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CONTENTS

NIGERIA'S DEBT

RISKS AND POLICY OPTIONS

Nigeria's debt profile is characterized by a billowing growth in external and domestic debt stocks and debt servicing. In Q1'20, external debt stock for Nigeria stood at approximately $27.5 million (mn). By Q4'20, it had jumped to $33mn with a total debt servicing of nearly $287.5mn. In Q1'22, the external debt stock skyrocketed to nearly $40mn while total outstanding debt servicing hit $694mn, driven largely by debt service payments on multilateral loans. The trend in domestic debt shows a similar upswing. The total domestic debt in Q1'21 stood at N16.51trn. It rose to N17.63trn in Q2'21. By Q1'22, the total domestic debt had reached nearly N20.14trn and rose further to 20.95trn in Q2'22. Nigeria's total public debt stock stood at N42.85trn.

Data from the Debt Management Office show that Nigeria's debt-to-GDP ratio increased to 21.15% in Q4'20, from 18.8% in Q2'20. This is a growth of about 2.35%. The debt-to-GDP ratio rose further to 22.8% in Q4'21, accentuating the IMF's view that Nigeria is edging closer to Lebanon's crisis. Lebanon recorded a high debt-to-GDP ratio of about 173% in 2020, with a defaulted debt of up to $90 billion. Presently, Sri Lanka and Zambia are almost in the same boat. It is worth mentioning that even though the increase in the debt-to-GDP falls under the Debt Management Office's 40% capacity corridor, Nigeria's debt is growing rapidly. The recent IMF report on the state of countries' indebtedness, released in July 2022, shows that Nigeria has moved up to the fourth position among the most indebted countries on the International Development Association (IDA) borrowers list.

While Nigeria's indebtedness to the IDA rose to $13billion (bn) from $11.7bn in one year to occupy the fourth position, India, the most indebted country on the IDA borrowers list, reduced its debt from $22bn to $19.7bn within the same period. Nigeria's elevated debt profile has stoked fears among policymakers about the country's capacity to contain the debt. Its ability to service and repay the debt – without jeopardizing the economy and given its level of revenue generation – is under serious scrutiny. Nigeria's debt service-to-revenue in 2020 hit 81.1% and jumped to 96% in 2021, up by 14.9% within one fiscal year. The IMF forecasts that debt servicing will engulf Nigeria's entire government revenue by 2026 if strategic measures are not taken to improve revenue generation.

Drivers of Unsustainable debt in Nigeria

The macroeconomic instability – exchange rate, fiscal policy,

[1]Debt Management Office of Nigeria. 2022. "Total Public Debts". https://www.dmo.gov.ng/debt-profile/total-public-debt
[2]Debt Management Office of Nigeria. 2022. "Total Public Debts". https://www.dmo.gov.ng/debt-profile/total-public-debt
[3]Businessday News, 2022, "Debt Service: Nigeria edges closer to Lebanon crisis", Debt service: Nigeria edges closer to Lebanon crisis - Businessday NG
[4]Premium Newspaper, 2022, "Nigeria broke as Debt Payment exceeds Revenue", https://www.premiumtimesng.com/regional/nwest/544216-nigeria-broke-as-debt-payment-exceeds-revenue.html
The Guardian newspaper, 2022, "Nigeria to spend 92% of 2022 Revenue on Debt Servicing, IMF Projects", https://guardian.ng/news/nigeria-to-spend-92-of-2022-revenue-on-debt-servicing-imf-projects/
Debt Management Office of Nigeria. 2022. "Total Public Debts". https://www.dmo.gov.ng/debt-profile/total-public-debt
[5]Businessday News, 2022, "Debt Service: Nigeria edges closer to Lebanon crisis", Debt service: Nigeria edges closer to Lebanon crisis - Businessday NG

terms of trade, and interest rate volatility are some of the causes of unsustainable debt in Nigeria. In addition, increased expenditures on foreign consumables compared to investment or capital goods can drag in debt sustainability problem. Inefficient and arbitrarily large size of government equally has a role to play. In all these, however, the fundamental cause rests on the country's poor institutions which define the fiscal management stance of the government. Countries like Singapore, Indonesia, China, and Thailand can maintain debt sustainability because of their supporting institutions. But Nigeria's institutions are saddled with massive corruption and public looting, political instability, government ineffectiveness, fiscal misappropriation and poor macroeconomic prudence, insecurity and rent self-seeking practices that plummeted the economy into debt sustainability challenge.

Risks of Unsustainable Debt for Nigeria

The literature has it that unsustainable debt stupendously shares many traits with economic woes like infrastructure gaps, fiscal deficits, poverty, and economic contractions. The Nigerian economy cannot be sustained by stockpiling debt and securing loans to service the outstanding debt, without experiencing economic devastation. Though many look to recent debts surging in the advanced economies including China, the US, and South Korea as a sign of hope for Nigeria's own debt woes, these high-income economies have a superbly high revenue-to-debt ratio (debt sustainability capacity) compared to Nigeria where debt service alone almost engulfed the entire revenue. Nigeria will battle more years of fiscal deficit, forex scarcity, infrastructure shortages, and socioeconomic underdevelopment if it fails to address the debt sustainability problem entrenched in the economy. Consequently, policy mechanisms or viable institutional arrangements that will enhance Nigeria's debt sustainability capacity is vital.

Mitigating Policy for Nigeria

Nigeria must develop a sound institution that will foster high returns on investment-driven debts. China is accumulating more debt than in the past, but the debt is tied to substantial development projects that can generate considerable revenue as an offset. Such a self-sustaining and self-financing debt strategy is indispensable to putting Nigeria on a debt sustainability trajectory. The investment that will help create a pro-growth feedback loop is central to maintaining debt sustainability and reducing Nigeria's borrowing spree. Again, that requires sound institutions.

It is worth mentioning here that a local institutional arrangement could be made to secure and defend Nigeria's revenue base to lift the country out of debt and debt overhang. The pipeline security contract awarded to "Tompolo" valued at about

LIVING INCOME DIFFERENTIAL POLICY

BEYOND THE "COCOA CARTEL" FRONTIER FOR NIGERIA

Living Income Differential Policy

The living income differential (LID) is an export-induced strategy in Ghana and Côte d'Ivoire that puts a $400 premium on the export price per ton of cocoa sold. The initiative is inspiring several other cocoa-producing countries to take part to boost their cocoa production and enhance their revenues. Earlier this year, Nigeria's National Cocoa Management Committee, officially announced a plan to join the initiative. The initiative is targeted at smallholder farmers in Nigeria.

Though there are growing concerns from cocoa buyers about the initiative becoming a cartel, Nigeria's core interest in the LID policy is based on the potential economic prosperity the initiative could offer. However, policy makers remain concerned that Nigeria may not have the needed capacity to effectively manage the initiative. It is also still unclear if the initiative will benefit the cocoa producers, and if the initiative is likely to shore up the government's fiscal needs, particularly revenue generation.

Experience from Ghana and Côte d'Ivoire

Ghana and Côte d'Ivoire account for about 60% of the overall cocoa beans produced in West Africa. The cocoa production or supply is done by smallholder farmers in both countries, many of which are poor. The $400 premium per metric ton, introduced for the 2020/21 season, aims to improve the living conditions of cocoa producers. The premium is paid to the cocoa farmers to boost their income. The governments further supplement the premium with a price stabilization fund to buffer against the international drop in cocoa prices, thereby allowing the government to sustain the target farmgate price.

For operational effectiveness, Ghana and Cote d'Ivoire adopted a centralized regulatory system. The centralized regulatory system allows the government to heavily control and manage the cocoa sector. It includes the government marketing cocoa to international buyers through its respective agencies (Côte d'Ivoire's Conseil du Café-Cacao and Ghana Cocoa Board). Note, also, that both the government of Cote d'Ivoire and Ghana set prices that cocoa producers will be paid.

