Unity Bank Digest

May 16, 2022

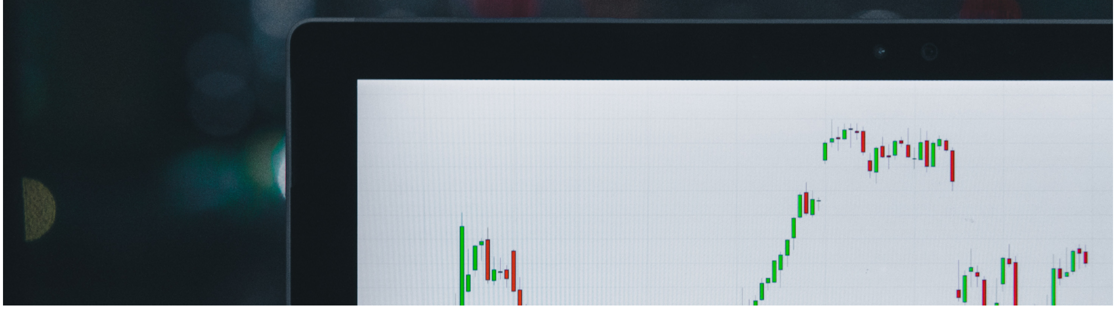
Finance | Economic News | Lifestyle

Consumers are Financially Stressed as Living Cost Climbs

Unity Bank Towers
Plot 42, AHmed Onibudo Street
Victoria Island, Lagos, Nigeria

Head Office Annex
Plot 785, Herbert Macaulay Way,
Central Business District, Abuja, FCT

The Macro



IMF projects Nigeria's inflation to hit 16.1% in 2022

The IMF projected inflation in Nigeria to hit16.1% in 2022. The estimated increase, which will be the highest rate of inflation since October 2021 (16.63%), would be driven by the surge in both domestic and global food prices. Higher food prices will shrink consumers' disposable income, particularly among low-income households, and reduce aggregate consumption levels. This could in turn slow economic growth in the country.More so, the fund expects that headline inflation rate would drop to 13.1% in 2023 due to a gradual recovery in the domestic economy.

Meanwhile, the World Bank reported that the COVID-19 pandemic-induced inflation drove roughly 23 million Nigerians into food crisis in2021. According to the bank, supply disruptions and rising food costs stemming from the Russian-Ukraine war aggravated food insecurity in Nigeria and other emerging economies.The bank also linked Nigeria's high food inflation to the import restrictions and non-flexible exchange rate operated by the CBN. At its next meeting in May, the CBN could be under pressure to adopt a tightening stance to curtail the sharp rise in inflation in the country.

US Fed hikes interest rates by 50 basis points (bps) to 1.00%

In an effort to cool rising inflation, the US Fed raised its benchmark interest rates by 50bps to 1.00% from its previous rate of 0.50%.The last time a rate hike of this magnitude happened was in 2000. Inflation in the US peaked to 8.5%, a 41-year high in March due to higher energy and food prices. Currently, the retail price of gasoline in the US is up sharply by 113.17% to $4.37/gallon from $2.05/gallon two years ago.

This decision by the Federal Reserve is expected to soften domestic commodity prices and reduce inflationary pressures in the US. With the Fed taking this step, we could see more global central banks adopt a tightening stance to achieve price stability. However, the consequences for Nigeria will be negative.

First, because Nigeria has a worrisome debt level, higher global interest rates make it more expensive to service debts, and puts the country at risk of a credit downgrade in the case of a debt default. Second, the danger of capital flight rises (leading to lower forex inflows) as investors seek better yields on government backed securities in the US and other emerging markets. A decline in forex supply will further weaken the Naira and essentially raise import costs. The attendant impact is a further rise in inflation that will continue to erode the disposable income of households.

OPEC sticks to moderate output increase, revises downwards the demand for crude for 2022

OPEC and its allies have agreed to maintain a monthly moderate increase in oil output of 432,000 barrels per day through September. This comes amid concerns about weak demand from China (the world's largest oil importer) and the EU's plan to ban Russian oil exports. The cartel wants to keep reaping the benefits of rising oil prices (Brent is presently trading at above $100 per barrel) and is unlikely to increase oil supplies to prevent global supply glut.

In addition, the cartel lowered its crude oil demand forecast for 2022 by 0.5 million barrels per day (mbpd) to 3.7mbpd from its previous forecast of 4.2mbpd. The change was made to reflect global economic growth concerns, rising inflation and the global geopolitical uncertainty.

