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CONTENT

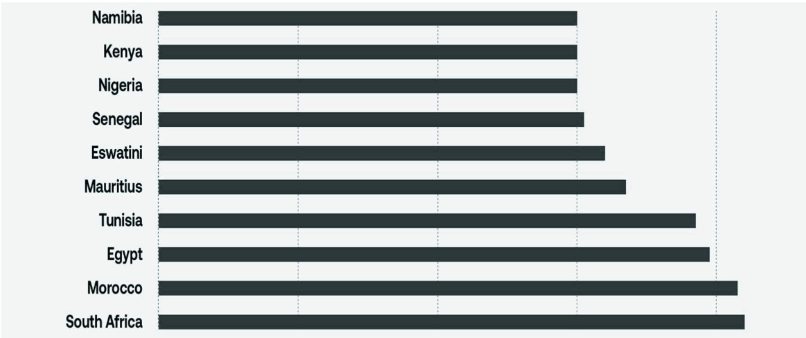
The uphill battle of industrialization in Nigeria

Deindustrialization in Nigeria has been occurring since the 1980s, as the country shifted from an industrial-based economy to focus on services and consumption. Since the mid-1980s, manufacturing output as a percentage of GDP has declined by about 16% to 8.4%today, while services have become increasingly important, contributing 55.4% to GDP from 47%.

Industrialization in Nigeria is driven by several factors including the country's dependence on crude oil and the mismanagement of public funds. Moreso, numerous industries are collapsing due to defective trade policies, poor infrastructures, corruption, lack of access to finance, unfavorable business climate and the pressure of globalization on the Nigerian economy.

Over the years, the Nigerian government has implemented policies to encourage investment in the manufacturing sector. In spite of this, Nigeria is still at the bottom of the development ladder as the industrial sector, the second largest employer of labor (12.24% as of 2020), is now comatose. For example, Nigeria ranks the eighth most industrialized country in Africa, way behind South Africa and Morocco.[1]

Africa Industrialization Index Top ten countries by score 2022



Source: AfDB. Statistics Department

1 Ventures. 2022. "Africa's top ten most industrialized countries in 2022" https://venturesafrica.com/here-are-africas-most-industrialized-countries-in-2022/

Unfortunately, the result of a failing industrial sector is the growing reliance on importation that continues to worsen Nigeria's balance of trade and stifle output growth. Industrialization is critical to Nigeria's long-term development, and expanding the manufacturing sector will help to build a more resilient economy. According to Kaldor's first growth law, an economy's growth rate is positively related to the growth rate of its manufacturing sector.

The current state of the manufacturing sector

Conservational economics requires that a country's economic activities go through three stages: agriculture, industry, and services, in that order. However, Nigeria skips this hierarchy, paying less attention to the link (industry) between the agriculture and service sectors. Unlike some newly industrialized Asian countries like Indonesia and Singapore, Nigeria's industrial sector remains underdeveloped and unregulated, making it hard to gainfully engage in international trade and attract investments to boost forex earnings.