[6]Vliet, J., Slingerland, M.A., Waarts, Y. and Giller, K.E. (2021). "A Living Income for Cocoa Producers in Côte d'Ivoire and Ghana" https://www.frontiersin.org/articles/10.3389/fsufs.2021.732831/full#B28
[7]Business and Human Rights Resource Centre. 2022. "Côte d'Ivoire & Ghana set a fixed living income differential of $400 per tonne of cocoa to relieve farmer poverty". https://www.business-humanrights.org/en/latest-news/c%C3%B4te-divoire-ghana-set-a-fixed-living-income-differential-of-400-per-tonne-of-cocoa-to-relieve-farmer-poverty

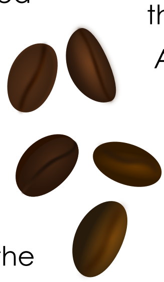
Prices, usually set during the beginning of the year or planting season, are fixed (floor prices) and last for the entire year, and the farmers cannot negotiate for higher prices once the floor price is set. Unfortunately, the centralized system has not shielded the initiative from certain impediments: buyers can bypass the payment through the futures market or negotiation with the government, in the case of multinationals. These challenges are a big threat to the success of the Ghana–Cote d'Ivoire LID policy and serve as a warning to Nigeria as it contemplates implementation.

Nonetheless, the LID policy has helped to enhance the living standards of cocoa producers, aid improved cocoa production, and bolstered government revenue in Ghana and Cote d'Ivoire.

Nigeria and the LID policy

Nigeria's LID policy objectives are similar to those of Ghana and Cote d'Ivoire: to boost the living income of the smallholder cocoa farmers and improve revenue collection. This is premised on the assumption that the premium will induce farmers to increase cocoa production, which will contribute positively to the revenue accruing to the government. However, the policy is unlikely to significantly contribute to Nigeria's revenue targets due to the declining global commodity prices and the possibility of poor handling of the initiative by the government.

Nonetheless, contrary to the centralized systems adopted by Ghana and Cote d'Ivoire, Nigeria is planning a non-centralized system to drive home its targets. In the case of a non-centralized system, cocoa trading and marketing in Nigeria would be undertaken by individual private companies without any centralized regulation by the government, as in the case of Ghana and Cote d'Ivoire. The noncentralized approach is envisaged to enable the LID to flow seamlessly to the targeted farmers without a compliance hitch.



Potential challenges and way-out

Despite the clarity of literature on the positive role of the LID policy on cocoa production and the farmers' living income, there are potential threats to the success of the initiative that the Nigerian government must put on a watchlist. The first is the possibility of a slowdown in the demand for cocoa at the farm gate. The slow-down is due to the threat of the futures market and negotiations on the premium by multinational governments to avoid paying the premium.

This key stumbling block was evidenced in Ghana and Cote d'Ivoire, where the initiative originated, and remains the main challenge to the success of the LID policy in the two countries to date. Additionally, the extent to which the government hits its revenue targets depends on more than just the LID policy. Climate conditions, pests, plant diseases, and the availability of modern farm inputs will also continue to impact the amount of revenue accruable to the government through cocoa production. Therefore, to increase cocoa production, improve farmers' earnings, and achieve high revenue inflows from the LID policy, addressing the core factors that could hinder the success of the initiative must not be taken frivolously. In that, first, it is a prerequisite that the government take cognizance of the producers' voice in the design and implementation of the proposed LID initiative – the opinion of the cocoa farmers needs to be heard regarding their preferences.

Note that the LID initiative in Ghana suffers a setback owing to poor recognition of the producer's voice by the government. The government must ensure buyers must be on par with the LID policy, consistent with the first-best policy of the government. These recommendations will help the government achieve its twin targets of increasing revenue and improving the living income of cocoa producers in the country.

[6] Vliet, J., Slingerland, M.A., Waarts, Y. and Giller, K.E. (2021). "A Living Income for Cocoa Producers in Côte d'Ivoire and Ghana" https://www.frontiersin.org/articles/10.3389/fsufs.2021.732831/full#B28

[7] Business and Human Rights Resource Centre. 2022. "Côte d'Ivoire & Ghana set a fixed living income differential of $400 per tonne of cocoa to relieve farmer poverty". https://www.business-humanrights.org/en/latest-news/c%C3%B4te-divoire-ghana-set-a-fixed-living-income-differential-of-400-per-tonne-of-cocoa-to-relieve-farmer-poverty

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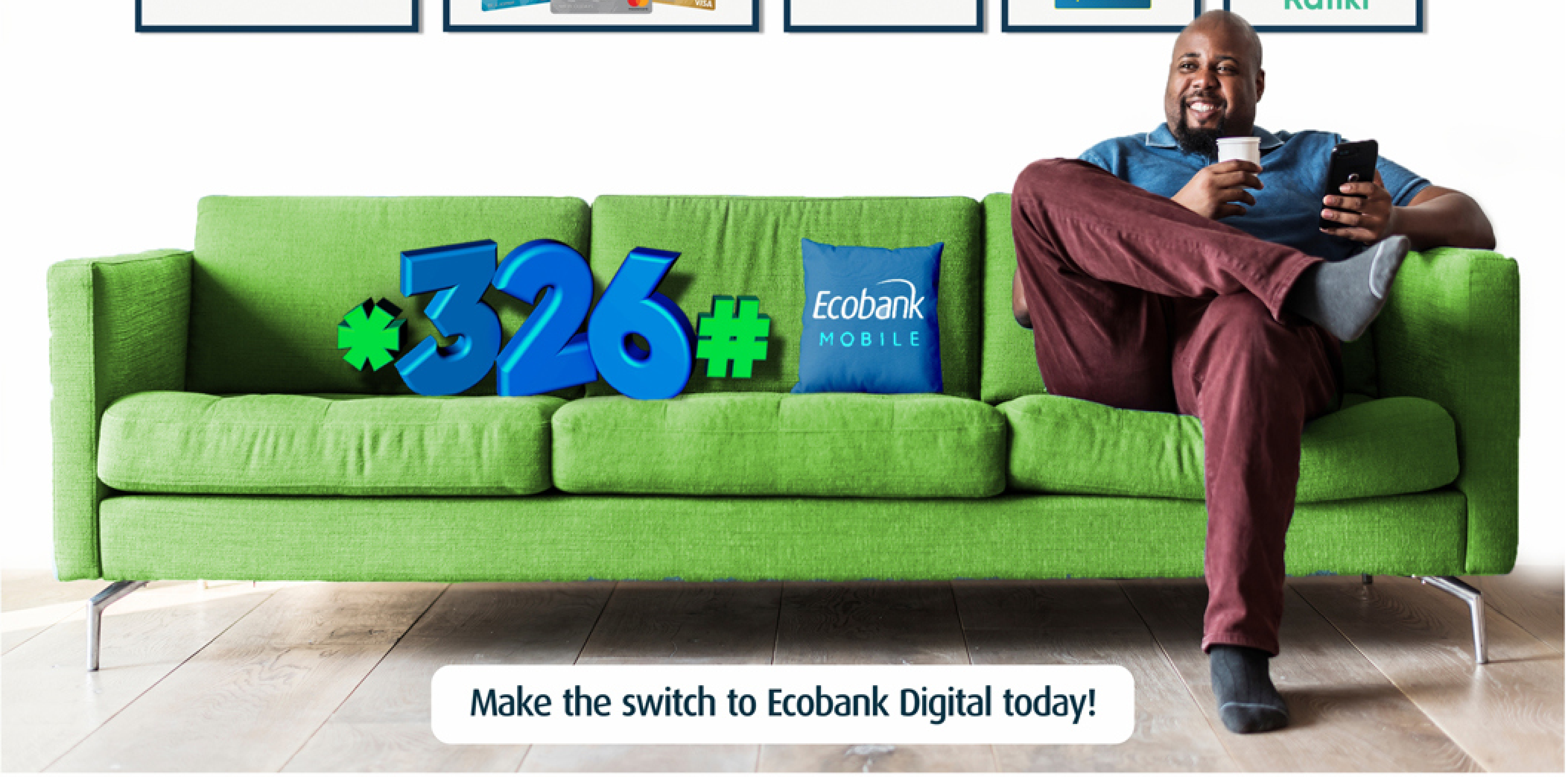

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GLOBAL PERSPECTIVES:

