FDC Bi-Monthly Update

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

In This Issue …

Trade deficit widens ($9.61bn) & naira falls

Nigeria has traditionally exported more than it imports i.e. it usually enjoys a balance of trade surplus. This was principally because of high oil prices and revenue. In recent times with oil price crashing, Nigeria had started running a balance of trade deficit (imports greater than exports). Trade deficit increased by 1,094.2% to $9.61bn in Q1'21 from $804.71mn in Q1'20.

The recent spike in oil prices has raised hopes for a return to the trade surplus era. This is why the surprise swing of Q1 merchandize trade to a deficit of $9.61bn caught the market napping. Analysts are still optimistic and project that the balance of trade will swing into surplus of $3.6bn in 2022. The Q1 deficit of $9.61bn will be more than compensated by the higher oil price currently at $72pb.

Not surprisingly, the Naira has weakened in the forex markets to N502/$ (parallel) but is expected to recover in Q3 towards its fair value of N470-480/$. This is because of currency adjustment and an expected decline in demand for imported goods. Nigeria's import bill is currently $63.8bn.

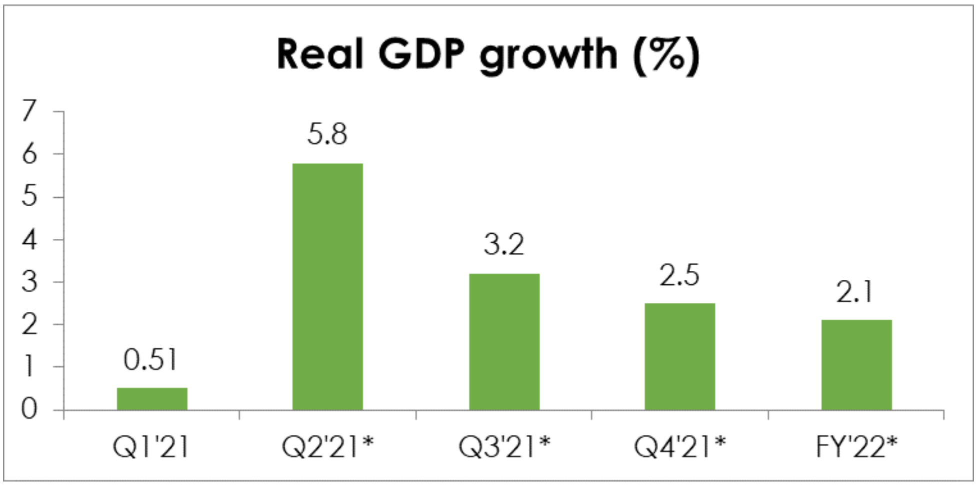
Trade deficits are usually funded by a combination of export earnings, external reserves and foreign loans. This could further increase the country's external debt stock to $45bn.

Global economy to grow 5.6% (World Bank)

The World Bank expects the global economy to expand by 5.6% in 2021 due to a strong recovery in major economies like the US (6.8%) and China (8.5%). This will be the fastest post-pandemic growth in 80 years. The multilateral agency noted that emerging markets and developing economies will continue to struggle with the aftermath of the pandemic. Fourteen African countries have reported an upward trend in COVID infections. In the last week, eight countries recorded over 30% spike in new infections. Uganda alone recorded a 131% (w-o-w) rise in COVID cases. This led to the re-imposition of strict lockdown for six weeks including the closure of schools, shutdown of weekly open markets and suspension of church services and inter-district travels.

The renewed spike in infections in Africa can be largely attributed to inadequate supply of vaccines. Only about 10% of the high-risk groups have been vaccinated unlike in the advanced economies where almost 100% of the high-priority groups have been inoculated.

The SSA region is expected to grow by 2.8% in 2021 and 3.3% in 2022 due to the slow pace of expansion in dominant economies: South Africa (3.5%), Nigeria (1.8%) and Angola (0.5%). Nigeria's real GDP growth will be driven by higher oil prices, structural reforms in the oil sector and a market-based flexible exchange rate regime. The likelihood of slow growth for Nigeria is due to a slow rate of vaccinations, insecurity, a potential sharp drop in oil prices and a spike in inflation. The economy is not expected to return to pre-pandemic levels until the end of 2022.



US inflation surges to 5% (a 13-year high)

News that US inflation shot up to 5% (a 13-year high) caught the market and analysts by surprise. The shock was not about the rise but more by the magnitude. Before the release, the Fed had noted cautiously but with some concern the spike in Personal Consumption Expenditure (PCE) which surged to 3.1% in April. The PCE is a better measure of consumer preferences and expected inflation. A debate had been raging amongst economists as to whether the inflation in 2021 was structural or transient. The Fed insists that this time inflation was driven mainly by disruptions to supply, base year effects and remains transitory. Some others like Larry Summers are of the opposite view that this was not a binary choice and that the inflation causative factors are a mixed bag. Deutsche Bank the bulge bracket bank broke ranks with consensus economists yesterday in saying that they feared a return to the Paul Volker years when inflation soared followed by high interest rates and a deep recession. The following article culled from the FT and written by renowned economist Martin Wolf before the data was released is quite pertinent and makes for interesting reading

Global Perspective: The Fed risks reacting too slowly if inflation keeps rising—Culled from Financial Times

And that will be bad news for the rest of the world economy as it recovers from the pandemic

The world economy is enjoying a vigorous, but divergent, recovery. This is what the World Bank's June Global Economic Prospects is telling us. The main reason for the recovery is the successes of the vaccine programme. The main reason for the divergence is the limitations of the vaccine programme. Some parts of the world economy may become too hot, while others are too cold. So, stay alert.

This time is indeed different: the recession was caused not by the need to curb excessive inflation, nor by an oil shock, nor by a financial crisis, but by a virus. Now, with the success of the vaccine programmes, the world is enjoying among the strongest recoveries from recession since 1945.

That is the good news. The bad news is how uneven the recovery will be. According to Global Economic Prospects, 94 per cent of high-income countries will regain pre-recession gross domestic product per head within two years. This would be the highest share in so brief a period after any recession since the Second World War. But the proportion of emerging and developing countries expected to achieve such an outcome this time is forecast to be 40 per cent. That would be the lowest share after any post-war recession.

