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In This Issue . . .

What will OPEC+ do next?

Ahead of its meeting next week, The Organization of the Petroleum Exporting Countries, Russia and allies, together called OPEC+, has signaled to markets that it is willing to do 'whatever its takes' to keep prices within an ideal a range and maintain market share. This is coming on the heels of the US announcing plans to make good on its threat to tap its Strategic Petroleum Reserve (SPR) amid high oil and gasoline prices.

US President Joe Biden has been vocal in his call to OPEC to ramp up oil output as gasoline prices surge in response to higher oil prices. Higher gasoline prices have also played a major role in US inflation rising to a 31-year high of 6.2%. This is also particularly worrying for Biden as the 2022 midterm elections approach. Gasoline prices often directly correlate to voter support for the current administration. OPEC+'s response has been an emphatic "NO" leaving the US and other major oil importers (China, Japan, India, South Korea) with only the SDR card left to play.

The US now plans to release up to 70mb which, in theory, could further scramble the supply-demand balance. The total volume of all planned SPR releases is expected to be around 100mb (approximately one day of global production). In reality, the release would transpire over several weeks, adding an extra 4-5mbpd to global daily production. Markets have been largely unperturbed by Biden's announcement, choosing instead to stick to what they already know about OPEC+'s willingness and capability to lower output and rebalance the oil market. Just last year, the alliance slashed its output sharply as demand vanished amid Covid-19 lock-downs.

OPEC+, particularly Saudi Arabia, sees the released crude as potentially swelling global supply and threatening to reduce prices. Oil prices have hovered near multiyear highs on the back of a global energy crunch. A resurgence of COVID cases in several European countries is triggering, or compelling countries to consider, fresh restrictions which could hamper economic activity and hurt the demand for oil. OPEC+ will meet on Dec. 1-2 to discuss their production plans for the following month and are likely to pause plans to provide the world with more crude to compensate for the increase in supply. The current plan involves ramping up output by 400,000bpd each month from August through 2022 until pre-pandemic pumping levels are attained. Saudi Arabia and Russia will need to get other powerful members of the alliance, including the United Arab Emirates and Kuwait to buy into their "pause" strategy. These members have clashed with Riyadh in the past and markets will be looking out for a united front. A slower pace of supply increases from OPEC+ could drive oil prices higher and leave consumers (especially in the US) feeling the SPR crude release backfired.


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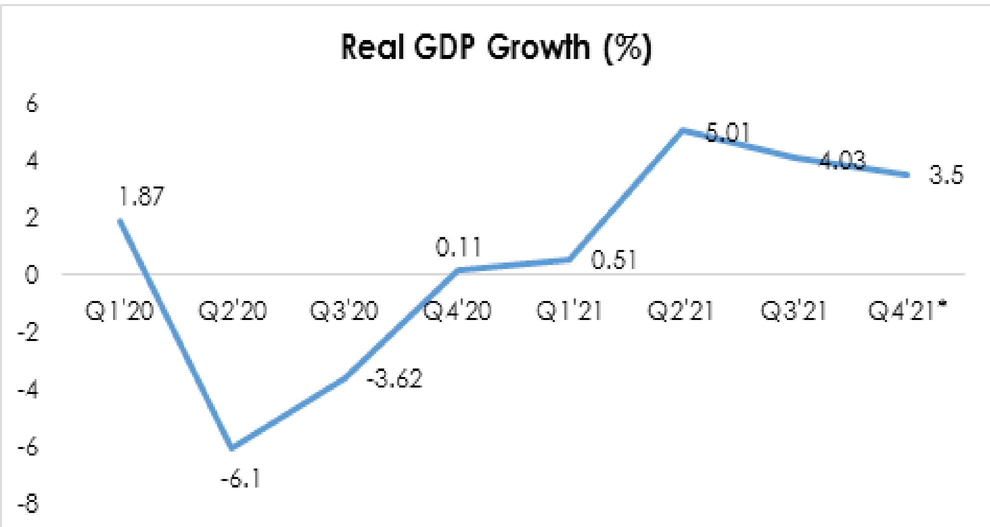
Q4 GDP growth Outlook

It has been four consecutive quarters of positive growth since the economy last contracted in Q3'20 (-3.62%) in the wake of the adverse impact of the COVID pandemic. In line with expectations, the economy expanded in Q3'21 – by 4.03%, even though it slowed marginally by 0.98% from 5.01% in Q2'21. This brings the average growth rate in 2021 to 3.18%, 0.58% above the World Bank's forecast (2.7%).

Will the positive momentum be maintained in Q4?

We expect the Nigerian economy to slow further in Q4'21 as base effects fade away. The economy will receive some support by increased aggregate demand ahead of Christmas. However, this will be limited by weakened purchasing power. So far in 2021, the average price of domestic commodities has risen by over 50%. Hence, we project a positive but slightly lower GDP growth rate of 3.5% in Q4. This could potentially bring the average GDP growth in 2021 to 3.26% - 5.64%.



In spite of the positive numbers in Q3'21, and the upward revisions to Nigeria's 2021 and 2022 GDP growth forecasts by the both the IMF and the World Bank, policymakers will not be oblivious to Nigeria's growth problem. There was a slowdown and contraction in the Agric (1.22%) and petroleum (-10.73%) sectors respectively, which are key drivers of the economy. The agric sector employs over 50% of the labour force and contributes the most to GDP (29.94%) while the oil sector is a major source of revenue and foreign exchange earnings.

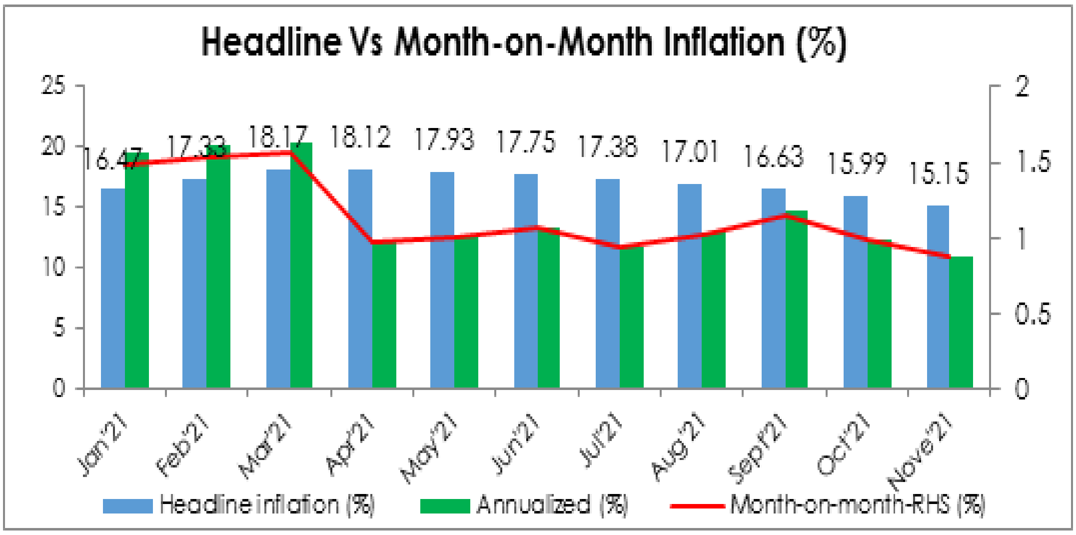
Nigeria needs consistent reforms to achieve sustainable growth