"CENTRAL BANKS WILL FAIL TO TAME INFLATION WITHOUT BETTER FISCAL POLICY"- STUDY SAYS

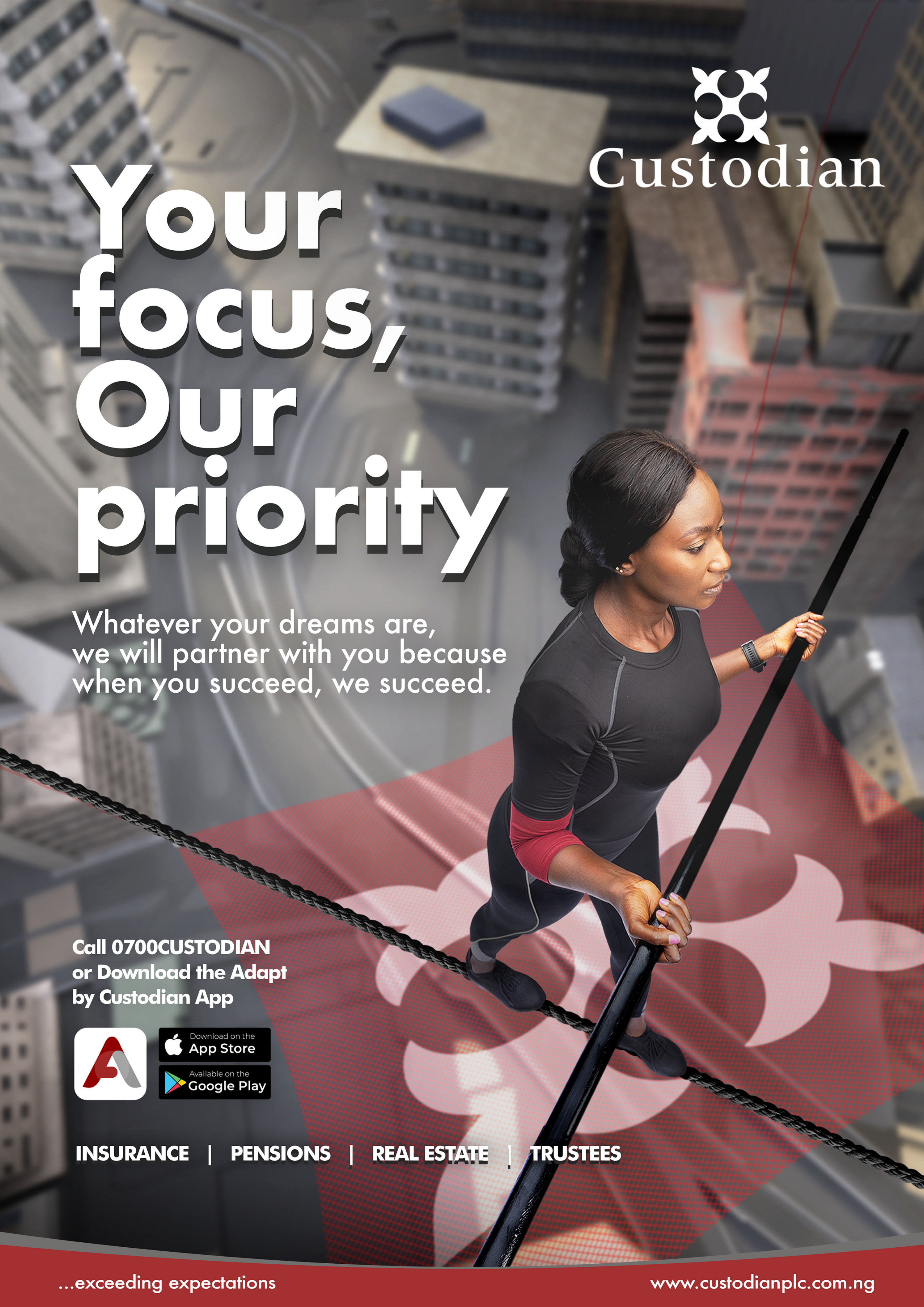
Governments around the world opened their coffers during the COVID-19 pandemic to prop up economies, but those efforts have helped push inflation rates to their highest levels in nearly half a century, raising the risk that rapid price growth will become entrenched.

Central banks are now raising interest rates, but the new study, presented on Saturday at the Kansas City Federal Reserve's Jackson Hole Economic Symposium argued that a central bank's inflation-fighting reputation is not decisive in such a scenario. "If the monetary tightening is not supported by the expectation of appropriate fiscal adjustments, the deterioration of fiscal imbalances leads to even higher inflationary pressure," said Francesco Bianchi of Johns Hopkins University and Leonardo Melosi of the Chicago Fed.

"As a result, a vicious circle of rising nominal interest rates, rising inflation, economic stagnation, and increasing debt would arise," the paper argued. "In this pathological situation, monetary tightening would actually spur higher inflation and would spark a pernicious fiscal stagflation."

On track this fiscal year to come in at just over $1 trillion, the U.S. budget deficit is set to be far smaller than earlier projected, but at 3.9% of GDP, it remains historically high and is seen declining only marginally next year. The euro zone, which is also struggling with high inflation, is likely to follow a similar path, with its deficit hitting 3.8% this year and staying elevated for years, particularly as the bloc is likely to suffer a recession starting in the fourth quarter. The study argued that around half of the recent surge in U.S. inflation was due to fiscal policy and an erosion in beliefs that the government would run prudent fiscal policies.

While some central banks have been criticized for recognizing the inflation problem too late, the study argued that even earlier rate hikes would have been futile. "More hawkish (Fed) policy would have lowered inflation by only 1 percentage point at the cost of reducing output by around 3.4 percentage points," Reuters quoted the authors saying. "This is a quite large sacrifice ratio." To control inflation, fiscal policy must work in tandem with monetary policy and reassure people that instead of inflating away debt, the government would raise taxes or cut expenditures.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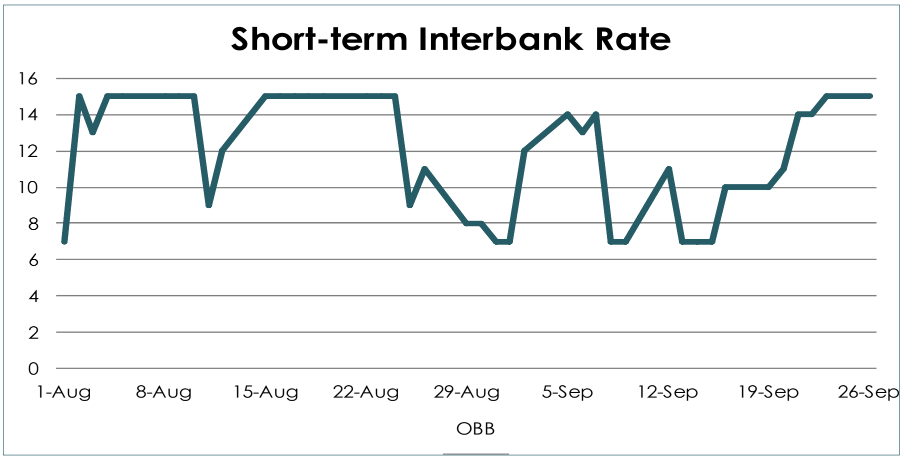
MACROECONOMIC INDICATORS (AUGUST 1ST - SEPT 26TH)

MONEY MARKET

The average opening position of the banks was N99.39bn in the month of August. This is 117.58% higher than an average of N45.68bn in July. Liquidity improved due to OMO repayment of N144.21bn in August while no OMO bills were sold. This led to the decline in short-term interest rates (OBB,O/N) on average by 146bps to 12.91%p.a. in August from 14.37%p.a. in July. . So far in September (Sept 1st -26th), banks opening position averaged N144.24bn, while there was a net OMO outflow of N35bn (OMO sales of N70bn and OMO repayment of N35bn). Short-term interest rates (OPR,O/N) averaged 10.83%p.a within this period.



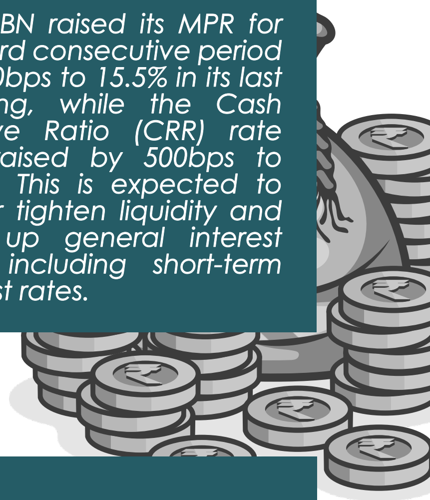
Source: FDC Think Tank

In August, there were three primary market t/bill auctions of which a total of N646.68bn was allotted. This was 21.69% higher than the total of N531.40bn sold in July. On the other hand, a total of N223.07bn was repaid, leading to a net outflow of N258.5bn in the month of August. Primary market rates rose by an average of 123bps across the three maturities from their previous level in July. In the same vein, secondary market yields also increased from their previous levels in July except for the short-term maturity.