This could lead to a drop in global oil prices. This, together with Nigeria's sub-optimal oil production, would exacerbate the country's revenue problems, contribute to the depletion of foreign reserves, and cause the Naira to fall further. It could also weigh on FAAC allocations to the three levels of government, resulting in a drop in aggregate demand and consumption levels. Recently, OPEC decided to raise the Nigeria's oil production quota from 1.735mbpd in May to 1.772mbpd in June 2022. However, due to an increase in incidences of oil theft, vandalism, and under investment in the sector, the country's oil production remains below OPEC's target.

GSM operators plan 40% tariff hike, propose tax review to avert plan

As a measure to meet up with the rising cost of business operations, telecommunication companies plan to increase tariff s on calls, SMS and data by 40%. A breakdown of the plan includes a 39.84% rise in the call price floor to N8.95 and a 40.25% increase in the SMS pricing cap to N5.61. According to the letter written by the telecommunications companies and sent the Nigerian Communications Commission, the planned tariff increase was prompted by a 40% increase in the cost of doing business in the country in 2020.

Also, the industries have recorded an increase by 35% in their operating expenses due to the economic recession in 2020 and the impact of the ongoing Russia-Ukraine war, while the recent imposition of a 5% excise duty has further burdened them with several taxes and levies. Unfortunately, the proposed tariff hike appears to come at the wrong time, as inflationary pressures continue to erode households' real income. This will place further financial strain on the already stretched customers, raising their cost of living even further. Meanwhile, the telecommunication companies have proposed a tax review in order to cut down some of their operating costs. Also, the association of licensed telecoms operators of Nigeria stated that the removal of multiple taxes in the industry along with other regulatory interventions may keep the prices of call, SMS and data at the current level.

Local airlines suspend plans to shut down operations

Nigeria airlines have decided to suspend their plans to shut down operations hours before the move was implemented. This came after the plea by consumers and the government to shelve the planned shutdown. The NNPC agreed to supply Jet-A1 to marketers at N480/liter for three months pending when the carriers would be granted licenses to import the commodity. The suspension was a relief for consumers and the economy, which would have been hit severely by the decision.

Previously, on May 6, 2022, Nigerian airline operators intended to cease operations indefinitely due to the exorbitant cost of aviation fuel (Jet A1) - currently at N700/liter. So far, the price of aviation fuel has spiked by 268.42% from N190/liter which has sent a shock to the aviation sector, increasing their operating cost to about 95%. The association also urged travelers to make alternative arrangements to avoid been stranded at the country's airports.

Prior to this, domestic airline operators hiked the prices of round trip and economy tickets by 100%to N100,000 and N50,000 respectively, to make up for the high cost of operations.This caused a decline in passenger demand, that contributed to the slow growth of the aviation sector. The industry has however not been able to fully pass the burden to consumers as energy costs keep soaring, further worsening their financial burden.

Special Report

UNITY BANK'S STELLAR EARNINGS MOMENTUM CONTINUES FOR THE FIFTH CONSECUTIVE QUARTER

Unity bank appears to have solidified its footing in the Nigerian retail banking space, following five consecutive quarters of positive bottom line growth trajectory. The key drivers of this growth are narrowed to two major strategies which have continuously delivered value to the bank. The bank's focus on agribusiness has not only bolstered the small and medium enterprises (SME) segment of the bank but also changing the dynamics of Nigeria being solely oil-dependent. Also, the bank has remained resilient and competitive within the evolving operating environment, through increased penetration of the retail market via products innovation and improved channels.

These twin effects have trickled down to a strong balance sheet and uptrend in profitability.

Earnings Performance

Unity bank's Q1'22 top-line performance surpassed its initial forecast of N12.89 billion. The bank reported gross earnings of N13.6 billion, an18% surge from N11.5 billion in Q1'21. Impressively, the bank sustained a positive performance following the 8% growth in gross earnings in its full year 2021 result (N50.3 billion) relative to FY'20 (N46.5 billion). These achievements are majorly attributable to improved loan portfolio and increased digital services.

Despite double digit increase in operating expenses to N6.5 billion in Q1'22, Unity bank's bottom-line grew faster than expenses reflecting an efficient cost structure. The top-line growth also fueled an impressive bottom-line performance. Profit after tax was up 20% to N869 million (Q1'22) relative to N721.5 million (Q1'21).

Impairment write back soared by a whopping 733% in Q1'22, a reversal from 38% decline in FY'21.The bank's total asset grew faster than liabilities, driven by a strong growth in loan portfolio. This was majorly supported by loans to the agricultural sector without compromising on asset quality. Gross loans increased by12% to N301.4bn in Q1'22, while non-performing loan is classified as best in the industry-near zero percent.