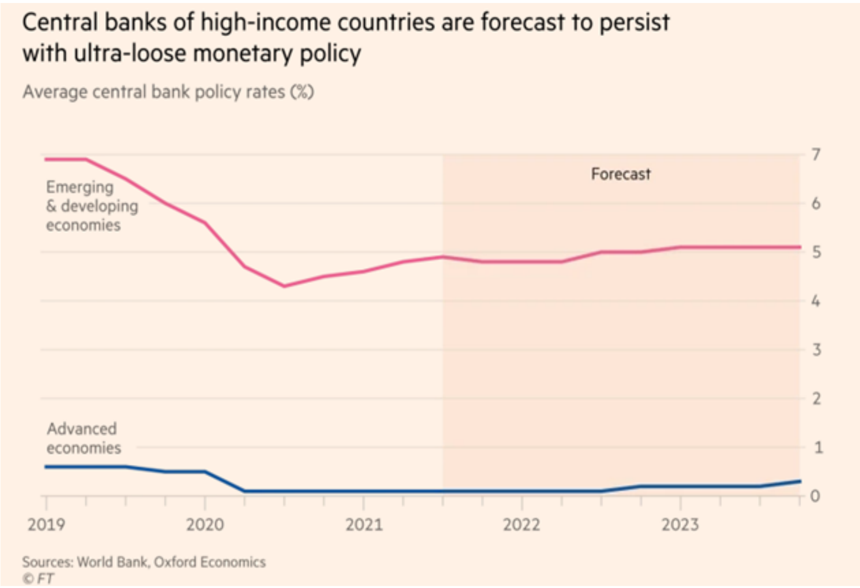
The relative success of the high-income countries is due to the scale of their fiscal and monetary responses and their vaccine rollouts. Emerging and developing countries are far behind in all these respects. Quantitative easing averaged 15 per cent of GDP in high-income countries, against 3 per cent in emerging and developing countries. Fiscal support averaged 17 per cent in high-income countries, against 5 per cent in emerging and developing countries. Even so, half of all low-income countries are in debt distress. According to World Bank president David Malpass, the "pandemic not only reversed gains in global poverty reduction for the first time in a generation but also deepened the challenges of food insecurity and rising food prices for many millions of people". The UK's decision to cut its foreign aid budget is breathtakingly ill-timed.

Given all this, the most important decision for leaders of the G7 high-income countries to take this week is to fund a sharp acceleration in the supply and distribution of vaccines. This will also benefit donors. The pandemic must be stopped everywhere if people are to be truly safe anywhere.

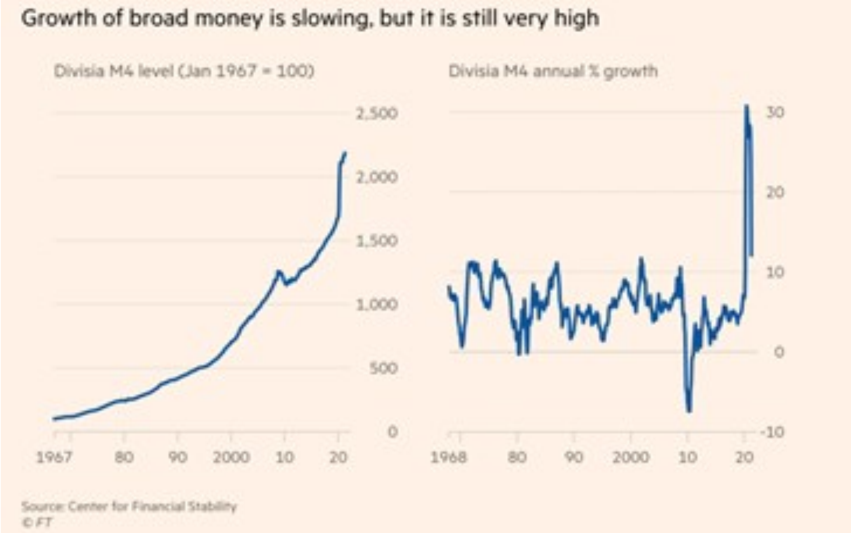
Among high-income economies, the most important locomotive of growth is the US, with its highly aggressive monetary and fiscal policies. The budget proposal of Joe Biden forecasts federal deficits of 16.7 per cent of GDP this fiscal year (to end-September) and 7.8 per cent next year. Meanwhile, most members of the Federal Reserve's board expect interest rates to stay near zero even until the end of 2023. These policies are bringing big benefits. But how risky are they?

This has become much debated. It is also not a purely local matter. If the Fed has to raise rates sharply, it is likely to cause another sharp recession in the US. That would not only be bad for America, but also be bad for the world, including vulnerable developing countries.

It is this context that makes the debate on inflation particularly significant. Stephen Roach, who worked at the Fed in the 1970s, has recalled Arthur Burns, the Fed chair who let the inflation genie out of the bottle in the early 1970s. If that were to be repeated, it would be costly for almost everyone. But is that outcome actually likely? The answer is "yes" — not because of what has already happened, but because of the Fed's commitments.

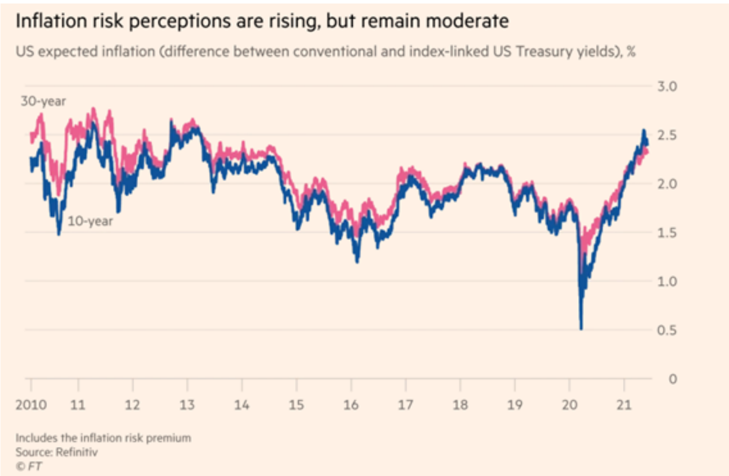


The rise in inflation we are now seeing might be both modest and temporary and not affect inflationary expectations, as the Fed believes. But the Fed has locked itself into responding too slowly, especially given the fiscal expansion. This is because, in the words of Richard Clarida, vice-chair, "we expect it will be appropriate to keep the federal funds rate in the current 0 to 25 basis point target range until inflation has reached 2 per cent (on an annual basis) and labour market conditions have reached levels consistent with the [Federal Open market] Committee's assessment of maximum employment".