Tenor	Primary market (July 27th 2022) (%)	Primary market (Aug 24th 2022) (%)	Primary market (Sept 24th 2022) (%)	Maturity	Primary market (July 29th 2022) (%)	Primary market (Aug 24th 2022) (%)	Primary market (Sept 24th 2022) (%)
91-day	2.80	4.00 ▲	5.50 ▲	5.50	3.90	3.90	3.90
182-day	4.00	5.00 ▲	5.85 ▲	5.50	8.02	10.20	10.10
364-day	7.00	8.50 ▲	9.75 ▲	5.50	6.03	6.45	10.90

Outlook

The CBN raised its MPR for the third consecutive period by 150bps to 15.5% in its last meeting, while the Cash Reserve Ratio (CRR) rate was raised by 500bps to 32.5%. This is expected to further tighten liquidity and push up general interest rates including short-term interest rates.



Implications

The increase in general interest rate will further raise borrowing costs for corporate and government. This will in turn lead to lower profit for corporate and higher debt service for the government. Banks non-performing loans could increase and could in turn lead to a lower profit for banks on the long run. Most firms will be unable to access credit facilities to carry out their business activities.

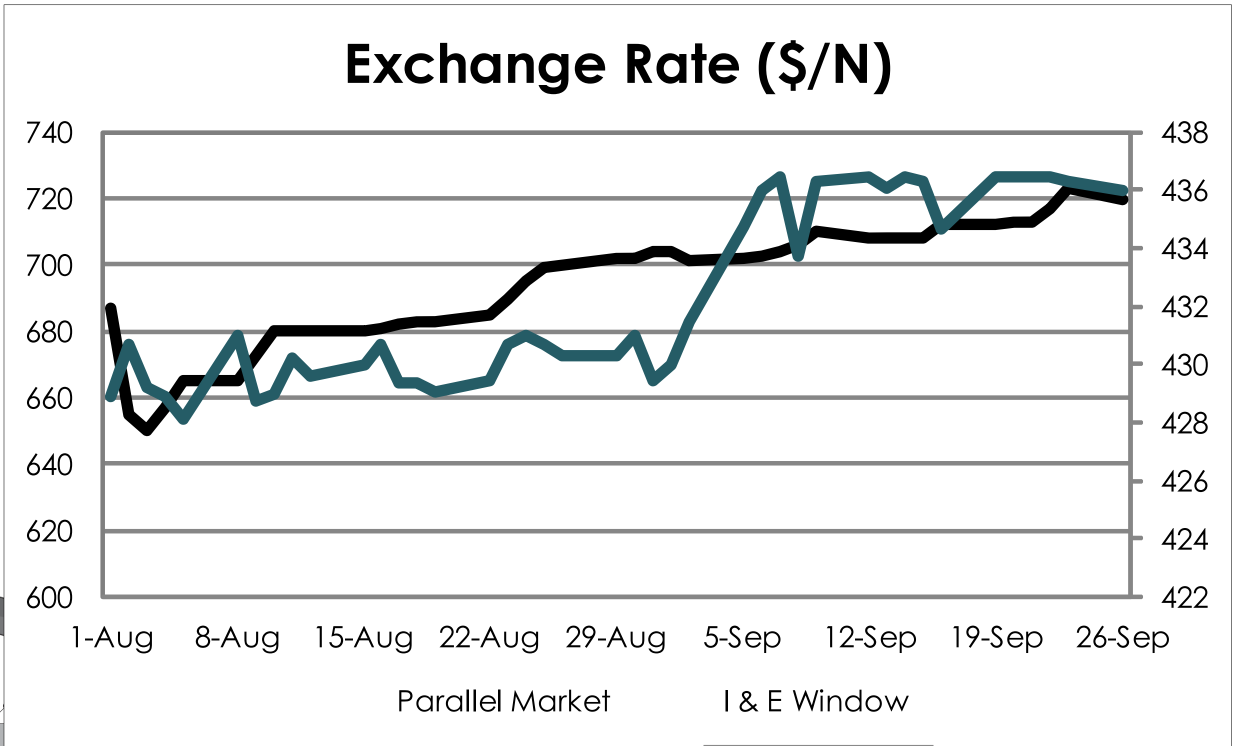
FOREX MARKET- EXCHANGE RATE

The Nigerian forex market is segmented with multiple exchange rates. The most important rate is the Investors and Exporters window (IEFX). No less than 55%-60% of Nigerian forex transactions are traded on this window. The CBN and most exporters and investors use this window. It serves not only as a source of price discovery but also as 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.

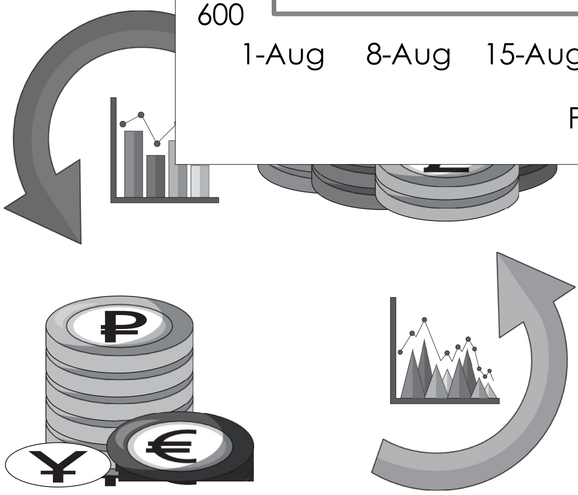
Naira traded within the band of N428.13/$ - $430.67/$ at the I & E window within the review period. At the parallel market, the naira appreciated to N665/$ on August 5th from a low of N687/$ at the beginning of August due to a reduction in naira speculation. However, the trend was not sustained as it fell to close the month at N704/$ on the back of forex scarcity. It fell further to N720 on September 26th.

Outlook

The tight liquidity in the I & E window is expected to keep the exchange rate within the range of N436.50/$-440.00/$ in the near term, while forex scarcity and currency speculation will continue to support naira depreciation at the parallel market. It is likely to trade around N733/$-N737/$ in the near term.

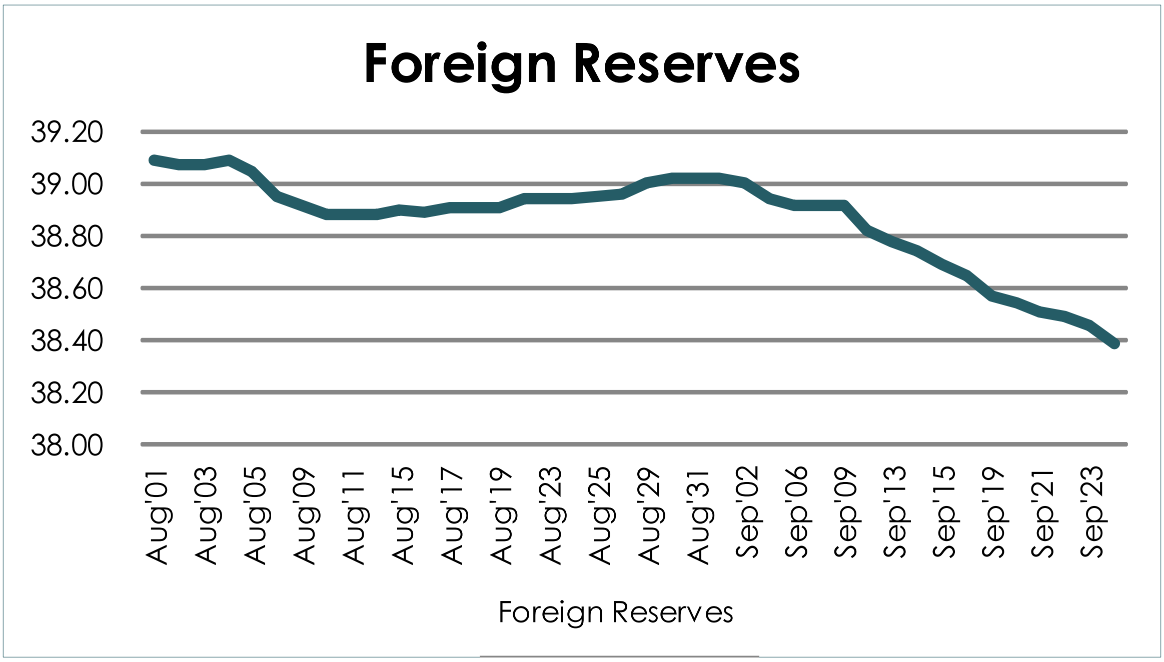


Source: FDC Think Tank



EXTERNAL RESERVE

The external reserves fell to a low of $38.88bn in the month of August on the back of dwindling oil price and CBN's intervention at the I & E window, losing by 0.54% (210mn), before rising to close the month at $39.02bn, gaining by 0.36% ($140mn) as oil price increases marginally. So far in September (1st – 26th), it lost1.61%($630mn) to close the review period at $38.39bn.



