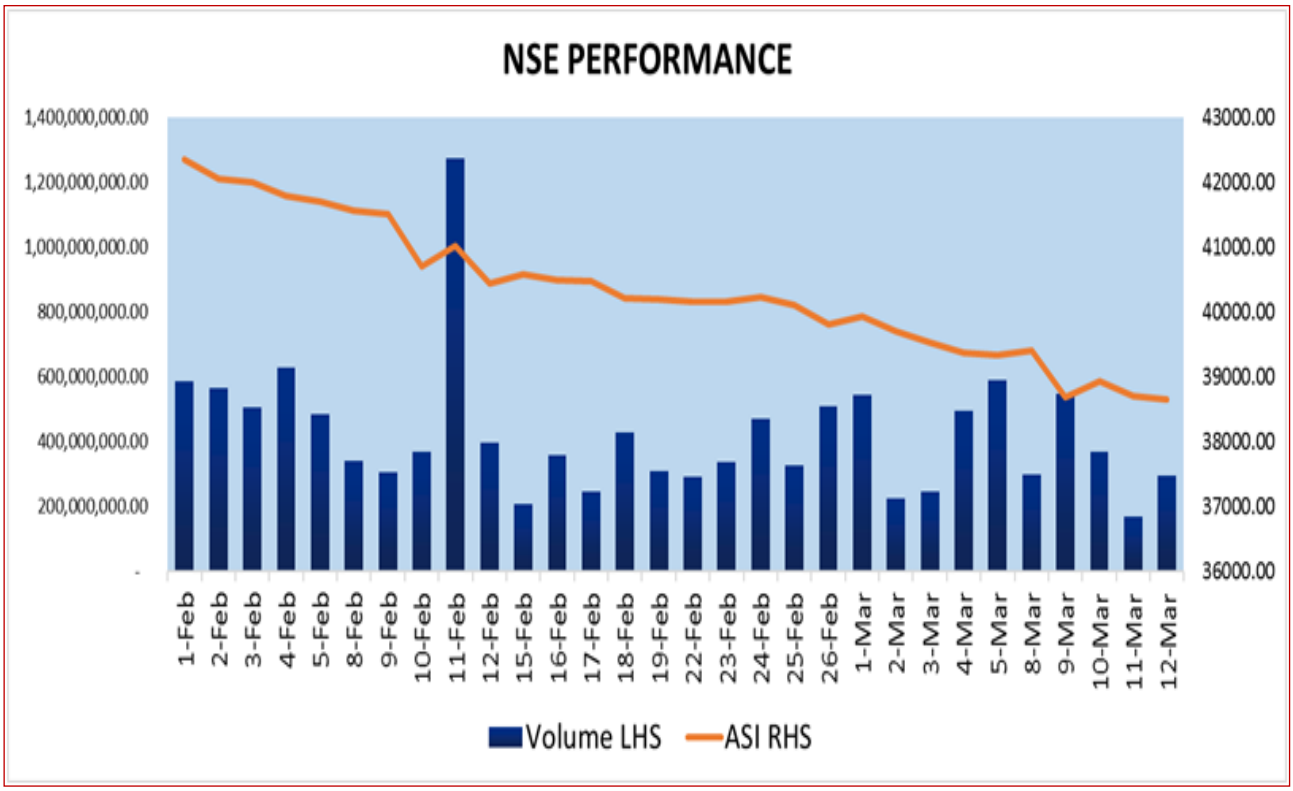
Declining global prices for sugar will lead to a fall in the country's import bill and a favorable balance of trade. In addition, lower price of sugar would mean lower raw material costs for manufacturing companies that use the commodity.

[16] FDC Think Tank

Stock Market Review

The NSE closed on a negative note in the review period (February 1 - March 12). It lost 8.88% to close at 38,648.48 points on March 12th from 42,412.66 points on January 29th. Similarly, market capitalization was up 8.88% (N1.97trn) to N20.22trn on March 12th relative to its close of N22.19trn on January 29th. The market YTD return was negative at 4.03%. The market lost in 23 out of the 30 trading days of the review period with a cumulative loss of 9.23%.