This is "outcome-based" as opposed to "forecast-based" policy. What in layman's language does it mean? It means that the Fed will persist with ultra-loose monetary policy until employment has already reached its (unknowable) "maximum". Given the lags between policy and outcomes, this guarantees overshooting. By the time the economy finally reaches the point when the Fed starts to tighten, it will be smoking hot (at "maximum employment") and, inevitably, getting hotter.

That is what happened in the 1970s. In that case, the necessary disinflation was postponed until Paul Volcker took over in 1979. The experience was brutal. Given the inevitable lags between tightening and bringing inflation under control, the costs are again likely to be severe. That would not matter to the US alone. Remember: the Volcker shock triggered the Latin American debt crisis. This time, there is much more debt around almost everywhere. A severe monetary tightening would create even more devastation than then.



Getting the world as a whole out of the pandemic crisis is far from a done deal. Much more still needs to be done on that. Furthermore, the new approach to monetary policy of the world's most important central bank risks serious overshooting. By responding only to outcomes, it is nigh on certain to react too slowly. It is possible that this will not matter, because expectations remain well anchored, whatever happens. I pray this will be case. The alternative does not bear much thinking about.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Petroleum Industry Bill: Too little too late?

The long-awaited Petroleum Industry Bill (PIB) is set to be passed by the Senate in June. This is according to the Minister of State for Petroleum Timipre Sylva. This key legislation, which seeks to overhaul the Nigerian oil industry and offer new fiscal incentives to investors, has been debated in the legislative arm of government since 2008. Its delay has sparked a great deal of uncertainty and led to an estimated loss of over $15bn annually in lost investment in Nigeria's oil and gas industry. With the global shift from fossil fuels to renewable forms of energy picking up pace, the passage of the PIB may just be too little too late. It is unlikely that Nigeria will be able to make up for either the lost time or the lost investment.

Sheer Expedience

The PIB is currently undergoing last minute modifications in three key areas to enhance its effectiveness. These are the deregulation of the price of gas supplied to power plants, the Nigerian National Petroleum Corporation (NNPC's) public offer and the adoption of a single regulator. The price deregulation of gas supplied to power plants is a key ingredient in incentivizing power output in Nigeria. While this is likely to translate to increased tariffs for electricity consumers, it is needed to attract investment in both the gas and electricity generating industry. On the NNPC's public offer, selling shares to the public will mean that the corporation will be able to source its own funding. This means that it will come under higher levels of corporate governance and scrutiny.

The adoption of a single regulator, while more efficient and allowing for enhanced cohesion in regulating the entire industry value chain, may already be too little too late. The PIB, as currently constructed, recommends two regulators – one for the upstream sector (Upstream

Regulatory Commission) and another for the midstream and downstream sectors (Midstream and Downstream Regulatory Authority). These agencies will oversee and enforce standards in all aspects of the oil industry.

Full deregulation of the downstream oil sector

The PIB could also become a source of acrimony. It gives legal backing to the complete price deregulation of the downstream segment of the oil and gas industry. The Nigeria Governors' Forum (NGF), made up of the governors of the 36 states, has proposed the implementation of the full deregulation of the downstream oil industry and determined that the pump price of PMS will be somewhere around N385/liter (137.65% above the current fuel pump price of N165/liter). While this will bring relief to the state governments that have been grappling with lower revenues, the chance of the federal government allowing such a spike in the near term is slim because of the negative impact on the poor. The subsidy will cripple the government's finances if sustained, but deregulation is the only way to unlock domestic refining. There is simply no easy way around or through the dilemma. Something is going to have to give.

When delay becomes a deal breaker

International oilcompanies (IOCs)are squarely in the thick of the energy transition. Some are already on well laid out paths that will see them fully evolve to clean-energy companies. Royal Dutch Shell is in talks with the federal government of Nigeria to divest from its onshore oil fields and focus on its offshore and gas operations citing recurring incidents of theft, sabotage, and oil spillage. The IOCshave stated that their Nigerian onshore business is incompatible with theirlong-term strategy which focuses on climate change and net-zero carbon emissions by 2050. The companies have been gradually disposing of these onshore assets over the last decade. Shell CEO Ben van Beurden, at the oil giant's annual general meeting, told investors that "the balance of risks and rewards associated with our onshore portfolio is no longer compatible with our strategic ambitions.. .We cannot solve community problems in the Niger Delta".[1]

[1]https://www.bloomberg.com/news/articles/2021-05-18/shell-says-nigerian-oil-isn-t-compatible-with-its-green-strategy

Many analysts believe that beyond the obvious reasons of insecurity and unrest in the Niger Deltastated by the oil giant, the protracted stalemate in passing the crucial piece of energy legislation – the PIB – is a major factor in Shell's decision to exit its onshore operations in Nigeria.

Navigating the Uncertainty

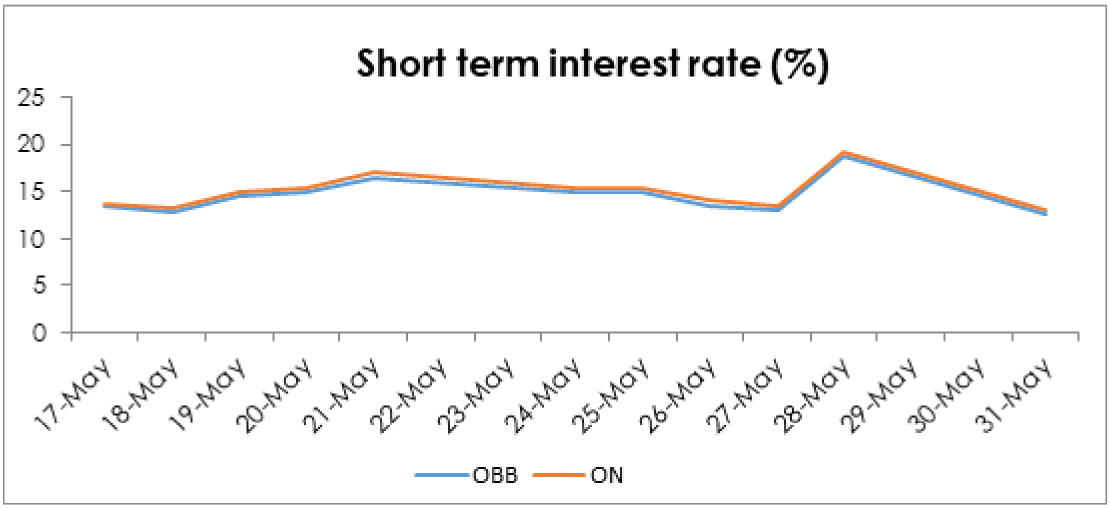
Shell accounts for slightly under 40% of Nigeria's crude and condensate production capacity (2.2 million barrels per day). While its move to offload its onshore oil fields could have implications on Nigeria's oil and gas output, it could also send wrong signals to international investors considering doing business in Nigeria. Other IOCs, Chevron and Mobil, have also begun to gradually dispose of their Nigerian assets in response to their changing goals and strategies which have been influenced by climate change and the need to go green. A number of questions arise: what will happen to Shell's onshore assets? Are they acquired by the NNPC through its upstream arm, Nigerian Petroleum Development Company (NPDC) or does the government invite bids from indigenous and foreign producers? Do the indigenous producers have the capacity to acquire these assets even as we expect more divestments in the future across the continent? Does this create an opportunity for indigenous players in the oil and gas sector to grow their continental footprint? It remains uncertain how the events will play out. What is certain is that the passage of the PIB should have happened at least a decade ago and would have been crucial in the federal government's drive to achieve production of 4mbpd and domestic oil refining for regional exports.