Source: CBN, FDC Think Tank

Outlook

Gross external reserves are expected to decline in the short term as oil price falls and CBN supports the naira at the I & E window.

Implication

This will make it difficult for the CBN to increase forex supply at the foreign exchange market and can encourage forex rationing. This will make it difficult for manufacturers to access foreign exchange at the official rate while raising inflation risk as they go to the parallel market for forex.

COMMODITIES EXPORTS

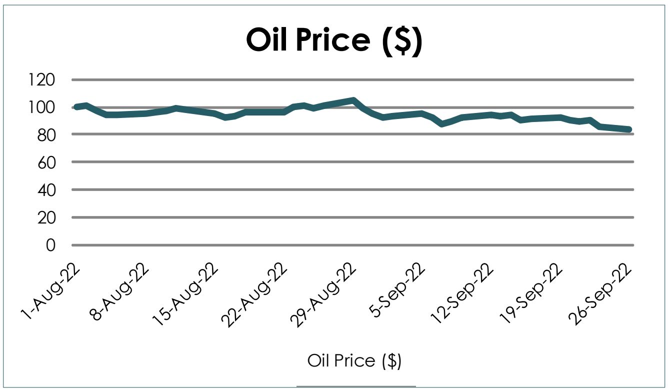
Nigeria is an export dependent economy. It derives over 80%-90% of its export revenue from crude petroleum and LNG.

OIL PRICES

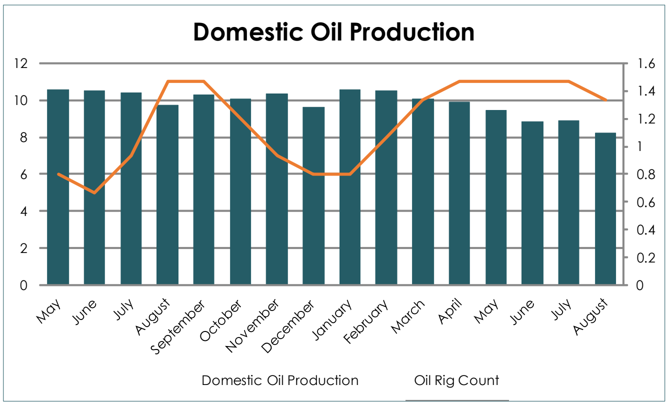
Oil price was relatively unstable in the month of August. It reached a low of $92.34pb in August on a slowdown in demand from top importer China due to covid induced restrictions before rising to a high of $105.09pbn on supply concerns. It fell again to close the month at $95.64pb. Oil price averaged $97.63pb in August, down 6.69% from the average of $104.63pb in the month of July. So far in September (1st-26th), oil price averaged $91.14pb, touching a low of $84.06pb in the review period as recession fears heightens demand concerns.

OIL PRODUCTION

Domestic oil production continued its downward trend. It fell by 5.50% to 1.10 million barrels per day in August 2022 from a revised figure of 1.164 million barrels per day in July 2022. The oil rig count also fell by 1 point to 10 points in August from 11 points in July. OPEC's crude oil production rose by 618,000 barrels per day in August, to an average of 29.65 million barrels per day. Oil production increased mainly in Libya and Saudi Arabia, while it declined majorly in Nigeria.



Source: Bloomberg, FDC Think Tank



Source: OPEC, FDC Think Tank

Outlook

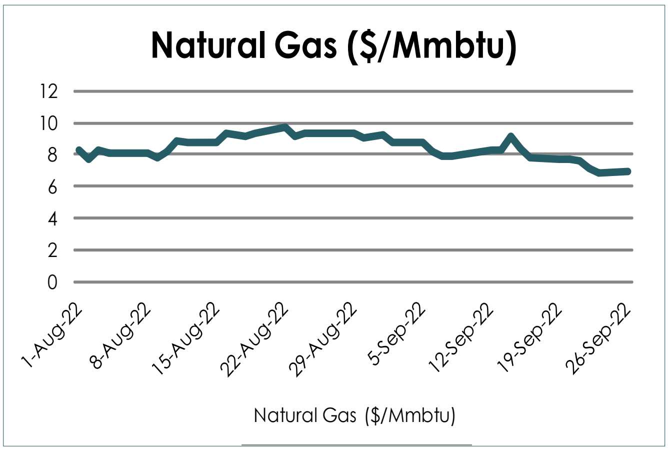
The OPEC+ agreed to cut oil production by 100,000bpd in October, further dampening the supply outlook. However, global monetary tightening is expected to slow down demand. This could maintain bearish sentiment in the oil market. Domestic oil production is likely to improve due to increased efforts to tame oil theft activities.

Implication

A slowdown in the price of oil will result in lower external earnings and could lower government revenue while raising borrowing activities in the debt market.

NATURAL GAS

The price of gas skyrocketed in the month of August. It reached a high of $9.68mmbtu on August 22nd from $8.29 at the beginning of the month, before settling to $9.04/mmbtu in August 30th. However, it rose slightly to close the month at $9.13/mmbtu. Gas price was supported by tight supplies as Russia continued to limit its supply to some countries in Europe in retaliation for the western sanctions on its economy. The bullish sentiment was also supported by the hot weather condition in the US which fueled demand for cooling. Gas price averaged $8.80/mmbtu in August, up 22.10% from the average of $7.21/mmbtu in July. So far in September (1st – 26th), it averaged $8.02/mmbtu, touching a low of $6.83/mmbtu in September 21st owing to a lower demand in the U.S following the Hurricane Lan in Florida and forecast of a milder weather in the US.



Source: Bloomberg, FDC Think Tank

Outlook

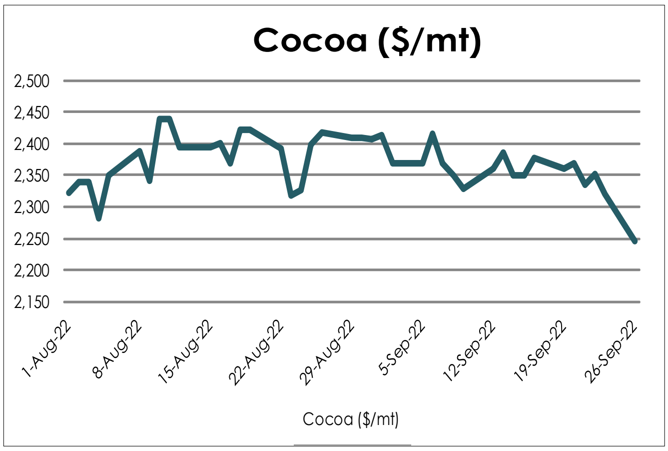
Gas price is expected to remain high in the near term due to supply tightness. Russia is likely to continue to cut its supply to Europe. This will continue to support demand on the short term.

Implication

LNG is Nigeria's 2nd largest export commodity, accounting for 12.8% of total exports. Higher gas price is expected to buoy foreign earnings as well as government revenue.