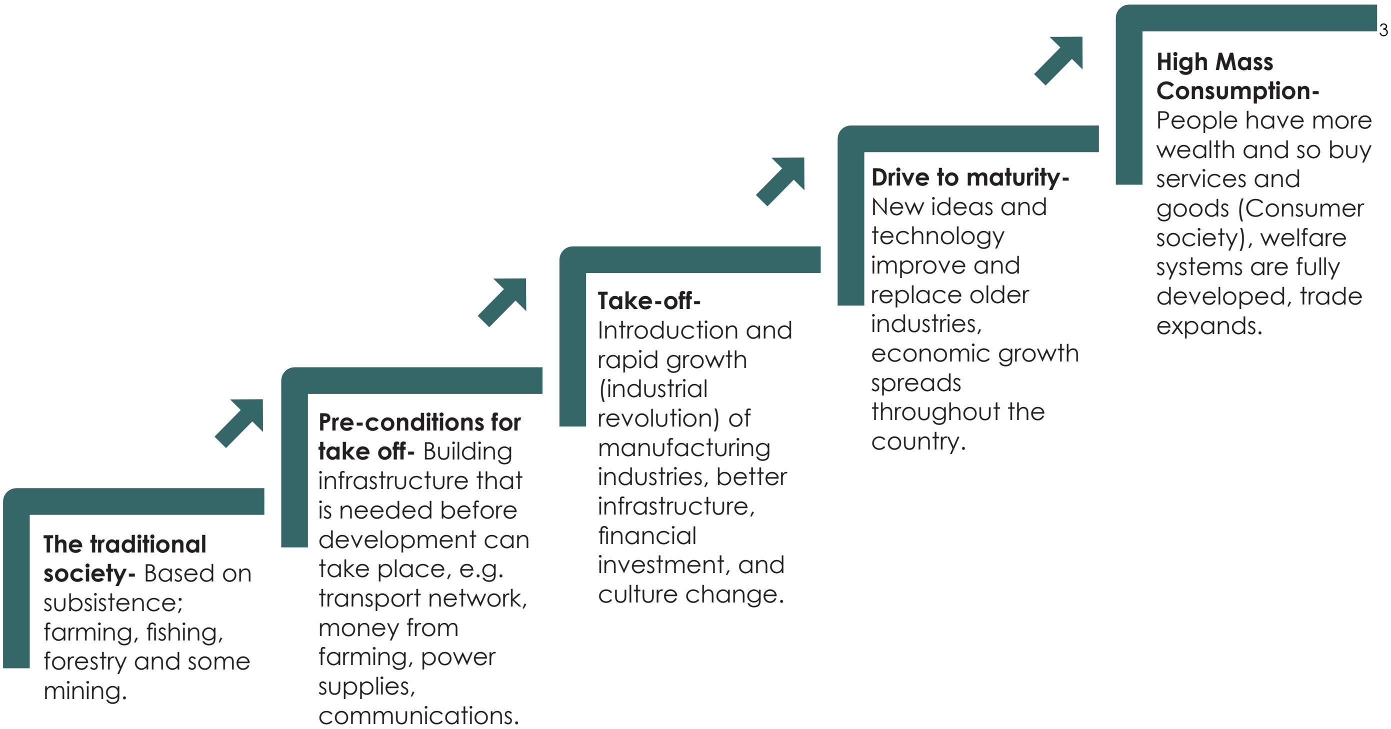
In fact, according to Rostow's stages of growth model, the prerequisite for the "take-off stage" is a significant investment in the industrial sector. In Nigeria, there has been massive fluctuations in the performance of the industrial sector in the 2000s as compared to the 1980s and 1990s. For instance, industrial sector contribution as a percentage of GDP stood at 39.245% and 37.71% for 1981 and 1992 respectively, compared to 20.56% and 19.02% for 2021 and 2022 respectively.[2] Meanwhile, the manufacturing sector's contribution to GDP has declined steadily in the last five years.

The development of the manufacturing sector (which is a component of the industrial sector) is an important link between agriculture and services. It provides the connection between the production of raw materials and their transformation into finished goods and services, with the capacity for forward and backward integration.

However, the underperformance of the manufacturing sector has kept Nigeria in the "preconditions for takeoff stage" of Rostow's stages of growth. This makes the country more vulnerable to external shocks. For instance, the Russia-Ukraine war hit the Nigerian economy hard as inflation climbed to a 17-year high of 21.9% (February 2023).

2. Effiong, U. E. (2022). Industrial Policies and Industrial Sector Performance in Nigeria. Asian Journal of Economics, Finance and Management, 7(2), 24-45. Retrieved from https://globalpresshub.com/index.php/AJEFM/article/view/1531

THE ROSTOW MODEL



The manufacturing sector, in particular, faced a lot of challenges ranging from the bloated cost of importation of raw materials to the spike in energy costs.

Rising energy costs and importation issues aside, Nigerian manufacturing firms also suffer from acute shortages of infrastructure such as good roads, potable water, and, in particular, inadequate power supply. Electricity outages have forced companies to opt for diesel-powered generators for operation. Sadly, diesel price has remained elevated at about N800/liter due to the impact of the Russian-Ukraine war and persistent fuel scarcity in Nigeria. The woes above coupled with persistent forex scarcity where manufacturers resort to the expensive parallel market for 95% of their forex needs,[4] weak consumer demand, high cost of doing business, and lack of access to technology, are the key factors constituting impediments to the growth of the manufacturing sector.