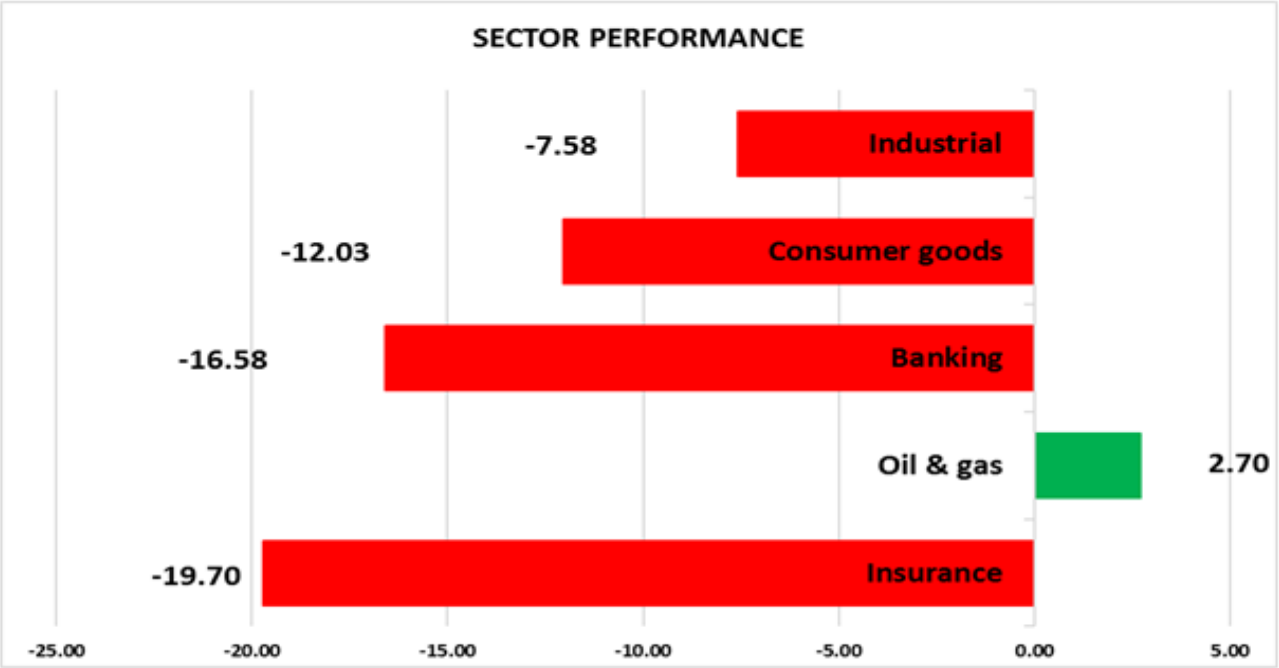
The NSE traded at a price to earnings (P/E) ratio of 14.52x as of March 12, 9.48% lower than the close of January 29 (16.04x). The market breadth was negative at 0.12x as 12 stocks gained, 99 lost while 51 stocks remained unchanged.



[17]

Market activity level was negative in the review period. The average volume traded fell by 36.99% to 422.93mn units from 671.23mn units in the previous period. Similarly, the average value of trades was down 8.66% to N4.85bn from N5.31bn in the review period.

[17]NSE and FDC Think tank



[18]

The sector indices performance was negative during the review period. The insurance sector lost the most (-19.70%), followed by banking (16.58%), consumer goods (12.03%) and industrial (7.58%). Only the oil & gas sector gained 2.70% driven by higher oil prices.

Lasaco Assurance Plc topped the gainers' list with a 209.52% increase in its share price. This was followed by Morison Industries Plc (58%), McNichols Consolidated Plc (56.86%), Academy Press Plc (24.24%) and Guinness Nigeria Plc (23.68%).

TOP 5 GAINERS				
Company	Jan-29 (N)	Mar-12 (N)	Absolute Change	Change (%)
Lasaco Assurance Plc	0.42	1.30	0.88	209.52
Morison Industries Plc	0.50	0.79	0.29	58.00
McNichols Consolidated Plc	0.51	0.80	0.29	56.86
Academy Press Plc	0.33	0.41	0.08	24.24
Guinness Nigeria Plc	19.00	23.50	4.50	23.68

The laggards were led by Japaul Gold and Ventures Plc (43.96%), Northern Nigeria Flour Mills Plc (41.63%), Linkage Assurance Plc (38.89%), Royal Exchange Plc (35%) and Consolidated Hall-mark Insurance Plc (29.55%).