COCOA

Cocoa price fluctuated in the month of August. However, it traded within the band of $2281/mt - $2422/mt. Cocoa price increased marginally in August as it averaged $2379/mt, 1.98% higher than the average of $2322.89/mt in the month of July. The marginal increase was supported by the slight decline in supply as mid-crop harvest gradually elapsed in producing countries like Ivory Coast, Ghana and Nigeria. So far in September(1st – 28th), cocoa price averaged $2357/mt, touching a high of $2377/mt. Lack of sunshine in major producing like Nigeria are limiting farmers from properly drying their cocoa beans.



Source: Bloomberg, FDC Think Tank

Outlook

The price of cocoa is expected to taper due to main crop harvest in top producing countries like Ivory coast, Ghana and Nigeria.

Implication

Cocoa is one of the major non-oil export commodities in Nigeria. A fall in cocoa price could increase the risk of a negative balance of trade given that its import value remains higher than its export value. Low cocoa price is also a disincentive for local farmers as their income declines especially when the cost incurred in growing cocoa seeds remains high.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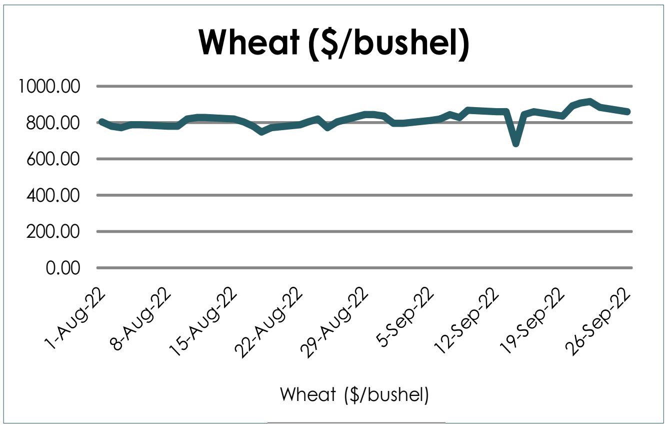
COMMODITIES IMPORTS

WHEAT

Wheat prices continued downward trend in the month of August supported by the improved supply from top exporting countries like Russia and Ukraine. It traded within the range of $771/bushel - $842.75/bushel. On average, wheat prices fell by 1.47% to $798.15/bushel in August from $810.05/bushel in July. So far in September (1st -26th), the price of wheat averaged $841.26, touching a high of $910.75/bushel owing to renewed threats from Russia's invasion of Ukraine.



Source: Bloomberg, FDC Think Tank

Outlook

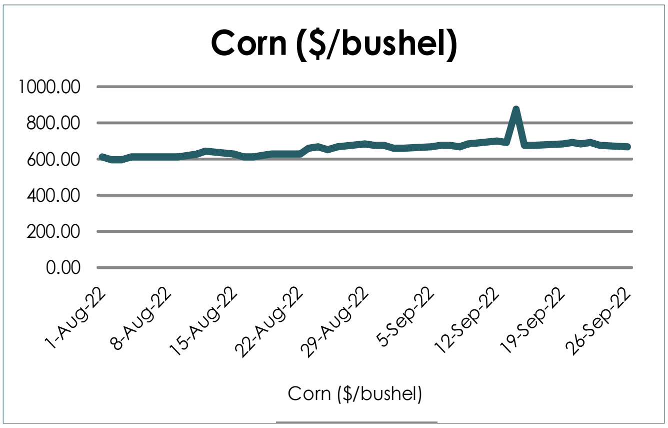
The renewed threats from Russia over its invasion of Ukraine are likely to keep wheat prices high on the short-term. The escalated conflict is heightening fears on a possible suspension of the safe trade corridor from Ukrainian Black Sea ports by Russia. This is likely to reverse the recently started supply of grains from Ukraine.

Implication

The increase in wheat price are expected to stoke prices for wheat processed commodities like flour, pasta and so on. This will in turn fuel inflationary pressures which will be compounded with naira depreciation.

CORN

Corn price averaged $630.58/bushel in the month of August, up 5.75% from the average of $596.29/bushel in July. The increase was supported by unfavorable weather conditions in the US, which is a major exporter. So far in September (1st -26th), the price of corn averaged $688.06/bushel, touching a high of $696.00/bushel.



Source: Bloomberg, FDC Think Tank

Outlook

The price of corn is likely to remain on the high side as the hot and dry weather conditions in the US will lead to low corn supplies.

Implication

High corn price is expected to raise the country's import bill while pushing up manufacturing costs for food processing industries in Nigeria as well as inflation risk. This will be further aggravated by naira depreciation.

SUGAR

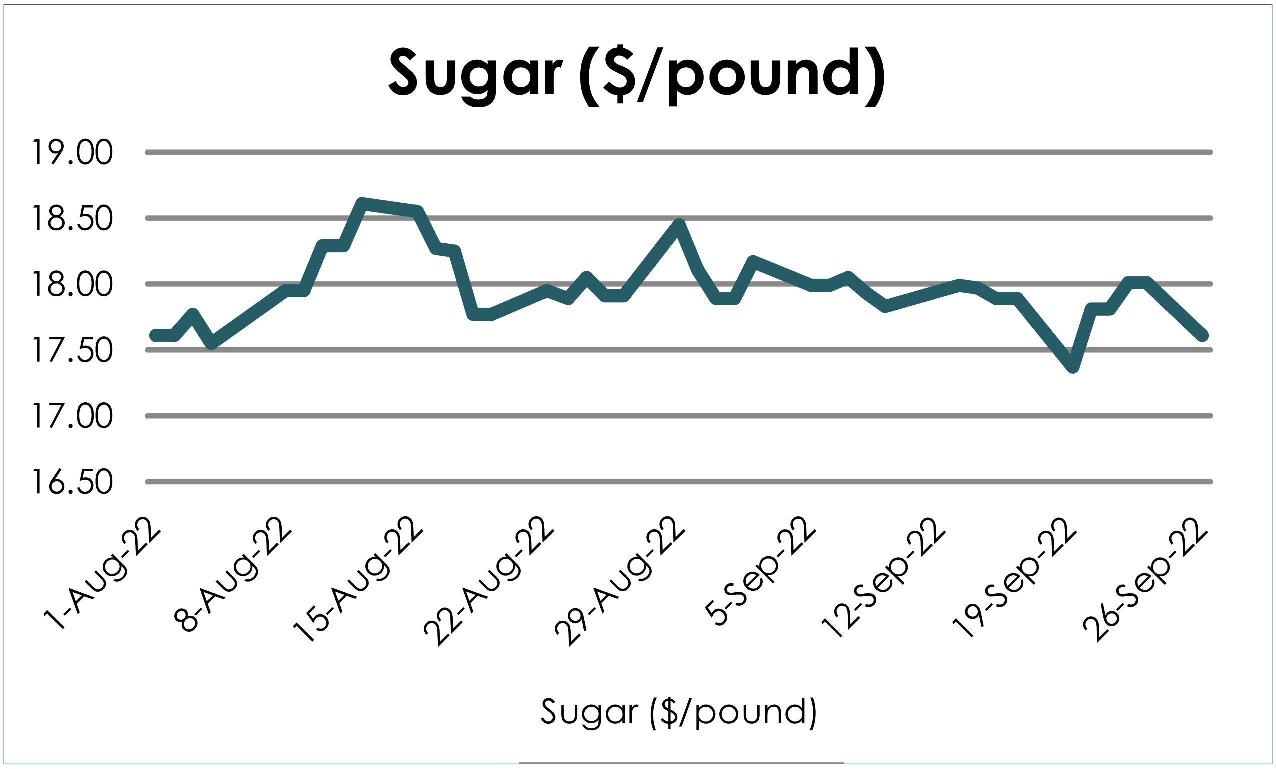
Sugar price fluctuated in the month of August. It traded within the range of $17.60/pound - $18.60/pound. On average, sugar price declined by 1.87% to $18.00/pound in August from $18.30/pound in July. This was due to the ease in the oil price which supported sugar production with sugar cane instead of ethanol. So far in September (1st – 26th), the price of sugar averaged $17.89, touching a high of $18.17 on September 2nd. The global monetary tightening are raising concerns on global demand for sugar as recession looms.

Outlook

Sugar price is expected to remain low at the short term. The bearish sentiment will be supported by the tapering oil crude oil price and demand concerns as global money authorities continue to maintain hawkish stance against inflation.