	Q1'22		FY'21	
Gross Earnings	18% to N13.6bn	↑	8% to N50.3bn	↑
Net Interest Income	9% to N5.3bn	↑	13% to N20bn	↑
Net fee and commission income	6% to N1.5bn	↓	18% to N6bn	↑
Impairment Write-back	733% to N549mn	↑	38% to N2.56bn	↓
Operating Expenses	11% to N6.5bn	↑	8% to N25.08bn	↑
PAT	20% to N869mn	↑	52% to N3.17bn	↑
Total Assets	10% to N591bn	↑	10% to N539bn	↑
Gross Loans	12% to N301.4bn	↑	33% to N269bn	↑
Total Liabilities	6% to N864.9bn	↑	6% to N815bn	↑

Key Ratios

Unity bank has continuously struggled with frail shareholder's fund. Over the period of 5 years, the bank has consistently recorded negative retained earnings. This is partly due to the accumulated losses

recorded within 2017 & 2018, coupled with liabilities exceeding assets over the years. Although, shareholders' fund still remains in the negative territory, there has seen a gradual improvement in subsequent years. Given the recent upward trend in profitability and optimism of future positive results, we expect a further moderation in capital adequacy ratio.

Loan-to-deposit ratio (LDR) is well above regulatory threshold of 65% and outperforms peers (Sterling at 58.5% and Wema at 46.56%). LDR soared to 83.24% in FY'21 from 57.8% in 2020 supported by strong loan portfolio.

Despite a surge in loan portfolio, the bank's asset quality remains the best in industry at 0.04% (Sterling at 0.7% and Wema at 4.9%).

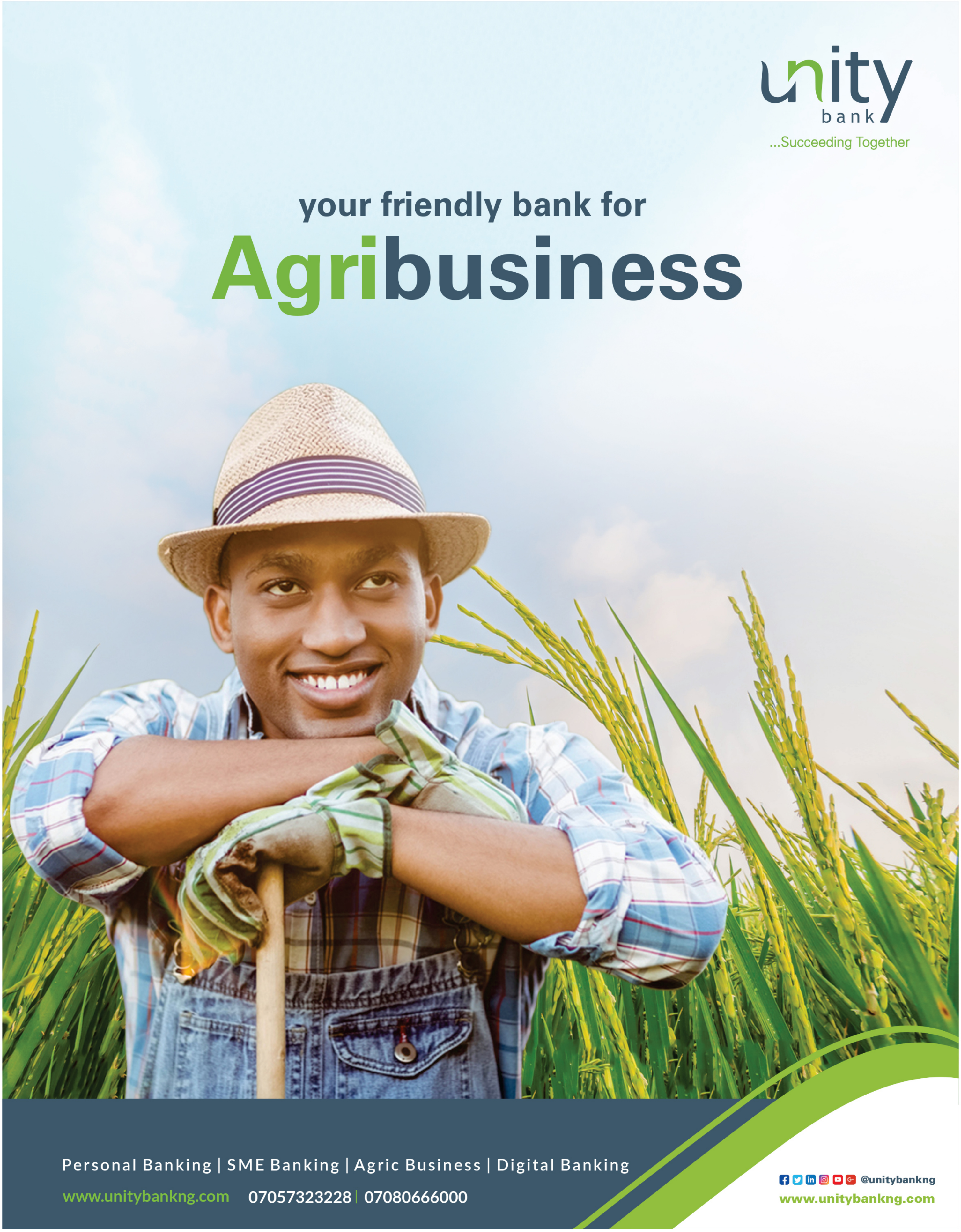
Key Ratios	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Regulatory requirement
CAR	(198.07%)	(213.60%)	(201.59%)	(101.47%)	(86.18%)	10%
Liquidity Ratio	34.5%	35.00%	33.19%	31.09%	N/A	30%
LDR	3.55%	18.05%	41.5%	57.8%	83.24%	65%
NPL Ratio	0.00%	0.00%	0.90%	0.04%	0.04%	
Cost-to-income	239%	157.4%	84.30%	91.3%	88.27%	