[18]NSE and FDC Think tank

TOP 5 LOSERS				
Company	Jan-29 (N)	Mar-12 (N)	Absolute Change	Change (%)
Japaul Gold and Ventures Plc	0.91	0.51	0.40	-43.96
Northern Nigeria Flour Mills Plc	9.68	5.65	4.03	-41.63
Linkage Assurance Plc	0.90	0.55	0.35	-38.89
Royal Exchange Plc	0.40	0.26	0.14	-35.00
Consolidated Hallmark Insurance Plc	0.44	0.31	0.13	-29.55

Corporate disclosures

Company	Topline	PBT	PAT	EPS
Mutual Benefits Assurance Plc	$20.19 billion (7.97%) ↑	N5.11 billion (36.27%) ↑	N4.55 billion (26.04%) ↑	40 kobo (11.11%) ↑
Nigerian Breweries Plc	$337.05 billion (4.35%) ↑	N11.58 billion (50.41%) ↓	N7.37 billion (54.25%) ↓	92 kobo (54.23%) ↓
Zenith Bank Plc	N696.45 billion (5.16%) ↑	N255.86 billion (5.17%) ↑	N230.57 billion (10.41%) ↑	N7.34 (10.38%) ↑
Wema Bank Plc	N80.85 billion (14.80%) ↓	N6.96 billion (2.96%) ↑	N5.06 billion (2.69%) ↓	N13.1 (2.96%) ↓
MTN Nigeria Plc	N1.35 trillion (15.38%) ↑	N298.87 billion (2.61%) ↑	N205.21 billion (0.95%) ↑	N10.08 (0.90%) ↑
Nestle Nigeria Plc	N287.08 billion (1.07%) ↑	N60.64 billion (14.74%) ↓	N39.21 billion (14.17%) ↓	N49.47 (14.16%) ↓
Seplat Petroleum Development Co Plc	$530.47 million (23.98%) ↓	-$80.21 million ↑	-$85.32 million ↑	-$46.42 ↓
United Bank for Africa Plc	N427.86 billion (5.69%) ↑	N131.86 billion (18.48%) ↑	N113.77 billion (27.70%) ↑	N3.20 (26.98%) ↑

Outlook

Of the eight corporate earnings reported in the fortnight, six recorded an uptick in their topline. The earnings for the banking sector was mostly positive as UBA and Zenith Bank Plc recorded an increase in their topline. Similarly, that of the telecommunications and insurance sectors were positive while the oil sector earnings was negative. We expect the stock performance to remain volatile on weak market fundamentals due to subpar corporate reports. In addition, investors are cautious of rising interest rates. However, the demutualization of the NSE is expected to increase trading on the exchange and improve its performance in the medium term.

Equity Report: Guinness Nigeria Plc

Analyst's note

Guinness Nigeria Plc reported a modest top line growth of 2.17% toN42.33 billion in Q2'21 from N41.43 billion in Q2'20, driven by increased promotion optimization and brand portfolio mix. This indicates resilience despite the challenges posed by the COVID-19 pandemic on the industry and particularly on the company. However, gross profit declined by 2.79% to N11.57 billion in Q2'21from N11.91 billion in Q2'20, driven by a 4.17% increase in the cost of sales toN30.75 billion.

Market Capitalization: N55.42bn

Current Price: N25.3

Industry: Food, beverage and tobacco

Guinness reported an 8.72% increase in its operating profit to N3.13 billion in Q2'21 from N2.88 billion in Q2'20. This is largely attributable to the company's deliberate cost optimization strategy and operational efficiency. The company recorded a 6.69% decline in its marketing and distribution expenses to N6.07 billion and a 6.72% increase in administrative expenses to N2.86 billion resulting in a 2.78% reduction in the net operating expenses to N8.94 billion in Q2'21. The boost in operating profit was also supported by the 202.28% increase in other income to N489.88 million in Q2'21 from N162.06 million in Q2'20.