Macroeconomic Indicators (May 17th—31st)

Money Market

The average opening position for banks during the period spiked by 353.38% to N91.99bn from N20.29bn in the corresponding period in April. This is in spite of the several days of negative opening positions of banks during the review period. The positive trend could be partly attributed to the net OMO inflow of N109.5bn.

On the average, the short-term interbank rates (OBB/ON) fell by 192bps to 14.74%pa during the review period from 16.66%pa recorded in the second half of April, reflecting excess liquidity in the system. OBB and ON closed the review period at 12.50%pa and 13.00%pa on May 31 from 27.5%pa and 27.75%pa on April 30.



[2]

At the primary market, total Treasury bill allotment was N151.11bn. The closing rates for the 91-day and 182- day T/bills were flat at 2.50% and 3.50% respectively on May 26, while the 364day tenor declined by 10bps to 9.65% from 9.75% on May 14.At the secondary market, the 91-day tenor stop rate increased by 155bps to 4.58% p.a. while the 180-day and 364-day tenor rate increased by 184bps and 130bps respectively to 5.96% p.a. and 8.80% p.a.

[2]CBN, FDC Think Tank

T/bills Tenor	Primary Market rate as at May 14 (%p.a.)	Primary Market rate as at May 26 (%p.a.)	Direction	Secondary Market rate as at April 30 (%p.a.)	Secondary Market rate as at May 31 (%p.a.)	Direction
91	2.50	2.50	↔	3.03	4.58	↑
182	3.50	3.50	↔	4.12	5.96	↑
364	9.75	9.65	↓	7.50	8.80	↑

Outlook

We expect the tightness in market liquidity to persist due to the CBN intensifying the use of its liquidity management tools.

Impact

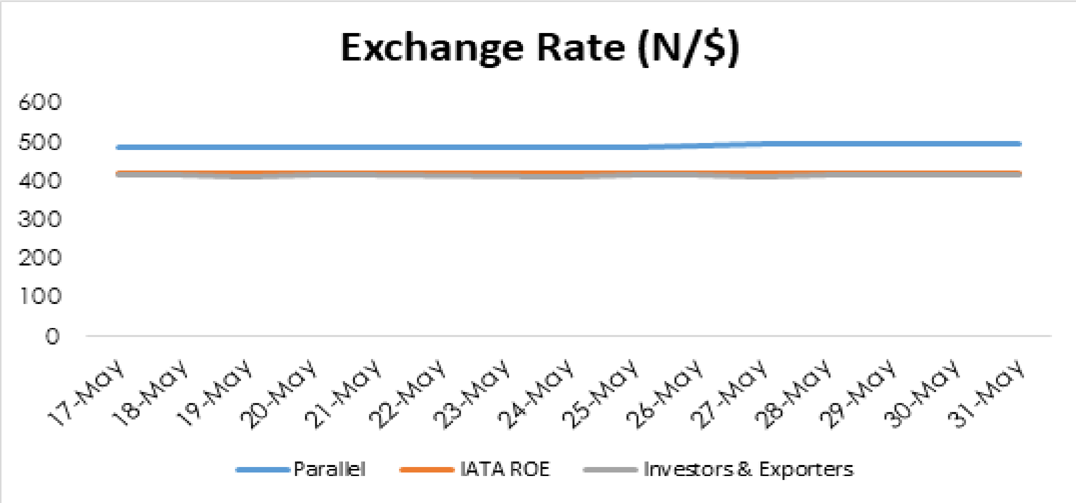
Higher interest rates will reduce the inflation/ interest rate differential. It will also trigger a sustained shift from equities to interest bearing securities.

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 depreciated sharply to close the review period at N495/$. This was partly due to speculative trading following the CBN's adoption of the NAFEX rate as the new official rate. Meanwhile, the IEFX rate was more stable, trading within a tight band of N410.75/$-N412/$. The average daily turnover at the IEFX window increased by 125.09% to $154.50mn during the review period from $68.64mn recorded in the corresponding period in April. Meanwhile, the currency traded flat at N420/$ at the IATA while the NAFEX window closed at N411/$ on May 31.



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Outlook

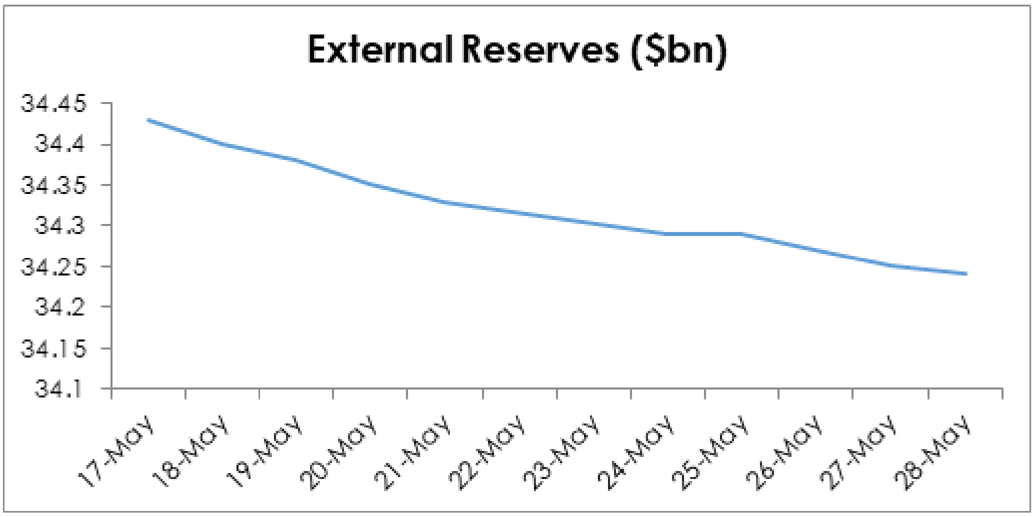
We expect forex demand to increase in the near term on speculative trading. This coupled with the depreciation of the naira at the parallel market would continue to mount further pressure on the currency.