Nigeria's current growth rate is still significantly below the potential growth of 8.9%, suggesting that the economy is in need of massive investment to unlock its idle resources. The IMF in its Article IV has reiterated the need for policymakers to remove subsidies and implement revenue-based fiscal consolidation, reduce administrative measures and allow for a market-clearing unified exchange rate while supporting the recovery but remain vigilant against inflationary and stability risks.

These recommendations are crucial to boosting investment and achieving sustainable growth. This is because of the multiplier effect of investment on growth. Nigeria's investment to GDP ratio is currently 29.4%.

Inflation defying the global and regional trend – for how much longer?

Nigeria's official headline inflation fell again in October to 15.99% from 16.63% in September. This is the 7th consecutive monthly decline and a 10-month low. Most analysts had anticipated the sustained decline but were surprised by the magnitude of decline. Consumers were also dismayed as the official data seems to contradict market reality. In the last year, the average price of commodities in the Lagos market surged by over 50%.



Inflation is projected to maintain its downward trend, closing the year at 14.3%. However, risks are elevated – increase in electricity tariffs (Dec 1), removal of fuel subsidy (early 2022), insecurity threats and exchange rate pass through effect. However, as the harvest season effect wanes and we enter into the yuletide season, we expect commodity prices to rise further as people stock up for Christmas. Exchange rate volatility at the parallel market is likely to keep imported commodity prices high. In addition, the price of a key imported commodity, wheat, is at a 9-year high of $870/bushel as dry weather conditions in parts of the US fuel global supply worries. The ripple effect will keep flour prices elevated in the near to medium term. This, along with money supply saturation on the back of increased electoral spending in 2022, will trigger a reversal in the inflation trend.

Monetary policy normalization in advanced economies will trigger capital flow reversals in emerging markets. Nigeria is likely to experience exchange rate volatility as a result which would further fuel imported inflation. Other inflation risks remain elevated as Nigeria continues to grapple with separatist agitations, supply chain disruptions and higher energy costs. Foreign-exchange controls on imported goods, for which domestic supply is inadequate, and conflict in the Middle Belt (Nigeria's breadbasket) will continue to keep inflation structurally high.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Fuel Subsidies – gone at long last?

The federal government, has set for itself a deadline of June 2022 to phase out fuel subsidies. It is even likely to be done earlier in the year as the government appears keen to double down on reforms ahead of the elections in 2023. The government it seems is also prioritizing the welfare of the common Nigerian as it intends to cushion the inflationary impact on the most vulnerable nigerians (40 million) with a monthly N5,000 stipend. The palliative will be remitted through their NINs, BVNs, and account numbers. The move to eliminate subsidies is in congruence with the provisions of the Petroleum Industry Act which was signed into law earlier this year.

Fuel subsidy removal- The devil with a good heart

The NNPC spent about N864.07bn on petrol subsidy in 9M'2021 – 31% of its revenue (N2.7trn) in the same period – thereby lowering its remittances to the federation. The federal government's decision to phase down fuel subsidies by 2022 elicits both relief and worry. The GMD of the state oil company, NNPC has stated that the removal of subsidies will push the pump price of petrol to between N320/ltr and N340/ltr. This would lead to higher logistics costs and further stoke inflationary pressures.

Impact on the Government

We expect subsidy removal to increase government revenue and narrow the fiscal deficit. It is however important that the freed up funds are channeled to critical infrastructure projects sectors of the economy that have direct impact on the common Nigerian (transport, education and health system). However, deregulated petrol pricing could require the government to take on powerful trade unions and civil society groups who have in the past responded to major hikes in petrol prices with strikes and protests.

Impact on Business

Many businesses will be confronted with higher logistics and operational costs which may be absorbed or passed on to consumers in the form of higher prices. This could be negative for profitability as the embattled Nigerian consumer is likely to re-prioritize his expenses in order of affordability.

Impact on the consumer

The Nigerian consumer will bear the brunt of the removal of subsidy as higher pump prices for fuel will further eat into his already eroded dispodable income. The N5,000 palliative is expected to cushion the impact of subsidy removal on the poorest consumers. It is noteworthy that the short time allotted to the implementation of this scheme implies that they will be confronted with the full impact of the petrol price increase when the period comes to an end.

Impact on the Petroleum Industry

While being a disincentive for smuggling, the removal of subsidies is a pre-requisite to the full deregulation of the downstream petroleum sector which is positive for investment and job creation. The good news is that Dangote refinery, with a production capacity of 650,000bpd, will commence operations in 2022. This, coupled with the revamping of Nigeria's three major refineries, (Kaduna, Port Harcourt and Warri) is expected to meet all Nigeria's refined crude demand, with room for exports. This is positive for oil export earnings, the trade balance, external reserves accretion, and will end Nigeria's dependence on the importation of refined petroleum products. Additionally, it could propel Nigeria to refining hub status.

FG raises power tariff, begins free meters purchase

The FGN is expecting to revise electricity tariffs upwards by December as it steps up its mass metering initiative. The objective is to bring the market closer towards cost-reflective tariffs which is crucial to the industry's sustainability and attracting investment flows. The industry has been held back by a lack of investment since its privatization and the absence of cost-reflective tariffs is a major step in solving the financing constraint that has beleaguered the sector.

The review is expected to take place in two stages: the Extraordinary Review of Transmission Company of Nigeria's Loss Factor (TLF) in the MYTO, and the processes for the December 2021 review of MYTO – 2021. The MYTO review in December 2021 will take into account changes in relevant macroeconomic indicators, generation capacity, and capital investment required for the evacuation and distribution of available generation capacity in accordance with current norms.

It is likely that the adoption of the Multi-Year Tariff Order (MYTO) would be followed by resistance from labour. Just like in the case of subsidies on PMS, labour unions have been vocal in their resistance to power tariff hikes. They fail to see the direct link between cost-reflective tariffs and increased power supply which would lower the use of alternative forms of energy (which cost up to 400% more).