Comparative Analysis

Industrialized countries in Africa like Morocco are good case studies for Nigeria. InMorocco, the process of industrialization began in the late 1950s with the creation of the first industrial zones. Now, Morocco is a diversified economy with a high level of industrial activity, especially in the automotive and aeronautics industries. The manufacturing sector's contribution to the GDP of Morocco has shown steady growth

3.UniversePG. 2021. "Rostow's Stages of Growth and Bangladesh: To Which Stage Does Bangladesh Belong ?" https://www.universepg.com/download_pdf/207
4.New Telegraph. 2023. "MAN: 95% Forex Sourced From Parallel Market." https://www.newtelegraphng.com/man-95-forex-sourced-from-parallel-market/

Year	% Manufacturing Sector Contribution to GDP		GDP per capita ($)	
	Morocco	Nigeria	Morocco	Nigeria
2018	14.86	9.20	3,296	2,512
2019	14.75	9.06	3,355	2,505
2020	15.16	8.99	3,081	2,401
2021	15.33	8.98	3,291	2,430
2022	15.5*	8.40	3,300*	2,454*[5]

since the early 1990s. Manufacturing output increased from 10% of GDP in 1991 to approximately 15% in 2021.[6]

Morocco has had a more successful industrialization process than Nigeria, as evidenced by its rising GDP per capita, as well as its large manufacturing sector (accounting for more than 15% of its GDP). Morocco's industry comprises a number of sectors, including automotive, electronics, textiles, and food processing.

In comparison, Nigeria's manufacturing sector only accounts for about 9% of its GDP, and its industry is mostly dominated by oil production and the crude oil refining sector, which is currently challenged with underinvestment, oil theft and pipeline vandalism.

In terms of industrial policies, Morocco has a more comprehensive approach to industrialization than Nigeria. Nigeria industrial policies have not recorded significant success in the past years. The previous industrial policies such as the Nigeria enterprise and promotion decree of 1972 and Export expansion grant scheme of 1986 including the import substitution policy in the 1970's, targeted to move the country from an agrarian economy to an industrialized nation recorded a massive failure due to poor execution, policy failure, poor management and lack of local skills.

Morocco, on the other hand, implemented several strategies to encourage industrial growth, including the adoption of a new investment charter, tax incentives, special economic zones, and improved access to infrastructure. This allowed foreign investors to establish factories in Morocco, which in turn created jobs and attracted more foreign investment. FDI inflows into Morocco have grown by 12.3% to $3.01bn in the last five years.

5.Macro Trends. 2021. "Nigeria Manufacturing Output 1981-2023." https://www.macrotrends.net/countries/NGA/nigeria/manufacturing-output
6.Trading Economics. 2023. "Nigeria GDP per Capita." https://tradingeconomics.com/nigeria/gdp-per-capita

The Moroccan government also invested heavily in infrastructure, particularly in transportation and communication, which enabled the manufacturing sector to become more competitive and efficient.

In addition, the automotive sector has been a major contributor to the country's growth. With investment from foreign companies like Renault and PSA Peugeot Citroen, the sector has seen significant growth since the 1990s. The sector accounts for 29% of the country's total exports.[7] The automotive sector's contribution to Morocco's GDP is also expected to rise to 24% in 2023.[8] Other important industries include food processing, textiles, and construction. Morocco has also seen a rise in the number of technology-based firms and is increasingly focusing on renewable energy.

Due to Morocco's competitive advantage in terms of its skilled labour force, strong infrastructure, and access to the European market, Morocco has recorded higher levels of foreign direct investment than Nigeria. Nigeria has more limited access to the global market, and its foreign investment levels are significantly lower due to insecurity, political uncertainty and poor macroeconomic conditions.

Overall, Morocco has had a more successful industrialization process than Nigeria due to its higher levels of foreign investment, diversified economy, and comprehensive industrial policies. The contribution of manufacturing to the economy of Nigeria places the country behind Morocco and the Newly Industrializing Countries (NICs) of South-east Asia like Indonesia and Malaysia. Many Asian countries popularly referred to as Asian Tigers that are revered today attained such status through industrialization by implementing a market-oriented economy, encouraging foreign investment, and investing heavily in infrastructure.

7. Morocco World News. 2022. "Morocco Strengthens Position in Car Manufacturing." https://www.moroccoworldnews.com/2022/12/352772/morocco-strengthens-position-in-car-manufacturing
8. Fanak. 2022. "Morocco's Auto Industry and the Pillars of a Prosperous Economy." https://fanack.com/morocco/economy-of-morocco/moroccos-auto-industry-and-the-pillars-of-a-prosperous-economy/

Looking forward

Manufacturing is the key to unlocking productive jobs, bigger export revenues and sustainable development.

However, Nigeria is yet to fully explore its potential and achieve the much-desired level of industrialization stated in the National Development Plan 2021-2025. Past industrial policies have not been efficient because of poor implementation and mismanagement. As such, the government has to take big steps to revive the manufacturing sector, by addressing the many challenges hindering growth like epileptic power supply, insecurity and forex scarcity. Doing this will speed up the country's industrialization process.