Impact

Existing currency pressures would continue to persist due to the unmet forex backlog and speculative activities. Also, currency depreciation at the parallel market would continue to stoke inflationary pressures on prices of commodities

External Reserves

Nigeria's gross external reserves maintained a bearish trend during the review period, to close at $34.24bn on May28. Year to date, the external reserves have depleted by3.19% ($1.13bn).The depletion in the reserves level is as a result of the CBN's ongoing forex intervention. Meanwhile, the current external reserves level is sufficient to cover 8.40 months of imports and payments in the economy down from8.56 month on April 30.



[4]

[3]CBN, FDC Think Tank
[4]CBN, FDC Think Tank

Outlook

We anticipate Nigeria's gross external reserves depletion to intensify in the coming weeks especially as the CBN steps up efforts to clear its forex demand backlog

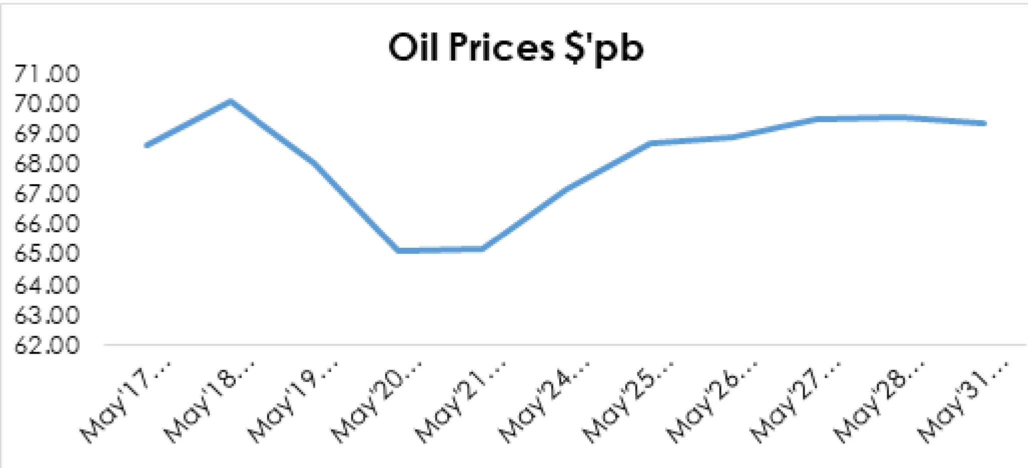
Impact

A fall in external reserves will affect the stability of the exchange rate and the CBN's ability in supporting the Naira

Commodities Market - Exports

Oil Prices

The price of oil increased from $68.62pb on May 17 to $69.31pb on May 31. During the review period, prices touched a low of $65.11pb on May 20 and peaked to a period high of $70.03pb on May 18. The increase in oil prices was partly driven by strong global energy demand for crude oil despite the growing number of covid infections in parts of India and Asia. Also, the oil market gained some momentum during the period following the ease of restrictions in the US and UK economies. OPEC+ has decided to maintain its supply output increase of 2.1mbpd from May to July.



[5]

Outlook

In the coming weeks we expect oil prices to trade within a band of $69pb-$70pb. This will be driven by positive market sentiments and improved demand outweighing prospect of production increase from OPEC+

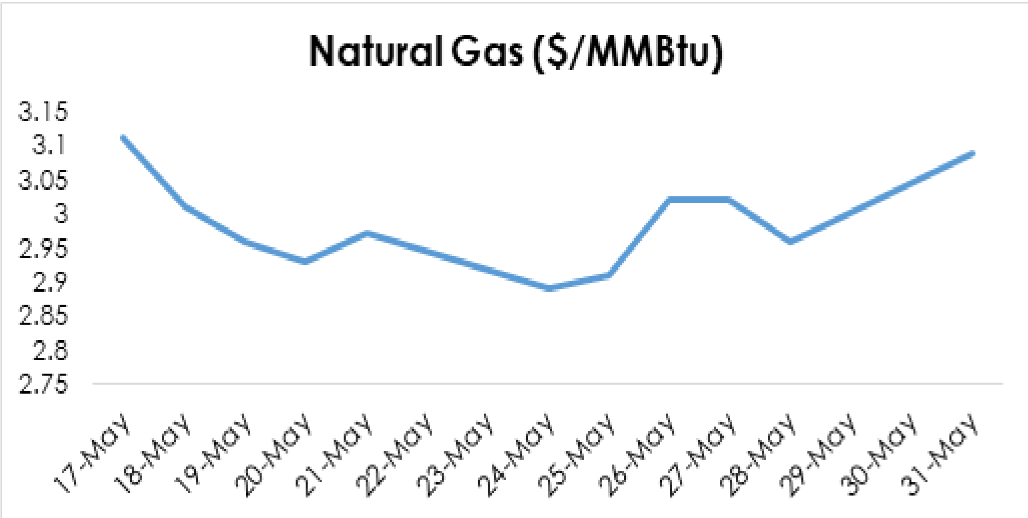
[5]Bloomberg, FDC Think Tank

Impact

Higher oil price is positive for Nigeria's oil export earnings; this would reduce the government's deficit financing needs and also shore up the external reserves level.

Natural Gas

During the review period, Natural gas prices fell by 4.82% to $3.09/mmbtu on May 31 from$3.11/mmbtu on May 17. The decrease in price was partly due to a slight fall in global demand and higher LNG stockpiles in the US.