Conclusion

Deficiency in shareholders' fund remains a major concern for existing and potential investors of the bank. The management is expected to re-strategize in the near term to ensure a strengthened shareholders' value and possibly initiate a recapitalization process.

Unity bank is expected to maintain a strong asset quality whilst increasing its loan book. However, a need for loan book diversification is essential to cushion the risk of dominant exposure to the agriculture sector and likely asset deterioration.

Going forward, management is committed to increasing the pace of earnings momentum by capitalising on the successful agribusiness, increased focus on the youth market and intensifying retail presence to stay resilient in a monopolistic competitive industry.



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The Business Environment
(May 4th - 12th, 2022)

Forex Market

Forex: Parallel (N/ $)	Forex: IEFX (N/ $)	External Reserves ($/bn)
595.00 ▲	418.50 ▼	39.12 ▼
590.00	419.00	39.58

The Naira at the parallel market traded between N589 – N595/$ in the review period. Compared to the previous close of N590.00/$, it depreciated by 0.85% to close at N595.00/$. This is largely attributed to the limited forex supply in the forex market. In contrast, the IEFX rate appreciated marginally by 0.12% from N419.00/$ to N418.50/$.

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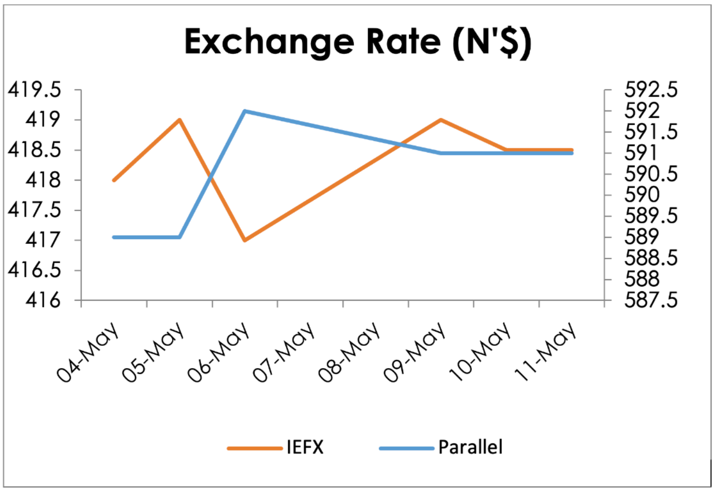
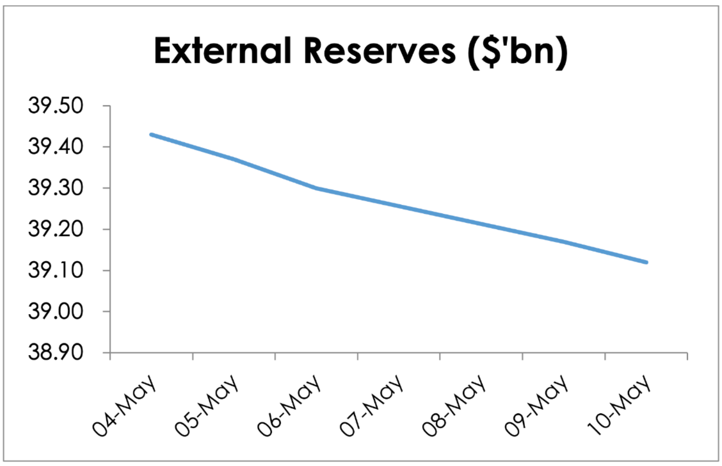
Meanwhile, gross external reserves declined steadily, losing 1.16% to close at $39.12bn from the preceding period's close of $39.58bn. The decline signals that the country is not benefitting from higher oil prices. The current level of external reserves is sufficient to cover 8.88months of imports.