Implication

A possible decline in sugar price is expected to lower manufacturing cost for confectioners. However, the increase in the price of other baking ingredients as well currency pressures is likely to limit the impact of the fall in the global price of sugar.



Source: Bloomberg, FDC Think Tank

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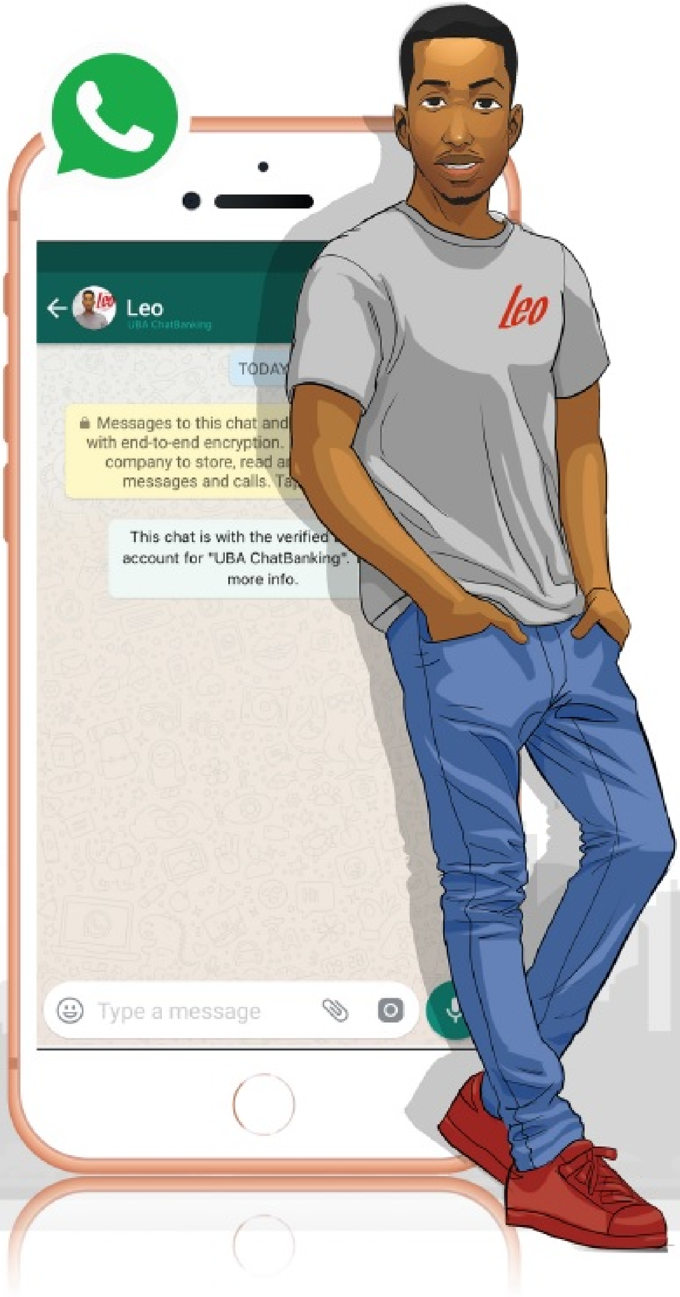

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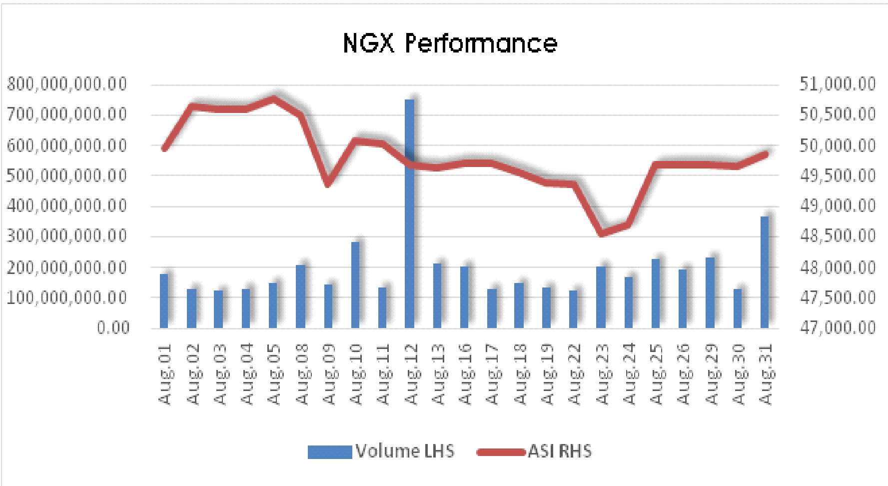
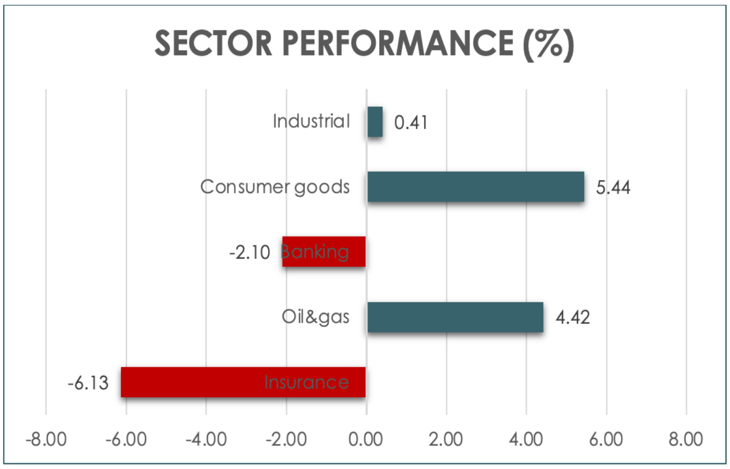
STOCK MARKET REVIEW AUGUST 1ST- SEPTEMBER 26TH

The NGX closed on a negative note from August 1st – 31st. It lost 1.06% to close at 49,836.51 points on August 31st from 50,370.25 points on July 29th. Also, the market capitalization decreased by 2.64% to N26.88trn relative to its close of N27.61trn on July 29th. The market YTD return decreased to 16.67% from 17.92% in the review period. The market breadth was positive at 1.20x as 48 stocks gained, and 68 stocks remained unchanged while 40 lost.



So far in September, the NGX closed on a negative note on September 28. It lost 1.33% to close at 49,171.70 points on September 28th from 49,836.51 points on August 31st. Also, the market capitalization declined by 1.30% to N26.53trn relative to its close of N26.88trn on August 31st. The market YTD return decreased to 15.11% from 16.67% in the review period.



Market activity level was negative in the review period. The average volume traded decreased by 1.28% to 203.49mn units from 206.13mn.

Meanwhile, the average value of trades increased by 1.50% to N2.71bn from N2.67bn in the review period.

So far in September, average volume traded stands at 156.41mn units as at 28th of September and average value of trades stand at N1.74bn as at 28th of September.

The performance of the sectors was mixed in the review period, as three sectors gained while two lost. The insurance sector recorded the highest gain (7.90%). This was followed by the consumer goods sector (4.76%) and the banking sector (2.43%).

Meanwhile the industrial sector lost 13.83% and the oil and gas sector (-4.34%).

TOP 5 GAINERS

Company	Jul-29 (N)	Aug-31 (N)	Absolute Change	Change (%)
NEM	3.4	5	1.60	47.06
JAPAULGOLD	0.23	0.33	0.10	43.48
MULTIVERSE	1.88	2.62	0.74	39.36
PRESTIGE (BLS)	0.38	0.51	0.13	34.21
HONYFLOUR	2.05	2.65	0.60	29.27

TOP 5 LOSERS

Company	Apr-29 (N)	May-31 (N)	Absolute Change	Change (%)
SKYAVN	6.85	5.1	-1.75	-25.55
BUACEMENT	69.3	52	-17.30	-24.96
UPL	2.35	1.89	-0.46	-19.57
MCNICHOLS]	0.91	0.74	-0.17	-18.68
IMG	9.15	7.45	-1.70	-18.58

In the month of September, the performance of the sectors has been negative as four sectors lost while one gained. The oil and gas sector recorded the highest loss (-4.68%). This was followed by the insurance sector (-3.31%), the industrial sector (-3.14%) and the banking sector (-1.24%). Meanwhile, the consumer goods sector gained 0.75%.