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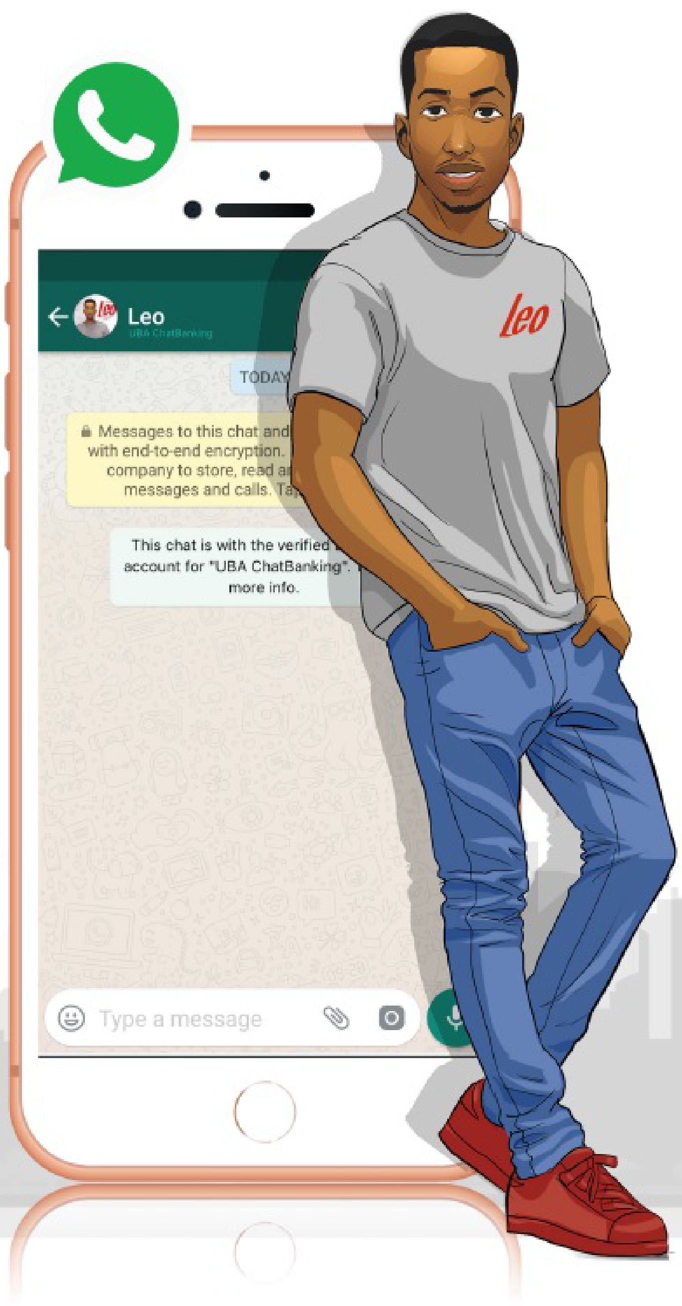

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Inequality in Nigeria- The rich 1% & the poor 99%

A decade after its first warning about extreme inequality, Oxfam has again sounded an alarm on the glaring level of inequality and poverty in its global report, "Survival of the richest". The organization reported that for the first time in 25 years, there was a simultaneous increase in wealth, inequality and poverty.[9] While millions of people cannot afford basic necessities, there still exists the 1% with nearly twice as much money as the bottom 99% of the global population. The richest 1% hold about 45.6% of global wealth, whereas just 0.75% is left for the poorest half of the world, thus showing evidence of a failing economic system.[10]

The Russia-Ukraine war led to a shortfall in the supply of gas and grains, which invariably pushed energy and food prices up globally. Aside from just passing production costs to consumers in the form of higher prices, many companies, already benefiting from tax breaks and waivers, capitalized on the crisis and earned doubled profits. An analysis of 95 food and energy firms by Oxfam revealed that 84% of profits made in 2022 were paid to already wealthy shareholders, leaving millions hungry.[11]

The COVID-19- pandemic, which was a deterrent for many, turned out to be a bumper harvest for the rich. Ordinary workers bore the most burden as they are usually the first in line for pay cuts and job losses in times of economic crisis, especially in the informal sector which has a higher growth rate than the formal sector.