SOURCE: FDC Think Tank, FMDQ

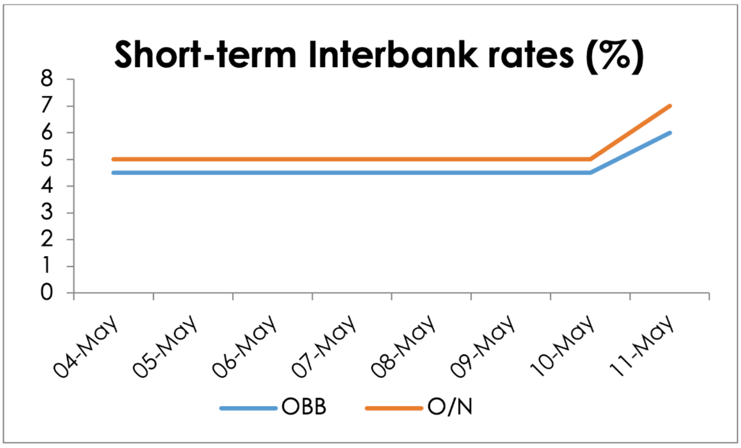
Outlook and Implications

We expect the pressure on the Naira at the parallel market to persist in the near term on lower forex supply amid soaring forex demand. The Naira could fall further to N595/$ - N600/$.



SOURCE: FDC Think Tank, CBN

Money Markets



SOURCE: FDC Think Tank, FMDQ

In the review period, banks average opening position spiked by 183.41% to N354.63bn from N125.13bn in the last half of April. The sharp increase in market liquidity led to a decline in the average short term interbank (NIBOR) rates by 422bps to 5.04% from 9.26% in the preceding period. In contrast, the OBB and ON rates rose by 100bps and 100bps to 6.00% and 7.00% respectively from 5.00% and 6.00% on April 29.

6.00

5.00

NIBOR: OBB (%p.a)

7.00

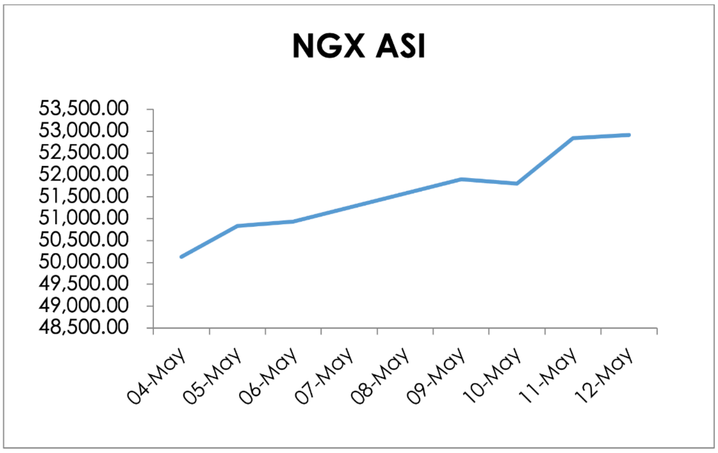
6.00

NIBOR: O/N (%p.a)

Outlook and Implication

We expect interbank interest rates to remain at the current level pending any significant inflows or outflows from the system.

Stock Market



SOURCE: FDC Think Tank, NGX

The NGX ASI maintained its bullish trend at the beginning of the period before losing 0.19% on May 10 from 51,902.48points the previous day. The negative performance was driven by profit taking in some sectors. It gained 6.61% to close at 52,917.76points from 49,638.94points at the end of April due to the low interest rate environment. In the same manner, the market cap at increased by 6.61% to N28.53bn from N26.76bn. Of the 7 trading days, the bourse gained in 6 days and lost in 1 day. The 52 weeks and YTD returns stood at 36.66% and 23.88% respectively as at May 12.