Despite an impressive top line figure, Guinness Nigeria Plc's bottom line performance was weighed down by higher borrowing costs and increased tax expenses. The company's profit before tax dipped by 30.10% to N1.61 billion in Q2'21 from N2.30 billion in Q2'20as net finance cost surged to N1.52 billion, 164.76% higher than N573.40 million in Q2'20.The company also reported a sharp decline in its profit for the period, which fell by 68.90% to N524.23 million fromN1.69billion in Q2'20. This is attributable to the 75.58% spike in the tax expense to N1.09 billion in Q2'21 from N619.01 million in Q2'20.

Industry and company overview

The breweries industry is a subset of the food, beverage and tobacco (FBT) industry, which is under the manufacturing sector. The FBT sub-sector grew by 1.5% in 2020 (2019: 2.17%) and has a five-year average of 0.54%. Meanwhile the manufacturing sector contracted by -2.75% in 2020 (2019: 0.77%) and has a five-year average of -0.88%.[19] The manufacturing sector is a major employer of labour and contributes about 12.83% to GDP.[20]

The brewery industry was adversely affected by the global economic downturn, lockdown and disruption induced by the pandemic. The impact of tough fiscal regulation (excise duties, VAT at 7.5%) and higher cost pressures continue to weigh on the sector's performance coupled with lingering weak macroeconomic fundamentals pressuring consumers' disposal income as well as consumer spending. In addition, the forex illiquidity and weaker naira have increased the cost of production of breweries, which have a high import content.

However, the breweries industry is expected to deliver great value in the medium to long term on the back of Nigeria's growing population and favourable demographics, low consumption per capita, and increasing opportunities for exports under the African Continental Free Trade Area Agreement (AfCFTA).

There is limited room for pricing and players will need to improve market share through brand visibility. Breweries will continue to leverage on product innovation to remain competitive in the face of constrained pricing actions.

[19]NSE (2016–2020)
[20]NSE

Company overview

Guinness Nigeria, a subsidiary of Diageo Plc of the United Kingdom, was incorporated in 1962 with the building of a brewery in Ikeja, the heart of Lagos. The brewery was the first Guinness operation outside Ireland and Great Britain. The group's products include primarily spirits, vodkas, beer and malted beverages. Its products comprise of Guinness Foreign Extra Stout, Malta Guinness, Harp Lager, Dubic Lager, Smirnoff Ice, Snapp, Orijin Bitters brands, etc. The company has approximately three breweries, which are located at Lagos, Benin and Aba. It primarily operates in Nigeria.

Guinness Nigeria controls 18% of the industry's market share in Nigeria. The company has been adversely affected by diverse macroeconomic conditions such as low consumer disposable income, increase in excise duty, rise in inflation, increase in VAT from 5% to 7.5%, as well as the government imposed lockdown across major business locations and business places (clubs, bars, hotels) which contribute to more than 60% of its revenue. This also reflected in the company's share price, which recorded a loss of 58% in 2020.

The company's business fundamentals remain strong and sustainable.

Bulls and Bears say

Bulls say

- Strong brand name
- Variety of products
- Consumer loyalty and brand visibility
- Large market size supported by growing population

Bears say:

- Stiff competition, especially through discounts and promotions
- Weak consumers' purchasing power
- Harsh operating environment
- Traffic bottlenecks in and around the Lagos ports and roads
- Forex illiquidity and naira weakness

Economic outlook for the next month

We expect a further improvement in output indicators in the month of March. The FBN PMI reading, which is a forward looking indicator and a useful predictor of real GDP growth is projected to expand further to 55 points as manufacturers build-up inventories ahead of Easter sales.

However, the gradual shift towards a fully deregulated downstream oil sector, money supply saturation and exchange rate pass through will continue to exert inflationary pressures. Headline inflation is estimated to rise to 17.8% in March. The persistent rise in inflation, higher unemployment rate, tepid economic growth and external imbalances will be major considerations at the MPC meeting on March 22-23. The CBN is unlikely to change its current monetary policy stance but likely to intensify the use of unorthodox policies to mop up excess liquidity.

External sector weakness will continue in spite of higher oil prices. Gross external reserves could fall towards $33bn in the coming month on heightened uncertainty about the CBN's forex policy and a growing dollar demand backlog. Also, currency pressures would persist especially at the parallel market and I & E window. This will keep import costs elevated and increase the service costs of dollar obligations. Meanwhile, dollar investments will appreciate in value.