10 Oxfam. 2023. "Survival of the richest". Oxfam GB. https://www.oxfam.org/en/research/survival-richest
11 Ibid

Although there was a slight fall in the wealth of billionaires last year from their 2021 peak due to the interest rate hikes by central banks, there has been significant growth in the concentration of wealth in the hands of a few elites with their fortunes significantly higher than before the pandemic.

Based on Oxfam's calculations, 63% ($26 trillion) of the newly created wealth between 2020 and 2021 was amassed by the top 1%. The next 9% had 27% ($11 trillion), while the bottom 90% was left with only 10% ($5 trillion).[12] For every dollar the bottom 90% have gained since 2020, billionaires have gained $1.7 million. Hence, billionaire fortunes are rising by $2.7 billion a day.[13] This, Oxfam considers an "explosion of inequality".

As a feasible means to reduce extreme inequality as well as the number and wealth of billionaires by 2030, Oxfam calls for an increase in taxes on the richest 1% as well as the adoption of other policies such as implementing one-off taxes on excessive profits and wealth. This should be done especially during crises and in low and lower-middle-income countries, where wealth is grossly undertaxed. To get the billionaire's wealth back to its level of a decade ago, a net wealth tax at an annual rate of 17.8% is necessary.[14] Initially, the wealthy pay the highest tax but income tax rates have declined in the past 40 years.

Meanwhile, taxes on goods and services have increased, which unevenly falls on the poorer population. In wealthy economies, there is a correlation between lower tax rates on the rich and a higher share of income accruing to the top 1%.[15] Studies have also shown how the rise of VAT globally led to the decline of net wealth taxes in OECD countries between 1990–2017.[16] A 5% tax rate on billionaires in the world has the potential to raise $1.7 trillion which can lift two billion people from poverty and even fund the eradication of hunger globally.[17]

In Nigeria, the giant of Africa and the world's poverty capital, there was an increase in the number and share of people living below the poverty line as well as the number of millionaires in the country between 2004 and

12Oxfam. 2023. "Survival of the richest". Oxfam GB. https://www.oxfam.org/en/research/survival-richest
13 Ibid
14 Ibid
15 Ibid
16 Ibid
17 Ibid

2010. While Nigeria pledges to reduce inequality, it currently ranks 159 out of 161 countries as it has an income gap of 1 to 37 between the top 1% and the lowest 50%.[18]

More than half of the Nigerian population is grappling with multidimensional poverty, with millions of children out of school and many lacking access to quality health care, education, electricity and clean water.[19] This way they become prone to sicknesses, maternal and infant mortality as well as illiteracy, which in turn reinforces inequality as it affects their capacity to get jobs and earn decent incomes.

With unemployment on the rise, insecurity thrives. Ultimately, inequality instigates insecurity. In addition, the rise in technological development has also contributed to widening the inequality gap as it provides more opportunities for the rich while taking away from the poor. Moreover, many wealthy individuals and corporations have been benefiting from the loopholes in the county's tax system alongside the absence of accountability and transparency in the implementation of tax policies, hence resulting in our sub-par tax revenue.

Since the pandemic, the wealth of Nigerian billionaires has been on the rise, but there has been no corresponding increase in health budgets. Compared 2022 fiscal budget, the 2023 National assembly budget increased by 44% to N20.5trn of which 5.75% (1.17trn) of this new budget was allocated to the health sector. Hence, imposing taxes on the wealthy would generate sufficient revenue to double health spending.[20] In proportion to tax revenues, the revenue-raising potential of a net wealth tax in Nigeria is twice that of the same tax in the US and France. Imposing a 2% wealth tax on people earning over $1 million, 3% on those with more than $50 million and 5% on those earning over a billion dollars has the potential to generate about $3.2 billion yearly.[21]

It is quite unfair for the wealth of billionaires to keep skyrocketing while 6 out of 10 Nigerians lack access to quality education and healthcare services. To reduce inequality, the Nigerian government has to consciously generate more taxes from the rich rather than workers. As a means to this, a tax on the wealth of the richest 1% should be implemented alongside the existence of an efficient and accountable tax administration system. Revenue from wealth tax should stimulate investments in, agriculture, education and social protection services as well as the provision of fair, inclusive, equal and gender-sensitive opportunities for its citizens which is necessary for the success of any economy.