While the tariff hike would be initially inflationary, an improvement in revenue will tackle the challenge of inadequate transmission and distribution infrastructure which will boost efficiency. The capacity of the players to meet their debt obligations as well as attract funding is also improved.

Meanwhile, FG commenced the procurement of 4 million electrical meters which will be distributed to unmetered power consumers across the country under the National Mass Metering Programme. There are about 8mn unmetered consumers in Nigeria (3.88% of total population). The programme is divided into three phases: phase zero, phase one, and phase two. It is worthy of note that the mass metering operation is not entirely free, as the government provided loans for the purchase of these meters.


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Turf wars Africa's fintech firms vie for domination

THE PAYMENTS frenzy is going global, and Africa is catching the bug. So far this year four of the continent's financial-technology firms have reached or exceeded billion-dollar valuations, more than doubling Africa's population of "unicorns". OPay, a mobile-payments company, acquired its horn in August, after raising funding from investors including SoftBank, a Japanese firm. Other recent unicorns include Wave, a Senegal-based startup that runs a mobile-money network; Chipper Cash, which offers peer-to-peer payments; and Flutterwave, which simplifies payments for businesses. As foreign investment pours in, Africa's fintech firms are expanding both across the continent and into new services.

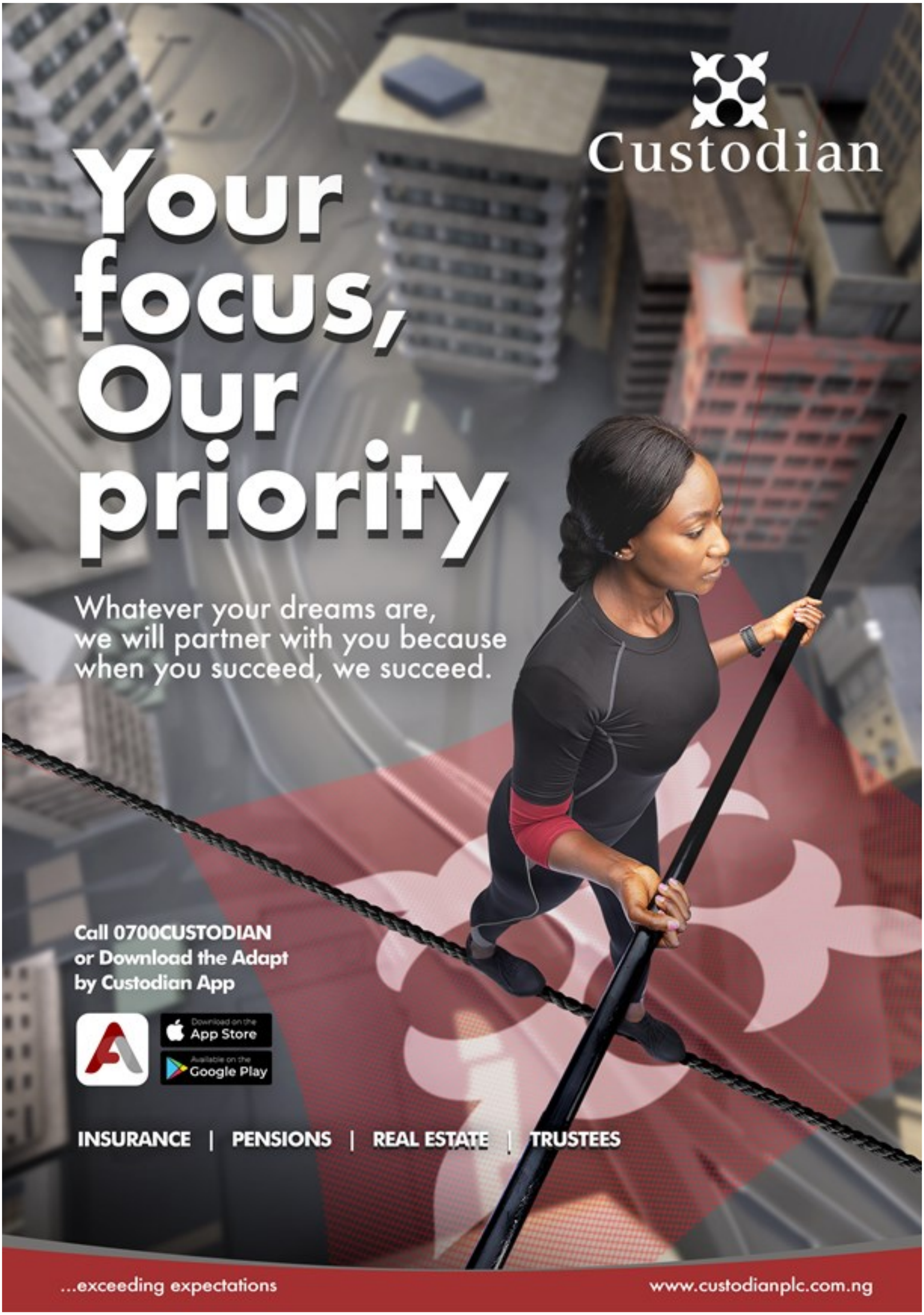
Africa is an obvious choice for fintech investors. They are betting that young African talent can innovate its way out of the region's most pressing financial problems faster than legacy firms can. By 2025 the continent will be home to 1.5bn people, most of whom will have grown up in the era of the internet. Nigeria, which has received almost two-thirds of Africa's fintech investments this year, has a young and entrepreneurial population. But more than half of Nigerians do not have a bank account. Across the continent, digitally literate unbanked (and underbanked) people, who have long been largely ignored by conventional lenders, are instead turning to the upstarts. In Ivory Coast, for example, 94% of pupils' school fees were being paid using mobile money by 2014. This makes it fertile territory for companies like Wave, which moved into the country in April.

One reason for firms to expand geographically stems from the African Continental Free Trade Area, a deal that was first agreed on in 2018 and which has now been ratified by 38 countries. The Pan-African Payment and Settlement System was launched in September as part of the deal, in order to make the region's many systems work better together. As a consequence, investors are backing firms with ambitions that extend beyond their home countries. Flutterwave had reached more than 33 African countries by the time of its latest funding round this year; those taking part included Tiger Global, an investment firm based in New York.

For the biggest African fintechs, simple payments are only an entry point. OPay was founded three years ago and was once a ride-hailing app. It now offers interest-free credit that is easier for workers in informal jobs to get than bank loans. The firm, now worth around $2bn, is about as valuable as Nigeria's biggest bank. Chipper Cash, which is backed by Jeff Bezos, the founder of Amazon, is taking its vision beyond Africa. It lets Nigerians in Britain send money home instantly, and could revolutionize transfers in sub-Saharan Africa, which has some of the highest remittance costs in the world.