52,917.76

49,638.94

NGX ASI

28.53

26.76

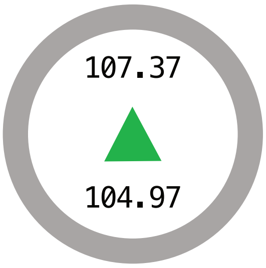
Market Cap. (N'trn)

Outlook and Implications

In the coming weeks, the stock market performance could be choppy as investors weigh the April inflation numbers to be released on May 16 and the CBN's decision on interest rates at its next meeting on May 24.

Commodities

Brent prices ($/b)

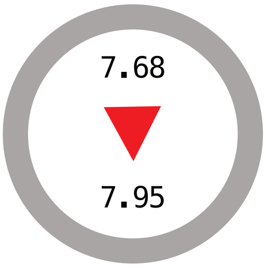


Outlook and Implication

Brent prices remained above $100pb in the review period, despite lower demand from China and concerns about increasing risks of a global recession. Compared to the previous close of $104.97pb, it rose by 2.29% to close at $107.37pb due to the impact of the sanctions on Russian oil supply. On average, it also increased by 1.27% to $108.10pb from $106.74pb in the second half of April.

Oil prices could remain stable in the near term, owing to the combined impact of lower demand from China and the lingering conflict between Russia and Ukraine. Meanwhile, lower oil production levels in Nigeria will continue to cap the expected gains from high oil prices. As a result, the country's revenue woes will persist.

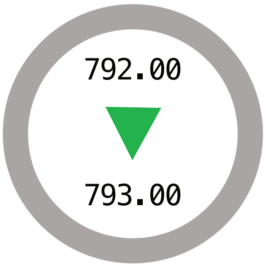
Natural gas ($/mmbtw)



Outlook and Implications

Sanctions on Russian gas are expected to offset the projected increase in US supply and keep prices high. Higher LNG prices are positive for FG revenue and external reserves accretion.

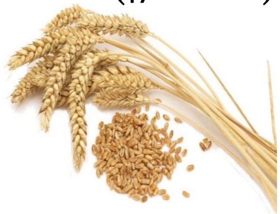
Corn ($/bushel)

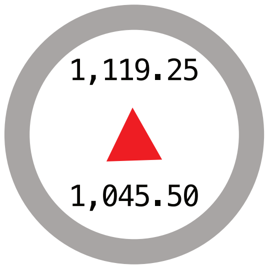


Outlook and Implications

Improved weather conditions in the US could soften corn prices in the near term. This will reduce Nigeria's corn import bill and lower prices of corn-related products in the domestic market.

Wheat ($/bushel)

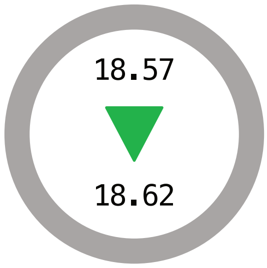




Outlook and Implications

Wheat prices could decline due to increase in supply from major producing countries. This is positive for Nigeria, as wheat import costs declines, reducing production costs for wheat-dependent firms. As a result, the price of flour and other wheat-related commodities will taper.

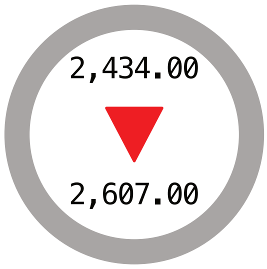
Sugar ($/pound)



Outlook and Implications

Strong ethanol demand are expected to buoy sugar prices in the coming weeks. Increased sugar prices will increase Nigeria's sugar import bill, and raise production costs for confectioners.

Cocoa ($/mt)