18 Oxfam and DFI. 2022. "Commitment to Reducing Inequality Index 2022". The Commitment to Reducing Inequality Index | Oxfam International
19 Oxfam. 2017. "Even it Up. Inequality in Nigeria; Exploring the drivers". Oxfam GB INEQUALITY IN NIGERIA | Oxfam in Nigeria
20 Ibid
21 Ibid

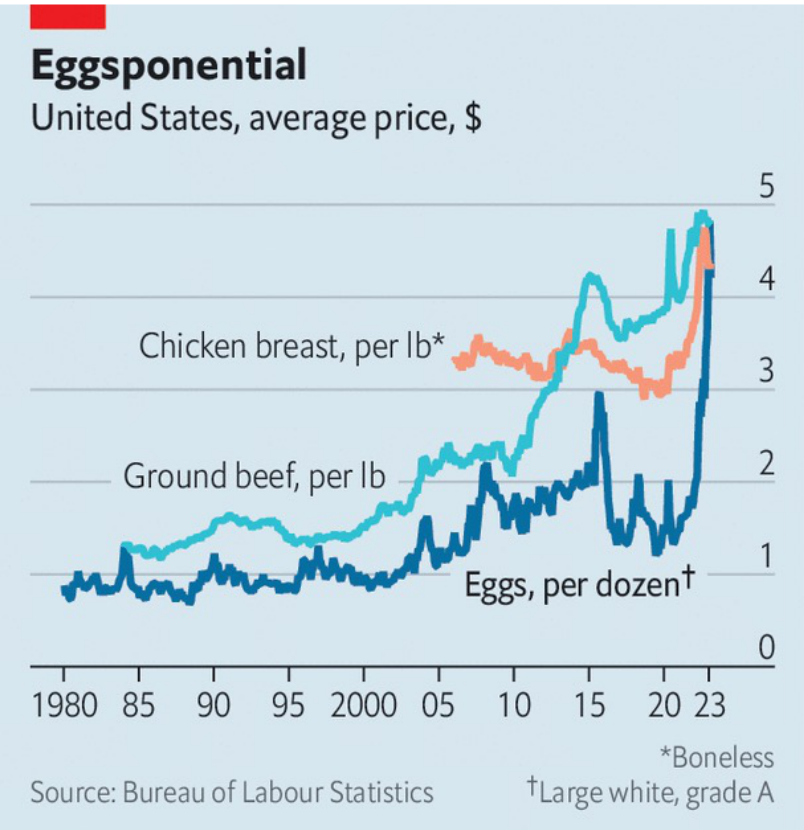
Global Perspective: The price of eggs in America cannot be explained by inflation alone - Culled from The Economist

When the holiday-induced baking frenzy passed and demand for snickerdoodles slowed, many thought egg prices would fall. The cost of a dozen had surged by more than that of any other supermarket item, from $1.79 to $4.25 in the year to December 2022. Could they get any pricier? Indeed they could.

When January came to a close, Joe Biden told America that food inflation was cooling. But egg prices had risen by another 13.5%.
The Department of Agriculture blamed last year's price spike on an avian-flu outbreak that killed 43m of America's egg-laying birds. Industry lobbyists say that the rising costs of feed, fuel and labour further pushed up prices.

Such problems tend to beget shortages, but Cal-Maine Foods, which has 20% of the market and is the country's biggest egg producer, sold more eggs in 2022 than in 2021 (the company sells about 12bn eggs a year). Though flocks in the industry overall were a tad smaller, the Stakhanovite hens laid more. Ultimately inflation and flu brought a boon to Big Egg. While the s&p 500 fell by 9% last year, Cal-Maine's shares rose by 17%. The firm generated $800m in sales in the final quarter of 2022, a 110% increase on the same period the previous year; gross profits increased seven-fold.

You can't make an omelette without breaking antitrust laws



The Economist

Farm Action, an advocacy group which supports small farmers (and hates genetically modified crops), has accused Cal-Maine and two other big egg companies of price gouging, arguing that the virus, supply-chain disruptions and inflation together do not justify the price rises. The firms, Farm Aid argued in a letter to the Federal Trade Commission, cite these trends to hide unjustified price hikes. Together the three account for close to 40% of eggs sold in America, an impressive (or worrying) amount of market power.

Cal-Maine rejects the accusations levelled at it by Farm Action. "Regardless of market conditions, Cal-Maine sells its eggs based on the pricing negotiated with each customer and has done so consistently throughout our history, whether at a profit or a loss," the firm says.