[6]

Outlook

We expect LNG prices to remain soft in the near term on weak global demand for LNG

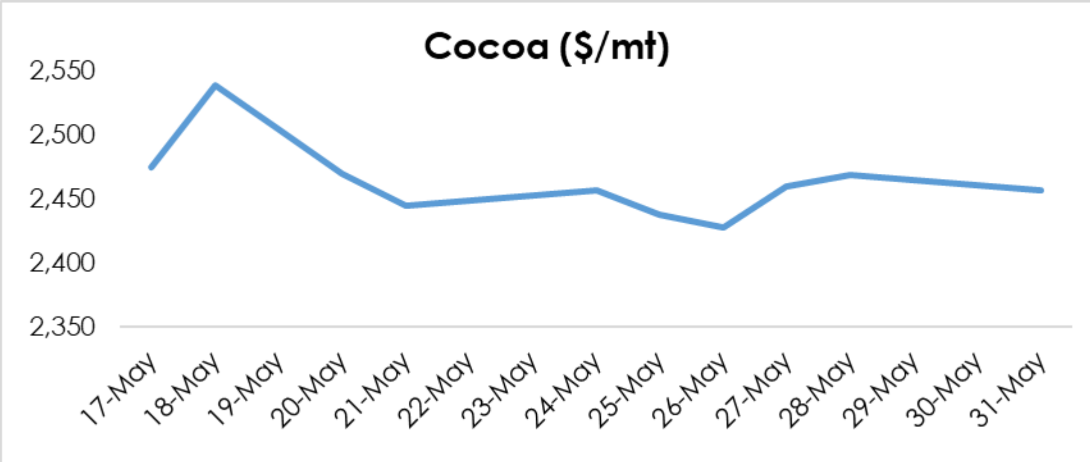
Impact

Lower natural gas prices would reduce Nigeria's export earnings from LNG. This could lead to unfavourable balance of trade, as the commodity is one of the country's main exports (14.2%).

Cocoa

Cocoa prices fell by 0.73% to $2,456/mton May 31 from$2,474/mt on May 17. The decline in price was driven by a fall in global demand for chocolate and on ample supply glut in major West African markets (Cote d'Ivoire and Ghana).

[6]Bloomberg, FDC Think Tank



[7]

Outlook

We expect cocoa prices to remain bearish in the near term on soft demand coupled with the supply excesses in Cote d'Ivoire and Ghana. However, limited supply concerns due to persisting dry spells in Nigeria's south west region could weigh negatively on the outlook of cocoa supply.

Impact

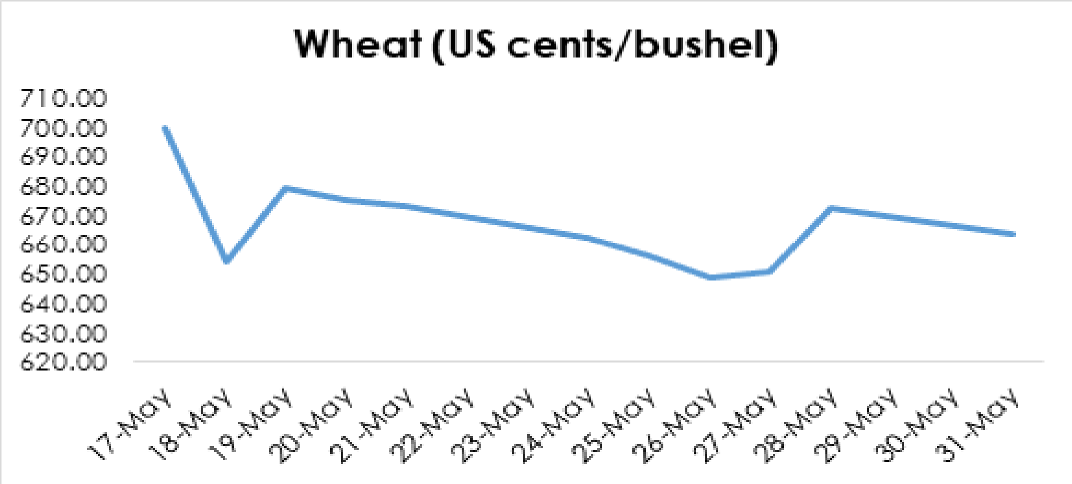
Cocoa is one of Nigeria's major non-oil export commodities. A fall in cocoa prices will have a negative impact on Nigeria's export earnings.

Imports

Wheat

The price of wheat was down by 5.18% to $663.50/bushel on May 31 from $699.75/bushel from May 17. The decline in prices was determined by a fall in demand amid lingering supply concerns in key producing countries like Brazil. Also, the decline in prices was further intensified by the fall in Ukrainian wheat export during the review period.

[7]Bloomberg, FDC Think Tank



[8]

Outlook

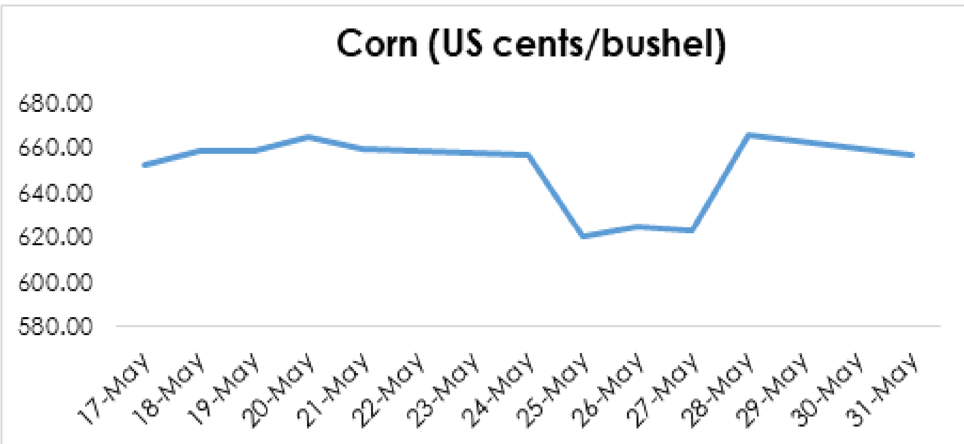
We anticipate wheat prices to remain soft in the near term on weak global demand

Impact

Low wheat prices will positively affect the country's import bill. This is expected to feed into prices of finished goods made from the commodity. Meanwhile, Nigeria's Bakers and caterers association plans on increasing the prices of bread, biscuits and other pastries made from wheat by 30%.This is inflationary and would further spur an increase in food inflation which is currently at 22.72%.

Corn

Between May 17 & 31, corn prices increased by 0.65% to $656.75/bushel from $62.5/bushel. This %was inclined by strong Chinese demand for US corn. Meanwhile, prices have also been buoyed by limited corn supply in parts of Brazil and US experiencing drought.