Nem Insurance Plc topped the gainers' list with a 47.06% increase in its share price. This was followed by Japaul Gold & Ventures Plc (43.48%), Multiverse Mining and Exploration Plc (39.36%), Prestige Assurance Plc (34.21%) and Honeywell Flour Mill Plc (29.27%).

So far in September, Multiverse Mining and Exploration Plc tops the gainers' list with an 30.15% increase in its share price. This is followed by E-Tranzact International Plc (28.00%), Pharm-Deko Plc (17.14%), Fidelity Bank Plc (15.99%) and FCMB Group Plc (14.75%).

The laggards were led by Skyway Aviation Handling Company Plc (-25.55%), BUA Cement Plc (-24.96%), University Press Plc (-19.57%), Mcnichols Plc (-18.68%) and Industrial & Medical Gases Nigeria Plc (-18.58%).

In the month of September, the laggards are led by Academy Press Plc (-27.62%), Learn Africa Plc (-24.70%), Cornerstone Insurance Plc (-18.84%), Japaul Gold & Ventures Plc. (-18.18%) and Computer Warehouse Group Plc (-18.18%).

Outlook

The further increase in the monetary policy rate to 15.5% is expected weigh on stock performance. This will result in risk-off sentiments in the stock market as investors seek for higher yields in the fixed income market.

EQUITY REPORT: FLOUR MILL OF NIGERIA PLC

CURRENT PRICE

N 30.30

PER SHARE

MARKET CAPITALIZATION

N124.00BN

INDUSTRY:

CONSUMER STAPLE PRODUCTS

Analyst Note

Flour Mills of Nigeria Plc (FMN) has continuously played a significant role in the Nigerian food and agro-allied industry, propped by aggressive investment in backward integration and a well-diversified brand portfolio. The company has benefited from several government opportunities related to local content production and trade deals, and is poised to enjoy even more.

Flour Mills have also enjoyed enormous growth through acquisitions, strategic collaborations and partnerships. With the recent acquisition of Honeywell Flour Mills, FMN is poised to break new grounds in the food industry whilst bolstering shareholders' value.

The company has continued to invest in new technologies and methods for manufacturing new products that meet consumers' expectations. This suggests that the company is well positioned to take advantage of a window of opportunities within the industry and immune from possible headwinds that could disrupt future business operations.

Top Line Performance Backed by strong volume growth and favourable mix

Flour Mills of Nigeria reported a double-digit revenue growth of 45% in Q1'22 to N339.6 relative to N233.7 billion (bn) in Q1'21. The company enjoyed both volume and value growth across all business segments. The food business which accounts for the largest share of the FMN's business was up by 45% to N213 bn majorly supported by growth in all B2C and B2B core revenue categories: Flour, Ball foods, Noodles, and Pasta. The B2B and B2C revenue categories contributed 62% and 38% respectively to segment volume.

The agro-allied business delivered a 38% jump to N65.7 bn majorly supported by a significant increase in revenue from oil and fat segments and increased revenue from the export business. The launch of new stock-keeping units (SKUs) and improved customer interface engagement also boosted fertilizer revenue by 21%. Despite challenges that clouded the sugar operations last year, FMN's sugar segment is breaking new grounds in the sugar industry. The company recorded a 64% growth to N55 bn in Q1'22 from N33.5 bn in Q1'21.

Surge in operating profit driven by cost optimization strategy and strong revenue growth

The group's operating profit increased by 33% to N15.3 bn in Q1'22 from N11.5 bn in Q1'21 underpinned by double-digit revenue growth. Operating expenses soared by 26% to N17.92 bn from N14 bn in Q1'21 attributable to increased market penetrations, employee-related costs, and a foreign exchange loss of N5 bn. Despite the huge cost related to marketing and enhanced distribution channels, the company's cost optimization strategy curbed an unbearable hike in operating expenses.

Increased Borrowing Slows Bottom Line Growth

A 79% surge in finance cost to N8.15 billion in Q1'22 slowed FMN's net income growth to N5.5 bn relative to N5.4 bn in Q1'21. The surge in finance cost is attributable to a 98% increase in total borrowings to N294.6 bn. The rise in total borrowings is largely driven by a 1,640% spike in other bank loans coupled with an upward trend in the interest rate environment.

Company Overview

Flour Mills of Nigeria Plc (FMN) is a dominant player in the Nigerian food and agro-allied industry and accounts for the largest share of the flour milling industry with a revenue share of 80%. The group's operations are classified into four major sectors of Food, Sugar, Agro-allied, and Support services. FMN strives for its purpose of feeding the nation daily through its five core food value chains: Grains, Sweeteners, Oils and Fats, Proteins, and Starches.

Over the years, Flour Mills of Nigeria Plc has adopted innovative strategies to focus on increasing and shifting customer preferences. Despite stiff competition from smaller peers who gained entry into the market through attractive product pricing, FMN's operations have continuously thrived on the back of increased product mix, effective backward integration strategy, investment in agriculture to boost local production, and improved distribution network. This has bolstered volume growth and improved sales across all segments.

The food segment of the company has recorded significant improvement as a result of growth in all B2C and B2B core revenue categories: Flour, Ball foods, Noodles and Pasta attributable to the introduction and market development of new products, increased rural penetration, and continued investments in route to consumer redistribution.

The company has continuously made giant strides in the sugar industry through investments in backward integration and local content promotion. FMN has partnered with Nigerian farmers to develop new products through customer-driven innovations in a bid to promote National Sugar Master Plan and make Nigeria self-sufficient in sugar production. The company recently launched Sunti Brown Sugar made from naturally grown sugarcanes, cultivated, harvested, and processed locally in Sunti, Niger State.

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As part of the company's expansion strategy to solidify its footprint in the Nigerian market, FMN acquired a 71.69% stake in Honeywell Flour Mills. This acquisition is expected to broaden Flour Mill's product range, widen the company's market penetration and customer base as well as create more value for shareholders. The industry giant is expected to leverage this expansion to take advantage of opportunities stemming from the Nigerian growing population and favorable trade deals.

Also, the agro-allied segment of the company has leveraged its backward integration strategies and local content promotion to create more SKUs to boost product range.

Outlook

In spite of FMN's effort to remain resilient in the Nigerian food and agro-allied industry and accelerate the export business, the harsh operating environment coupled with lingering economic vulnerabilities remains a threat to the company's operations.

Currency volatility is expected to persist due to movement in capital flows and unhealthy speculations which will further increase the cost of production. Also, Inflationary pressures fueled by high energy cost, heightened insecurity and supply shortages will hamper income from operations. However, Flour Mills of Nigeria is expected to weather the storm through competitive product offerings, improved backward integration investments and the introduction of affordable products across value chains.

We also expect to see the gradual impact of the recent acquisition of Honeywell on FMN's operation and earnings performance emanating from increased footprint, enlarged customer base, robust market share and diverse product offerings.

Bulls Say:

- Largest market share (80%)
- Strong brand name
- Capacity expansion
- Backward integration and local content promotion
- Acquisition benefits

Bears Say:

- Stiff competition from other players.
- Weak consumers' purchasing power
- Harsh operating environment
- Heightened insecurity

OUTLOOK

FOR THE MONTH OF SEPTEMBER

Inflation is projected to remain elevated in September, driven mainly by rising food and diesel prices and a dogged supply disruption aggravated by insecurity. The monetary policy rate hike by 150bps to a record high of 15.5% is expected to squeezes liquidity in the system but gradually. However, the hike in the rate is unlikely to have a consequential impact on the naira weakening. Thus, foreign exchange pressures are projected to linger, hovering around 436/$-440/$ at the official rate and between 725/$-730/$ in the parallel market. The crude oil production is expected to rise marginally at the end of September, mainly attributed to a mixture of events that took place in August, such as the "Tompolo pipeline surveillance contract" renewal in a bid to end oil theft and pipeline vandalism.

The expected rise in oil production at the end of September will push up government revenue. Also, the expectation formed due to the OPEC+ agreement to squeeze little oil production is leading to higher oil prices. Oil prices soared by 3% a few days after the agreement was made. The expected higher oil prices will bolster government revenue. The external reserve is expected to slide marginally due to low remittances inflow, and foreign direct investment, moderated by the gain from the crude oil output boost.

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