Banks may not be the only incumbents feeling threatened by the newcomers. In some cases, telecoms providers, which also provide mobile money, are drastically lowering their fees as competition in payments hots up. The battle leaves regulators struggling to control an industry that is rapidly evolving. Wave is moving through the continent at pace, and is now available in four countries.

Despite a bumper year, Africa's biggest startups are still relatively young compared with those in the rest of the emerging world. Getting payments right in such a large market could unlock a wealth of opportunity. Iyin Aboyeji, a co-founder of Flutterwave and an investor, says international venture capitalists are realising that Africa "looks a little bit like China in the 1970s. Folks are hoping to get in early and do some good deals." The emergence of rigorous cross-continental competition this year shows that African fintech is nonetheless maturing, and that the world is at last beginning to pay attention.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Macroeconomic Indicators
November 1st – 15th

Money Market

In the first half of November, the average opening position of banks was N265.63bn. This represents a 454.44% increase when compared to the second half of October (N47.91bn). The increase in liquidity is reflected in the decline in average short-term interbank rates. Average NIBOR rates (OBB/ON) fell sharply by 718bps to 8.72% from 15.90% in the second half of October. During the review period, total OMO sales was N25bn with no OMO repayments.

Total treasury bills auctioned at the primary market was 196.15bn, 16.54% lower than October (235.03bn). T/bill yields declined at the primary and secondary markets by an average of 6bps and 5bps respectively.

T/bills Tenor	Primary Market rate as at 29th Oct, 2021 (%p.a.)	Primary Market rate as at November15th, 2021 (%p.a.)	Direction	Secondary Market rate as at October 29th, 2021 (%p.a.)	Secondary Market rate as at November 15th, 2021 (%p.a.)	Direction
91	3.22	3.27	↑	4.18	4.00	↓
182	3.90	3.82	↓	4.70	5.00	↑
364	5.05	4.90	↓	6.70	6.43	↓

Outlook

Short-term interbank interest rates are expected to remain low barring any significant withdrawal. T/bill yields are likely to trend lower as investors appetite shift in favour of less risky assets.

Impact

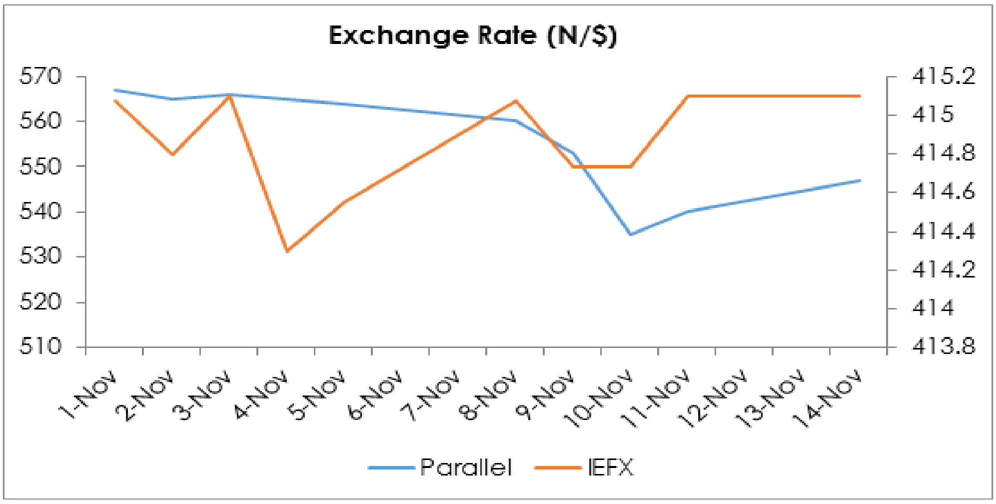
Lower t/bill yield will reduce the cost of borrowing for the government.

Forex Market

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

Exchange Rate

During the review period, the naira touched a two-month high of N535/$ on Nov 11 before depreciating to close at N547/$ on Nov 15. This was partly due to the CBN's sale of forex to FPIs and airlines at N444/$, which triggered speculations of further devaluation in the near term. The CBN also increased its supply of forex in November. At the I&E window, the exchange rate depreciated marginally by 0.03% to close at N415.1/$ on Nov 15 from N414.98/$ on Nov 1. Average turnover at the I&E window declined by 31.32% to $193.27mn during the review period from $132.74mn in the second half of October.



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Outlook

The naira is projected to appreciate towards N520/$-N530/$ in the coming month on increased dollar inflow from visiting friend and families. We also expect the CBN to increase its supply of forex to banks to keep the naira stable. This would however be at the expense of the gross external reserves.

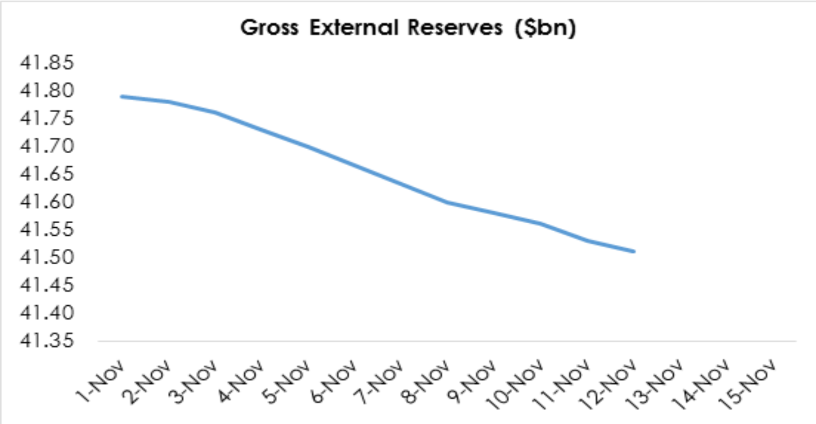
Impact

Naira appreciation will reduce the service costs of dollar obligations. It will also reduce cost of imports for firms that are highly import dependent.

[1]CBN, FDC Think Tank

External Reserves

The gross external reserves declined steadily during the review period, losing 0.79% to close at $41.46bn on Nov 15 from $41.79bn on Nov 1. This was partly due to increased forex sales by the CBN. The country's payment and import cover fell to 10.17 months at the end of the review period.



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Outlook

We expect the external reserves to continue its downward trend in the near term as the CBN intensifies its efforts in defending the naira.

Impact

Lower gross external reserves will hamper the ability of the CBN to support the naira and intervene at the forex market.