If the soaring profits were just a reflection of normal market power, other food companies ought to have seen them too. But there was no such bonanza in the meatpacking industry, which, run by a handful of powerful firms, is often accused by farmers of acting like an oligopoly. Pre-tax profits on beef, pork and prepared foods at Tyson Foods, one of the biggest meatpackers in America, were down in the fourth quarter. Fast-food firms did not do too well, either. Net income at PepsiCo, which sells snacks as well as sugary drinks, was less than half what it was during the same period the previous year.

To the relief of the nation's bakers, scramblers and lovers of pisco sours, the price of eggs came down in February. The cost of a dozen fell by 12.7%, to $4.21. But that is still more than double last year's price. If the price of eggs does not continue to fall in the coming months, then Big Egg may find federal agencies in charge of things other than interest rates and agriculture crack down on price rises. And when the feds get involved, it is no yolk.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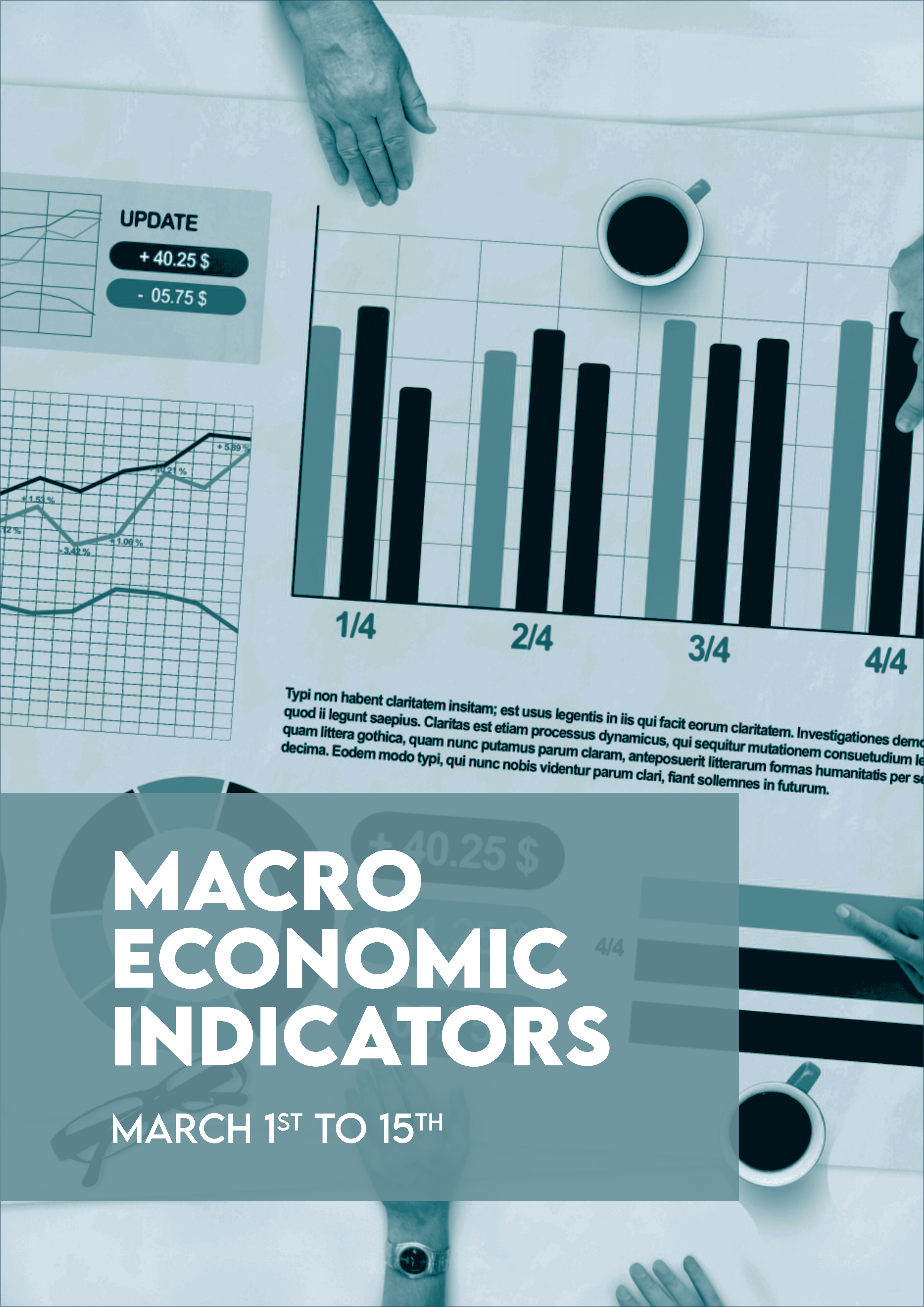