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[8] Bloomberg, FDC Think Tank
[9] Bloomberg, FDC Think Tank

Outlook

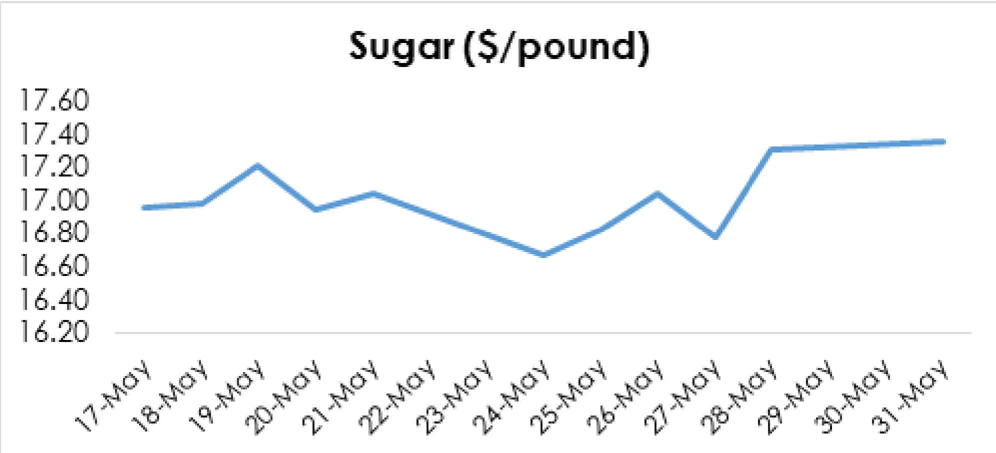
We expect corn prices to maintain the upward trend in the near term on robust Chinese demand.

Impact

Higher corn prices would increase the price of corn dependent commodities such as livestock feed and cereals

Sugar

Sugar prices increased by 2.36% to $17.36/pound on May 31, from $16.96/pound on May 17. The increase in price was driven by strong global demand for sugar. The spike in demand was further supported by the easing of COVID-19 restriction in the Europe. Meanwhile, persisting supply tightness from Brazil and Thailand also contributed to the increase in sugar prices during the period.



[10]

Outlook

We expect sugar prices to remain bullish in the near term on limited supply from Brazil and Thailand. This would be supported by strong global demand for sugar.

Impact

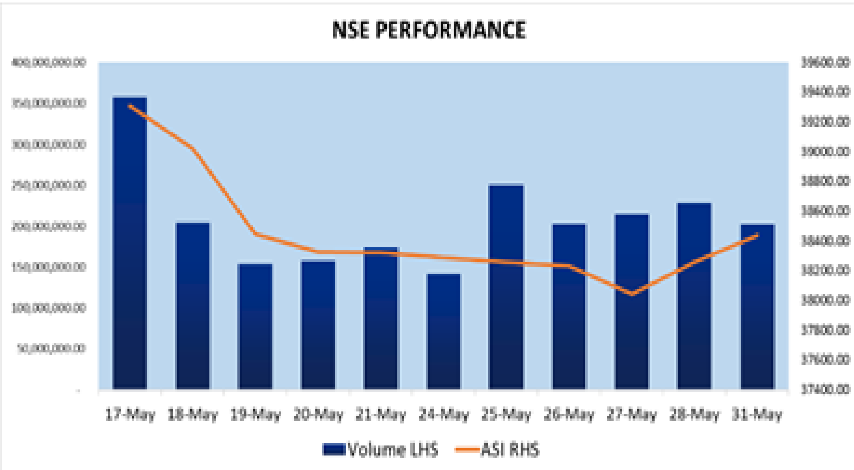
Rising sugar prices would negatively impact Nigeria's non-oil export earnings. In addition, an increase in sugar prices would increase manufacturers' cost of production and as well as feed into prices of commodities made from sugar. Meanwhile, the CBN is contemplating adding both wheat and sugar to its forex restriction list to boost local production. However, Nigeria's domestic capacity is significantly below optimal levels, meaning that there would be shortages. Also, consumer tastes are used to a particular type of wheat, meaning that consumption of imported wheat will remain high. All these will lead to an increase in prices of these commodities.

[10]Bloomberg, FDC Think Tank

Stock Market Review

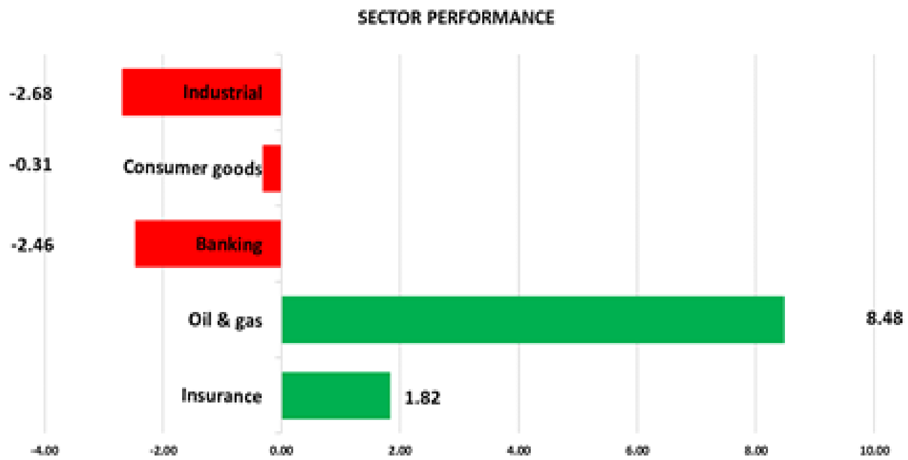
The NSE closed on a negative note in the review period (May17-31). It lost 2.21%to close at 38,437.88 points on May31stfrom 39,306.47 points on May17th. Similarly, market capitalization was down2.24% (N460bn) to N20.03trn on May31st relative to its close of N20.49trn on May17th. The market YTD return was negative at 4.55%. The market lost in nine of the eleven trading days of the review period with a cumulative loss of 2.66%.

The NSE traded at a price to earnings (P/E) ratio of 13.01x as of May31st,1.59% lower than the close of May17th (13.22x). The market breadth was negative at 0.54x as 36 stocks gained, 50 lost while 74 stocks remained unchanged.



[11]

Market activity level was negative in the review period. The average volume traded fell by 35.58% to207.88mn units from 322.69mn units.Also, the average value of trades was down42.15% to N2.10bn from N3.63bn in the review period.