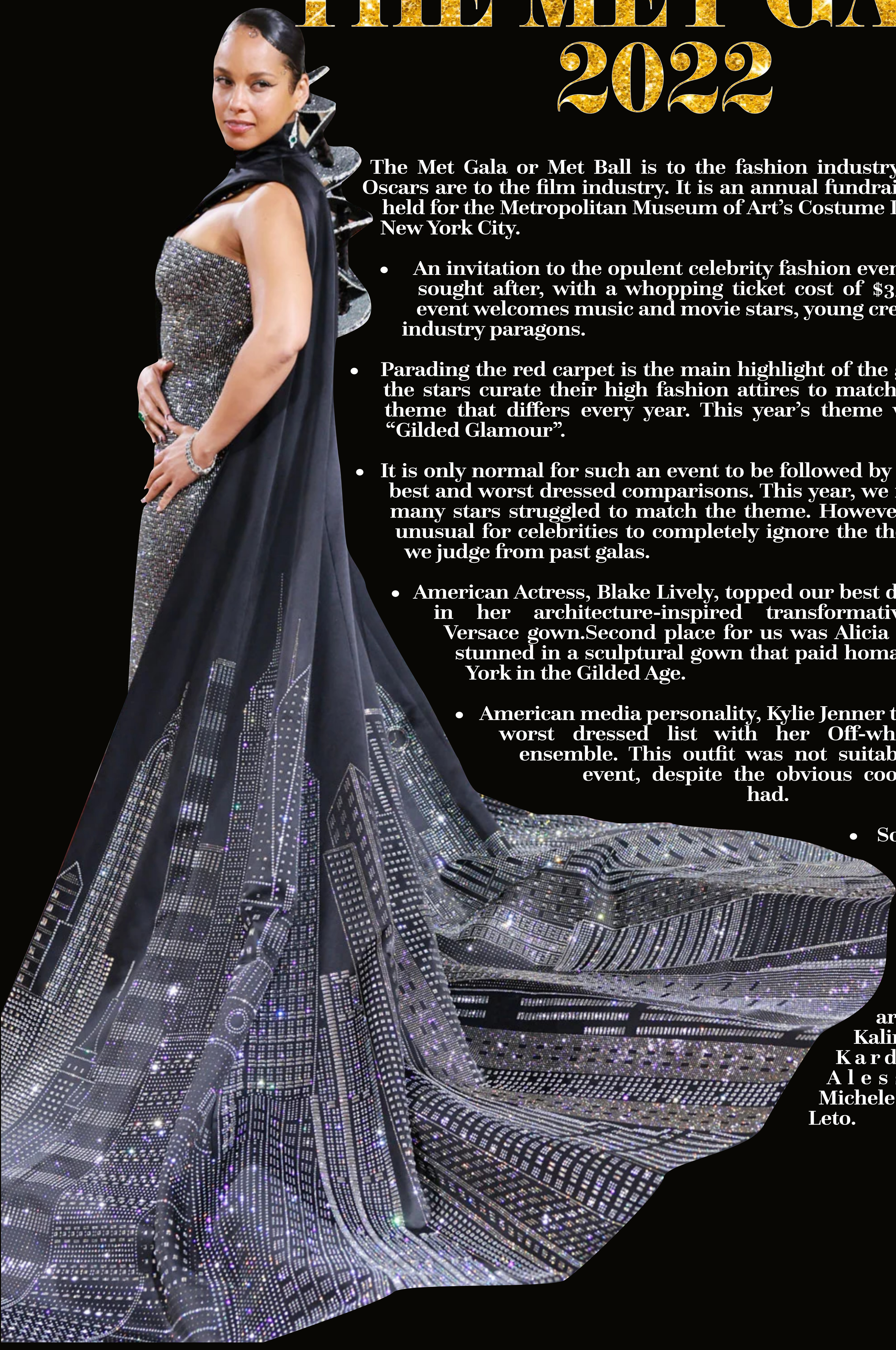


Outlook and Implications

Cocoa prices could decline owing to increased output from Ivory Coast – the top global producer of cocoa. Lower cocoa prices mean a decline in Nigeria's non-oil export earnings.

SOURCE: FDC Think Tank, Bloomberg

THE MET GALA 2022



The Met Gala or Met Ball is to the fashion industry what the Oscars are to the film industry. It is an annual fundraising event held for the Metropolitan Museum of Art's Costume Institute in New York City.

- An invitation to the opulent celebrity fashion event is highly sought after, with a whopping ticket cost of $35,000. The event welcomes music and movie stars, young creatives and industry paragons.

- Parading the red carpet is the main highlight of the gala, as all the stars curate their high fashion attires to match a specific theme that differs every year. This year's theme was titled, "Gilded Glamour".

- It is only normal for such an event to be followed by a series of best and worst dressed comparisons. This year, we found that many stars struggled to match the theme. However, it is not unusual for celebrities to completely ignore the theme when we judge from past galas.

- American Actress, Blake Lively, topped our best dressed list in her architecture-inspired transformative Atelier Versace gown.Second place for us was Alicia Keys, who stunned in a sculptural gown that paid homage to New York in the Gilded Age.

- American media personality, Kylie Jenner topped our worst dressed list with her Off-white bridal ensemble. This outfit was not suitable for the event, despite the obvious cool factor it had.