[2]CBN, FDC Think Tank

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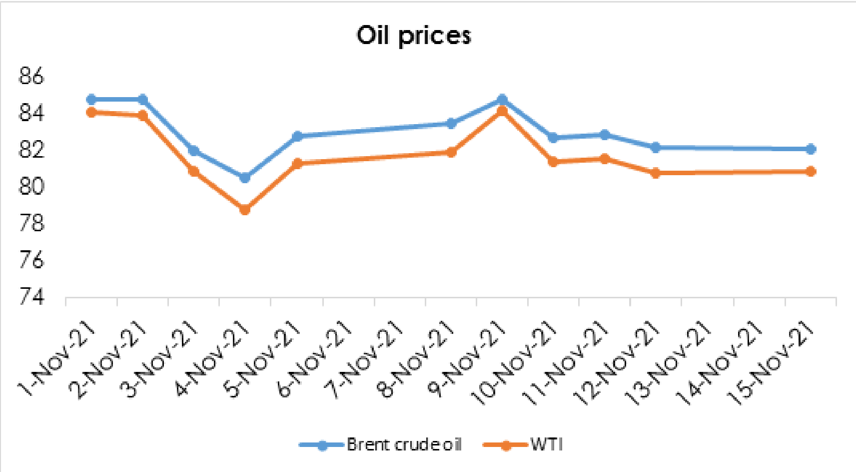
Commodities Market - Exports

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

Oil Prices

The average price of oil declined by 2.17% to $82.37pb from $84.20pb in the second half of October. This was due to speculations about supply boost from the US strategic reserves as Biden urges OPEC+ to increase oil output. During the review period, OPEC+ maintained their stance on oil output (400,000bpd), increasing Nigeria's quota to 1.67mbpd.



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Outlook

Oil prices are likely to decline further on concerns of resurgence of covid-19 and prospects of supply boost from the US and China.

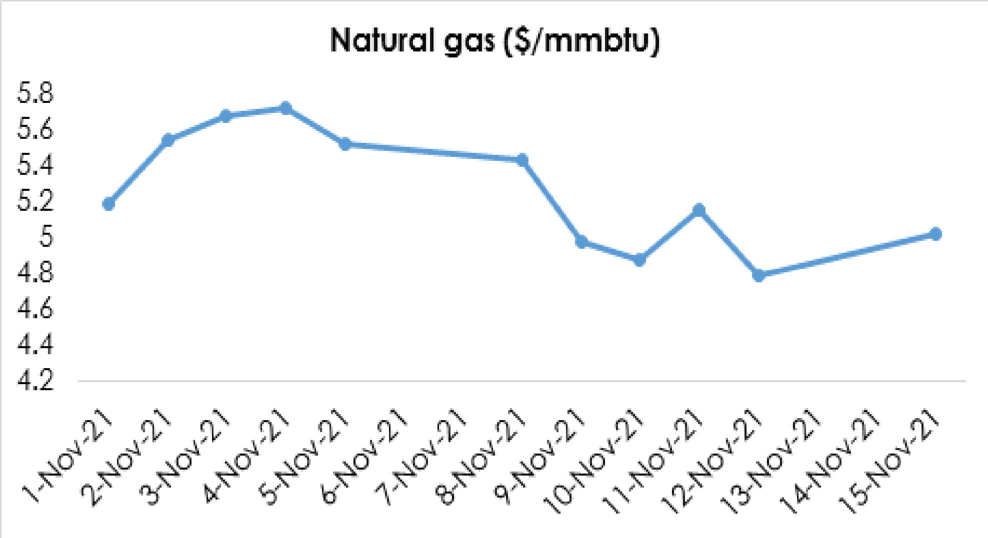
Impact

Nigeria's oil production is projected to increase in line with the new OPEC quota. This is expected to cushion the impact of lower oil prices and boost the country's fiscal and external buffers as the country is more sensitive to production than price.

Natural Gas

The average global price of natural gas for the review period was $5.26/mmbtu. It decreased by 4.01% from $5.48/mmbtu in second half of October. This was partly due to increased supply by Russia, the second largest producer of natural gas.

[3]Bloomberg. FDC Think Tank



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Outlook

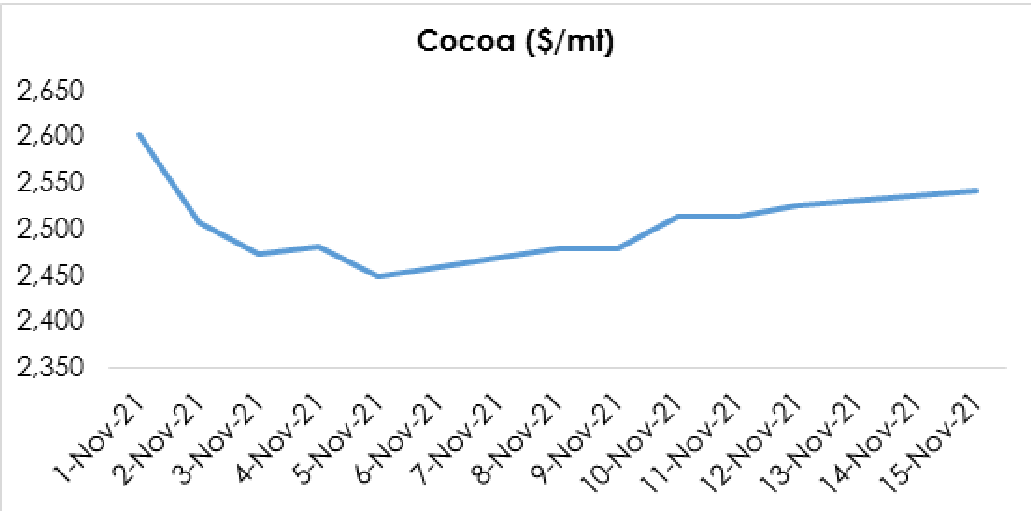
We expect LNG price to increase in the coming months on increased Chinese demand and the commencement of winter in US and Europe.

Impact

Natural gas is a major export commodity in Nigeria. Higher LNG prices will boost Nigeria's LNG export revenues and facilitate a favourable balance of trade.

Cocoa

During the review period, the average price of cocoa decreased by 2.79% to $2,506/mt from an average of $2,578/mt in October. The can be partly attributed to expectations of higher production in Ivory Coast.



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[4]Bloomberg, FDC think Tank
[5]Bloomberg, FDC think Tank

Outlook

We expect cocoa prices to remain soft on the prospect of increased supply in Ivory coast, the world's largest producer of cocoa. We also expect growth in local production as increased rainfall in Nigeria boosts crop growth in top producing regions.