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[11]NSE and FDC Think tank
[12]NSE and FDC Think tank

The sector indices performance was mixed in the review period. The industrial sector lost the most (2.68%) followed by banking (2.46%) and consumer goods (0.31%). On the other hand, oil & gas and insurance sectors gained 8.48% and 1.82% respectively.

Consolidated Hallmark Insurance Plc topped the gainers' list with a 34.69% increase in its share price. This was followed by Regency Alliance Insurance Plc (32.35%), Vitafoam Plc (22.22%), the Initiates Plc (17.50%) and MRS Nigeria Plc (15.60%).

TOP 5 GAINERS				
Company	**May-14 (N)**	**May-31 (N)**	**Absolute Change**	**Change (%)**
Consolidated Hallmark Insurance Plc	0.49	0.66	0.17	34.69
Regency Alliance Insurance Plc	0.34	0.45	0.11	32.35
Vitafoam Plc	9.00	11.00	2.00	22.22
The Initiates Plc	0.40	0.47	0.07	17.50
MRS Nigeria Plc	10.90	12.60	1.70	15.60

The laggards were led by Nigeria Enamelware CoPlc (18.59%), Linkage Assurance Plc (13.04%), Sunu Assurance Plc (12.96%), NPF Microfinance Bank Plc (10.70%) and Airtel Africa Plc (10.00%).

TOP 5 LOSERS				
Company	**May-14 (N)**	**May-31 (N)**	**Absolute Change**	**Change (%)**
Nigeria Enamelware Co Plc	19.90	16.20	3.70	-18.59
Linkage Assurance Plc	0.69	0.60	0.09	-13.04
Sunu Assurance Plc	0.54	0.47	0.07	-12.96
NPF Microfinance Bank Plc	1.87	1.67	0.20	-10.70
Airtel Africa Plc	930.00	837.00	93.00	-10.00

Outlook

We expect the market to maintain its negative performance in the first half of June due to cautious trading activities and weak market fundamentals.

Equity Report: NASCON

Analyst Note

Deepened marketing activities Spurs Revenue Growth

NASCON reported a double digit top line growth of 21% in its Q1'21 result from N6.88 billion in the corresponding quarter of 2020 to N8.34 billion. This impressive performance was supported by an increase in economic, business activities and marketing activities, as reflected in geographical revenue performance. The company recorded a significant revenue growth across all geographical location, led by a 49% growth in revenue from the Western region to N2.59 billion from N1.74 billion in 2020.

Growth in Gross profit Drives Increase in Operating Income

The company's operating profit grew by 4.95% to N1.06 billion from N1.01 billion in Q1'20, supported by a 36% growth in gross profit to N3.4 billion. Distribution cost and administrative expenses however increased by 23.5% to N1.68 billion and 25.7% to N670 million respectively, attributable to a 60% surge in delivery expenses on the back of increased marketing activities. In addition, a 24.3% and 1495% increase in employee cost and local travel expensesto N274 million and N54 million respectively partly contributed to the increase in administrative expenses, indicating a boost in business and marketing activities.

Significant reduction in finance cost boosts bottom line growth

The company reported a 15.2% growth in profit after tax to N723 million from N627.8 million in Q1'20partly driven by a 86% reduction in finance cost to N13.3 million relative to the N95.6 million reported in Q1'2020. The company's borrowings declined by N3 million attributable to repayments of capital project borrowings made in 2019.

Market Cap: N38.42bn

Share Price : N13.50

NASCON Allied Industries Plc

NASCON Allied Industries Plc, a member of the Dangote group of companies is a leading player in the Nigerian salt industry with an installed production capacity of 567,000 metric tonnes per annum. The Company is engaged in the processing of raw salt into refined, edible and industrial salt. It also produces other food-related products (seasoning, tomato paste and vegetable oil) operating primarily in Nigeria with production facilities in Lagos State (Apapa and Oregun), Ogun State (Ota), Rivers State (Port Harcourt).

Due to an identified need for self-sufficiency in the production of salt, the company started out as National Salt Company of Nigeria established in 1973, as a joint venture between the Federal Military Government of Nigeria and Atlantic Salt & Chemical Inc. of Los Angeles, California, USA,. The company got listed on the Nigerian Stock Exchange in October 1992 and was acquired by Dangote group in 2007. In a bid to transform to a fully fledged FMCG company, NASCON extended its operations to the vegetable oil and tomato paste segmentin 2015. The salt segment has however being a major driver of growth for the company.

NASCON Allied Industries Plchas remained resilient despite a challenging business environment supported by increased market penetration, production of quality products and capacity expansion.The company's growth and market penetration over the years have also enjoyed the brand name as a member of the Dangote group.In the last five years, the company recorded a moderate cumulative average growth of 9.00% in revenue, supported primarily by growth in the salt segment.The CBN's foreign exchange restriction on importation of raw materials for tomato paste and vegetable oil however, hampered growth in the production and sales of these products as there was no revenue generated from these segments in 2020. We expect the company to strategize on sourcing raw materials for these products locally in the near term.

NASCON is currently reaping the gains from its capacity expansion and deepening its market penetration as well as ensuring retention of its customer base. In a bid to increase its market expansion, the company recently invested in a new state of the art salt refinery, which is expected to produce high quality products. The company is expected to continue to deliver maximum returns to investorsthrough aggressive investment in new product lines, increased market share and focus on capacity expansion. We also expect the company to deepen its backward integration strategy in order to focus on becoming a fully fledged FMCG company.

The Bulls Say and the Bears Say

Bulls say:

- Strong brand name
- Diversification of business operations
- The import substitution policy of the government
- Large market share
- Leveraging on the existing distribution network

Bears say:

- The poor macroeconomic environment impacting consumer demand
- Foreign exchange volatility
- Stiff competition from other players
- Harsh operating environment

Economic Outlook for the Next Month

Nigeria to continue on its path of economic recovery albeit slowly. The International Monetary Fund (IMF) expects the economy to expand by 2.5% in 2021 while potential capacity is estimated at 8.0%. This implies a recessionary gap of 5.5%. In Q2, we are projecting a growth rate of 4.5% due to base year effects.

Headline inflation is expected to increase again to 18.2% in May after a marginal dip in April. This will be largely due to insecurity and planting season effect.

Oil prices will remain elevated around $70pb on strong demand prospects. This alongside higher oil production will increase Nigeria's oil revenues and foreign exchange earnings. FAAC allocation will climb to a range of N650bn-N700bn on exchange rate gains and higher oil proceeds.

Naira could weaken to N502/$ before appreciating to a range of N487$-N490/$ on increased forex supply.