- Some stars that did not match the theme but still looked fabulous are Mindy Kaling, Kim Kardashian, Alessandro Michele and Jared Leto.

HOW ED-TECH IS SHAPING THE FUTURE

Culled from Forbes[1]

The global ed-tech market is expected to grow at a CAGR of 19.9% from 2021-2028. In 2021, this industry was worth $106.04 billion. What is the reason for the explosive growth trajectory that is envisaged for this sector?

There are several reasons why ed-tech is picking up across the world and the recent pandemic has only served to accelerate the demand. With children being kept away from school and attending online classes, technology has already made inroads into classrooms.

Ed-tech is for all the stakeholders in the education ecosystem – students, teachers, parents, experts, education cheerleaders and knowledge seekers across socio-economic strata. The proliferation of smart phones combined with cheap internet data has ensured the penetration of ed-tech to the underserved strata of the population.

E-learning solutions are changing the education sector by closing in on the gap between demand and supply. Affordable access has made e-education platforms available to the lower strata of society. Ed-tech is enabling individuals to enroll in tailored courses for personal and professional development. The emergence of ed-tech has crossed the boundaries of classrooms and entered homes during the last few years aided by the pandemic induced disruption.

According to a famous educator Mr Welton Fitzwater, "The Future of the world is in my classroom." This encapsulates the emergence of the modern classroom in the age of Digital Transformation. The multi-channel approach to education has brought classrooms to the palms of children, literally.

Studies have established that using the audio-visual medium enables better grasping and retention of learning concepts. The modern ed-tech platforms offer smart learning tools that are designed to teach learning concepts in an interesting manner that holds the attention of kids and makes them participate. These platforms offer evaluation tools to measure the progress of the child, identify strengths and weaknesses before they move to the next level. There are leader boards that indicate how your child is performing versus peers.

The use of Artificial Intelligence and Machine Learning ensures that students get a personalized learning experience that helps them to learn at their own pace. It is no longer about what you teach, it is about how you teach at school. Teaching methodologies have been turned on their head with the use of Ed-tech. Let us look at some of the areas where ed-tech scores over traditional book-based education.

Available 24/7 – The Covid pandemic that shut down schools and universities across the world was the biggest cheerleader for edTech. Technology made it possible for students to access educational material on their smart phones. This ensured that learning could continue uninterrupted, at their own pace, anywhere, anytime which offered the ultimate flexibility.

Tailored to fit – EdTech has evolved tremendously over the last decade. It is no longer about videos and images. The modern learning platforms offer interactive experiences using Augmented Reality. They help to create tailored experiences based on the student's aptitude, strengths and interests. When combined with great teachers, edTech can be a truly transformational tool.

Seamless communication – EdTech provides an integrated learning platform that can communicate with all the interested parties- the students, teachers, parents and school administrators. The virtual assistant helps the teachers and administrators to set up alerts for homework and exams, provide important metrics to parents and teachers regarding achievements with a clear evaluation of strengths and weaknesses.

What can we expect from edTech in the near future?

Using AR/VR in the classroom

Learning can move to the next level using digital technology. Kids will get the opportunity to use virtual reality, gamification, simulation etc to develop critical skills like analytical thinking, decision making and problem-solving. These techniques help students to grasp and retain complex concepts better and the cognitive and psychomotor skills also improve. Studies show that gamification can improve learning outcomes by 89%. This will help teachers to personalize lessons based on individual aptitude.

Holistic learning

With edTech, children get the opportunity to realize and develop their passions online along with their normal academics. They can learn from the best minds around the world and sharpen skills that are not taught at school. This will help them forge ahead in their areas of interest and this will help to develop a well-rounded personality.

AI-based scientific evaluation

Moving away from the rote learning model which merely assesses students on a written test, edTech provides a detailed analysis of a student's comprehension efficiency, time taken to answer a question, time taken to grasp a concept etc. These apps can generate reports that compare their progress and highlight areas that need improvement. It is a continuous assessment process that gives scope for course correction.

[1] https://www.highereducationdigest.com/how-is-ed-tech-shaping-the-future-of-education/

Contact

Would you like to open an account with us?

Kindly direct all account opening enquiries to:

Nosakhare Omoigui

08078148762, 08160956889

nomoigui@unitybankng.com

For all other enquiries, contact:

07080666000/ 07057323225-30

we_care@unitybankng.com

www.unitybankng.com

Unity Bank Plc
Plot 42, Ahmed Onibudo Street
Victoria Island
Lagos

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