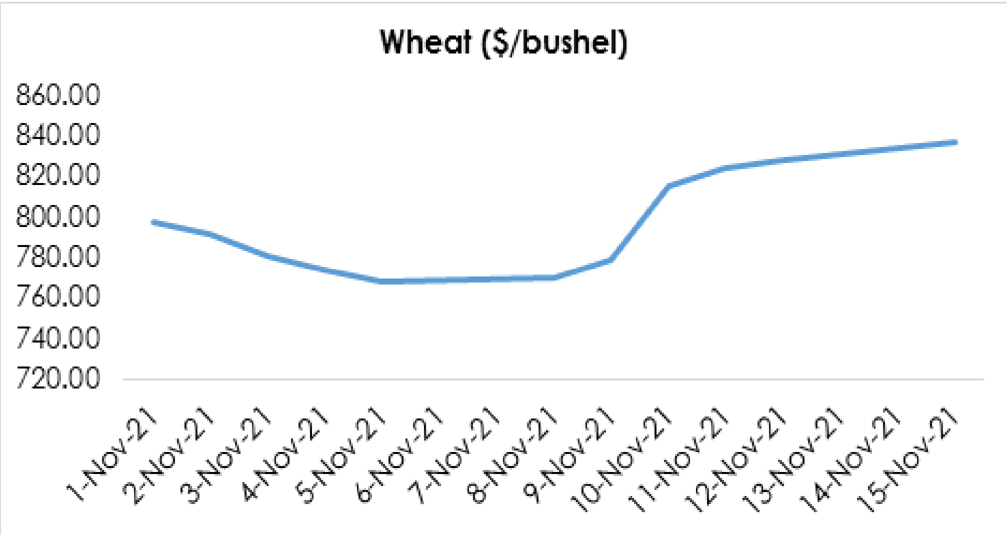
Impact

Cocoa is one of the main non-oil export commodities in Nigeria. A decrease in price would reduce the country's export earnings.

Imports

Wheat

The average price of wheat for the period was $796.80/bushel, 5.67% higher than the second half of October ($754.05/bushel). This was supported by tight supply as persistent drought conditions in producing regions (Canada and the US) affect output. FG plans to cut wheat importation by 60% in the next two years and increase domestic production.



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Outlook

We project a continued increase in the prices of wheat on global supply concern amid strong demand.

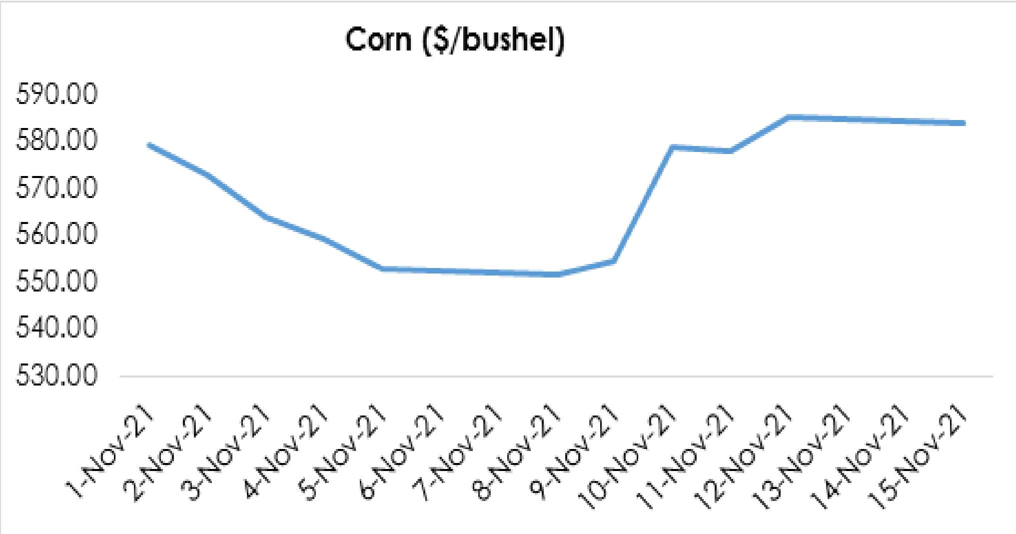
Impact

An increase in the price of wheat is negative for Nigeria's import bill. However, an improvement in domestic production could reduce the price of bread and other pastries

[6]Bloomberg, FDC Think Tank

Corn

On the average, corn prices increased marginally by 4.57% to $569.12/bushel in November from an average of $544.23/bushel in second half of October. This is due to higher demand for corn for ethanol production in the US.



[7]

Outlook

Corn price is likely to continue its upward trend on increased demand for corn in ethanol production.

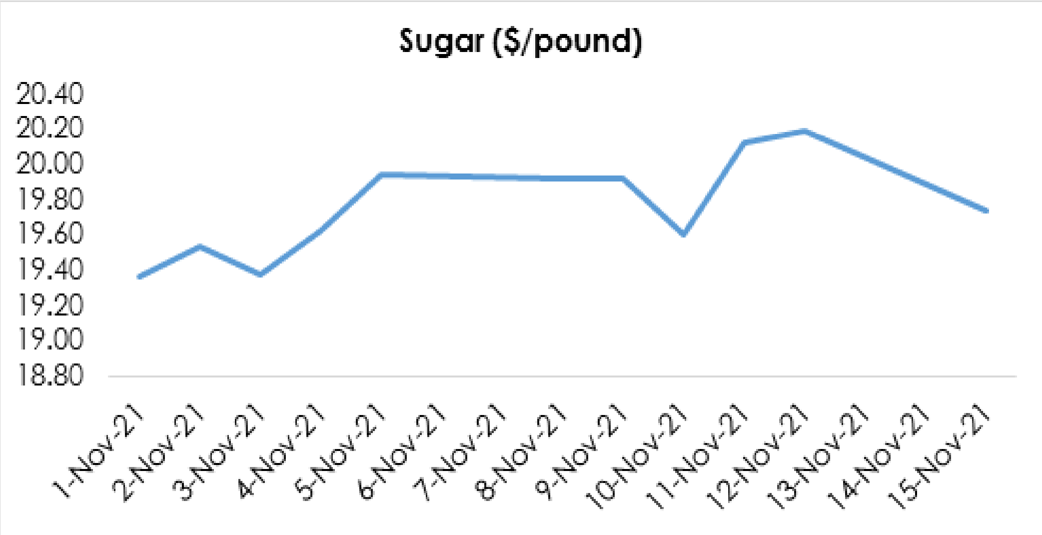
Impact

Nigeria is one of the largest importers of grains in the world. Therefore, an increase in prices means a higher import bill and higher production cost for corn dependent firms.

Sugar

The average price of sugar closed at $19.76/pound in November, a 2.44% increase when compared with $19.29/pound in second half of October. This was despite an increase in supply from the world largest producer of sugar, Brazil, after a long period of unfavourable weather condition which affected supply.

[7]Bloomberg, FDC Think Tank



[8]

Outlook

The price of sugar is expected to continue its bullish run due to higher global demand.

Impact

An increase in the price of sugar has negative impact on Nigeria's import bill and push-up local production cost.

[8]Bloomberg, FDC Think Tank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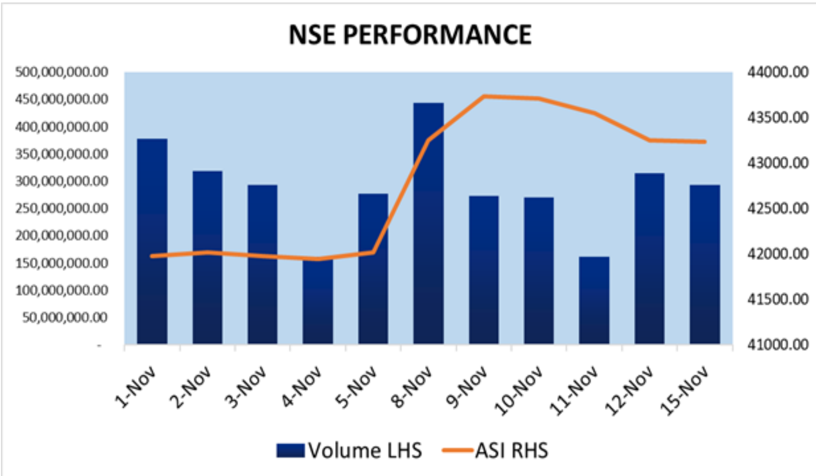
Stock market Update

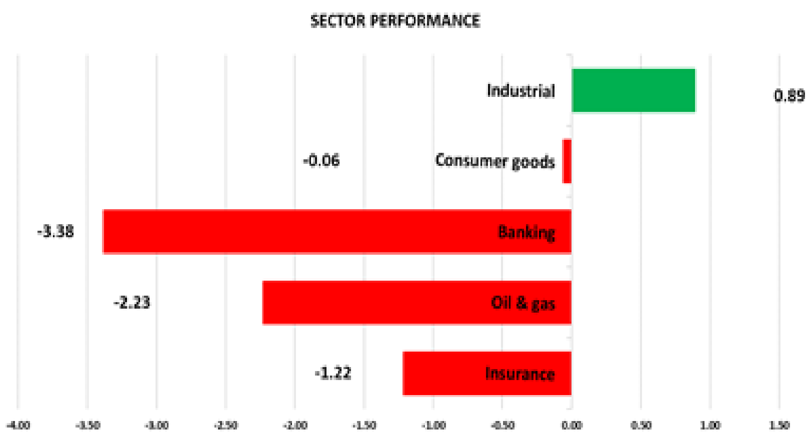
The NGX closed on a positive note in the first half of November. It gained 2.83% to close at 43,230.34 points on November 15th from 42,038.60 points on October 29th. In the same vein, market capitalization increased by 2.78% (N610bn) to N22.55trn relative to its close of N21.94trn on October 29th. The market YTD return improved to 7.35% from 4.24% in the review period. The market gained in 4 out of the 11 trading days of the review period with a cumulative gain of 2.85%.

The market breadth was negative at 0.60x as 29 stocks gained, 80 stocks remained unchanged while 48 lost.



[9]

Market activity level was negative in the review period. The average volume traded fell by 42.92% to 289.56mn units from 507.28mn units. Similarly, the average value of trades decreased by 44.39% to N3.42bn from N6.15bn in the review period.



[10]

[9]NBS, FDC Think Tank
[10]NBS, FDC Think Tank

The sector indices performance was negative in the review period. The banking sector recorded the highest loss (3.38%). This was followed by oil & gas (-2.23%), insurance (-1.22%) and consumer goods (-0.06%). Only the industrial sector gained 0.89%.

Airtel Africa Plc topped the gainers' list with a 11.76% increase in its share price. This was followed by FBN Holdings Plc (11.31%), Scoa Nigeria Plc (9.47%), MTN Nigeria Plc (8.20%) and United Capital Plc (5.98%).

TOP 5 GAINERS				
Company	**Oct-29 (N)**	**Nov-15 (N)**	**Absolute Change**	**Change (%)**
Airtel Africa Plc	780.00	871.70	91.70	11.76
FBN Holdings Plc	11.05	12.30	1.25	11.31
Scoa Nigeria Plc	0.95	1.04	0.09	9.47
MTN Nigeria Plc	175.60	190.00	14.40	8.20
United Capital Plc	9.20	9.75	0.55	5.98

The laggards were led by Cutix Plc (52.38%), Pharma-Deko Plc (18.85%), Eterna Plc (15.49%), UPDC Real Estate Insurance Trust Plc (15.00%) and Conoil Plc (14.90%).

TOP 5 LOSERS				
Company	**Oct-29 (N)**	**Nov-15 (N)**	**Absolute change**	**Change (%)**
Cutix Plc	6.30	3.00	3.30	-52.38
Pharma-Deko Plc	2.60	2.11	0.49	-18.85
Eterna Plc	8.65	7.31	1.34	-15.49
UPDC Real Estate Investment Trust Plc	1.80	1.53	0.27	-15.00
Conoil Plc	25.50	21.70	3.80	-14.90

Outlook

The NGX' performance in the second half of November would be largely impacted by the outcome of the MPC meeting on November 23.

Equity Report: Nestlé Nigeria Plc

Analyst's note

Revenues sustained by price growth and higher revenue from food business segment

Market Capitalization: N1.11 trillion

Current Price: N1,405

Industry: Consumer Goods

In the nine months ended September 30, 2021, Nestlé Nigeria Plc's topline expanded by 22.97% to N261.59billion from N212.73billion in the corresponding period in 2020. The growth was buoyed by price increases and growth in both its food and beverage products business segment, which recorded a 25.10% and 20.03% growth to N154.34billion and N107.25billion respectively. The growth in sales of brands like Maggi, Cerelac, Nan, Lactogen, Golden Morn, Milo, Nescafe and Nestlé Pure Life continue to support Nestle Nigeria Plc's two business segments, food and beverage. The company's brands remain largely favoured among consumers even with the recent increase in prices. Given that other competitors also raised prices in line with the larger market, the impact of Nestlé's price increase on consumers' demand is likely to be limited.

Sustained supply chain disruptions remain a drag on raw material cost

Nestlé Nigeria Plc's cost of sales rose to N160.30billion in 9M'21, a 30.63% growth compared to the corresponding period last year. This was largely due to the sustained increase in the costs of raw materials. In 2020, supply chain disruptions in the local market, where Nestlé purchases a significant portion of its raw materials, recorded in an unexpected annual increase of 12.7%. Notwithstanding, the company's gross profit increased by 12.52% to N101.29billion.

Rise in marketing, distribution and admin cost pushes operating expenses up

In 9M'2021, the company's operating expenses increased to N56.12billion, 11.82% higher than the same period in the previous year. This was driven by higher marketing, distribution and admin expenses, which grew by 13.38% to N45.17billion. Despite a 253.70% spike in finance cost to N5.73billion, profit before tax recorded a growth of 4.71%. For the period under review, Nestlé Nigeria Plc's profit before tax increased to N51.58biilion.

Increase in long-term debt weighs on profitability

As of year-end 2020, Nestlé Nigeria had acquired a new $100mn facility from its parent company, Nestlé S.A of which $71.2 million had been drawn. In the nine months ended September 30, 2021, the company's total interest expense rose sharply by 219% to N5.17billion. This was the biggest contributor to the company's finance cost during the period. Meanwhile, finance income expanded by 71.43% to N1.20billion 9M'2021, driven by a 145% growth in interest income on bank deposits which grew to N1.20bn. Although marginal, the company's profitability rose with a 4.71% growth in profit before tax to N51.58billion and a 5.13% increase in profit after tax to N33.58billion.

Industry & company overview

Throughout 2020, the performance of the FMCG industry mirrored the many challenges faced by the sector. This includes the extensive impact of accelerating prices on consumers' income, ramifications of the Covid-19 pandemic on business segments as well as spikes in dollar costs of raw materials owing to the devaluation of the naira. However, the food segment subsector displayed resilience in the course of the year.

Although insecurity in the north and north-central basin remains a sustained threat to food production, and by extension, food prices; however, the resilience displayed by the subsector is expected to persist going forward. This is largely due to the defensive nature of the segment and the nascent recovery in economic activities. The food segment will have a positive multiplier effect on the broader industry's performance amid the constraints to consumer purchasing power owing to sustained inflationary pressures.

Meanwhile, the increase in product elasticity of the broader FMCG sector will act as a check on firms' ability to raise prices given its effect on volume. To improve prospects, increased product launches at the bottom of the pyramid are to be expected. And as the focus within the sector shifts to affordability, increased deployment of "sachetisation" is expected to take the forefront. Its importance cannot be overstated, considering the growing footprints of unbranded substitutes.

Company Overview

Nestlé Nigeria Plc. ("Nestlé") is a household name in Nigeria's fast-moving consumer goods, especially in the food and beverage industry. The company's entry into the food and beverage business dates back to 1866, with the foundation of the Anglo-Swiss Condensed Milk Company. Henri Nestlé developed a breakthrough infant food in 1867, and in 1905, the company he founded merged with Anglo-Swiss to form what is now known as the Nestlé Group. Nestlé Nigeria Plc. was incorporated on September 25, 1969 and is a subsidiary of Nestlé S.A.

Today, Nestlé Nigeria Plc. is a leading brand that has made a remarkable impact on the Nigerian FMCG sector. The company's core competences include:

- Manufacturing, marketing, and distribution of food products, including purified bottle water throughout the country, and
- Exportation of consumer goods to markets within and outside Africa.

Nestlé Nigeria Plc. seeks to continually promote local sourcing of raw materials. The company, in partnership with the International Fertilizer Development Centre (IFDC), started a Sorghum and Millet in the Sahel (SMS) project to strengthen the resilience of the millet and sorghum farming systems in north-western Nigeria.

Nestlé also launched the "feed the future Nestlé Maize Quality Improvement Program (M-QIP)" in collaboration with USAID and VEGA. It is leveraging on the expertise of volunteers like farmers and small-scale agricultural businesses in Kaduna state to reduce crop contaminants. This is expected to increase the yield and quality of maize and soybean by at least 17,000 metric tonnes annually.

Nestlé Milo is also promoting sports development at the grass-root level by hosting competitions such as the basketball championships. Nestlé Nigeria's growth can be seen through increases in its total assets and revenue over the years.

Management

The ability of Nestlé Nigeria's management to sustain returns and drive growth in a period of slow and fragile economic growth can be attributed to its diversified business segments and extensive distribution network across the country.

We find most of the qualities of the board in line with best practices of Nigeria's code of corporate governance. This is attributable to the fact that the role of the board is adequately separated from that of management, with the chairman of the board a non-member of any other committee and non-executive directors exceeding the number of executive directors. In addition to that, an internal audit committee exists. Also, in line with stipulated financial reporting standards, Nestlé made an important disclosure in their 2020 financial report, stating that one of the company's non-executive directors was the chairman of an affiliated supplier. This further highlights the company's adherence to transparency and ethical reporting.

Mr. David Ifezulike is the chairman of the board of directors of Nestlé Nigeria Plc. He was a non-executive director for more than twelve years before his appointment in 2013. He holds a Bachelor's degree from the University of Manchester and Master's degree from the Imperial College, London. He also serves as the managing director of Africa First limited and sits on various boards, including Nestlé Nigeria Trust Ltd.

Chairman

Mr. David Ifezulike

CEO & Managing Director

Mr. Wassim Elhussehi

Bulls and Bears say

Bulls Say:

- Strong local brand
- Local sourcing of raw materials, hence lower exposure to FX volatility
- Good product mix (non-cyclical)
- Efficient distribution network across the country
- Focus on capacity expansion

Bears Say:

- Rising commodities super inflation, combined with limited ability to increase prices could further reduce margins
- Competition from smuggled brands
- Contracting household income could result in downtrading to cheaper brands
- High cost of generating power

Economic Outlook for the Next Month

We expect the positive growth momentum to be sustained through Q4 as the country continues to scale up its pace of vaccination. The IMF recently revised Nigeria's growth projection upward by 0.3% to 2.7% from 2.4% due to a faster pace of expansion in the services sector and higher oil prices.

Headline inflation is likely to continue its downward trend in Q4 (year-end forecast: 14.3%). However, inflation risks are elevated due to heightened currency pressures, increased money supply, higher energy and logistics costs. The FGN has approved N18bn for each state of the federation and plans to remove fuel subsidy by early 2022.

Global oil prices are likely to trade below $80pb in the coming months, on fears of Covid-19 resurgence and increased oil supply as the US releases its strategic reserves. However, Nigeria's oil production is likely to increase in line with its new OPEC quota (1.67mbpd). This is likely to cushion the effect of lower prices as the country is more sensitive to oil production than prices. This would boost Nigeria's fiscal and external buffers.