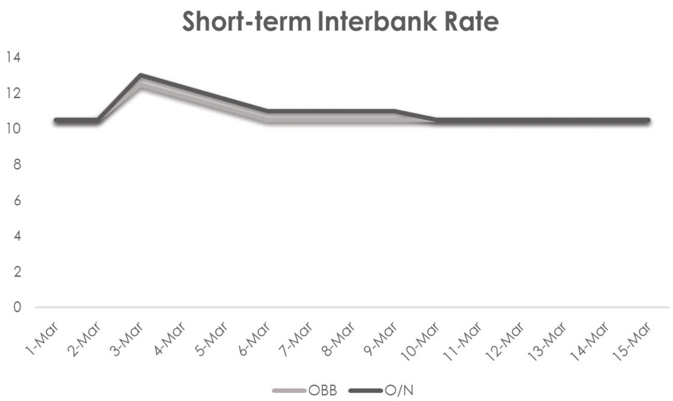
MACRO ECONOMIC INDICATORS

MARCH 1ST TO 15TH

MONEY MARKET

Banks' average opening position was N506.7bn in the first half of March, 20.15% lower than the average of N638.37bn in the first half of February. This was partly due to an OMO repayment of N50bn. There were no OMO sales during the review period. The boost in banking system liquidity led to a sharp drop in short-term interbank rates. Average NIBOR rates (OPR, O/N) during the review period was 10.79% p.a, up 19bps from an average of 10.60% p.a. in the corresponding period in February.

Two primary market auctions were conducted in the first half of March. A total of N486.61bn was allotted, 16.67% higher than a sum of N417.06bn in the same period in February. During the review period, there were primary market sales of N324.5bn. While rates at the secondary market moved in different directions, primary market rates increased at the 91-day tenor by 111bps and fell across the 182 and 364-day tenors by an average of 75bps.



Source: FDC Think Tank

Tenor	Primary market (March 8th 2022) (%)	Primary market (March 15th 2022) (%)	Secondary market (March 1st 2022) (%)	Secondary market (March 15th 2022) (%)
91-day	1.44	2.55 ▲	4.5	2.86 ▼
182-day	6.00	5.00 ▼	4.40	4.40 ⟷
364-day	10.00	9.49 ▼	4.24	4.42 ▲

Source: FMDQ, FDC Think Tank

▼ 20.15%

N506.70BN

BANK OPENING POSITION

OUTLOOK AND IMPLICATION

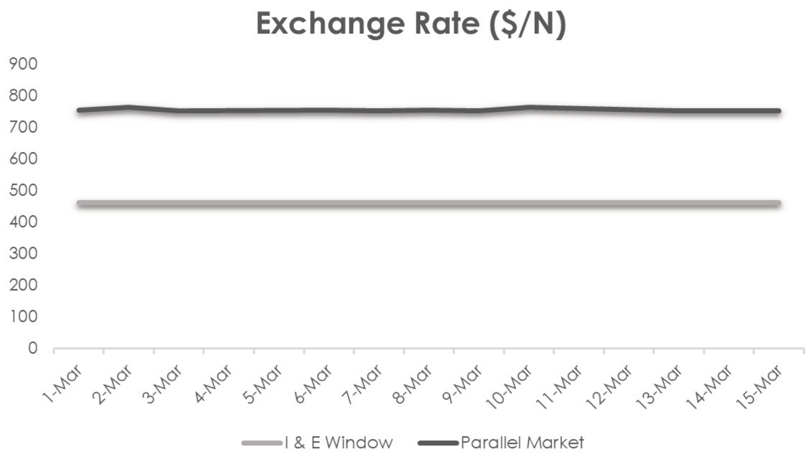
The CBN is expected to continue mopping up liquidity in response to its tightening monetary policy stance. Short-term inter-bank interest rates are likely to move in tandem with the hike in interest rates.

FOREX MARKET

The Nigerian forex market is segmented with multiple exchange rates. The official market is the Investors and Exporters window (IEFX). The exporters and investors use this window, while the CBN intervenes to stabilize the currency. It serves 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. Due to the wide disparity between the IEFX rate and the parallel rate (N413) and low forex supply from CBN, the parallel market has become more efficient for carrying out most foreign transactions.

EXCHANGE RATE

At the I & E window, the naira remained unchanged at N462/$ all through the review period. Although, currency pressures eased at the parallel market as the naira gained 0.39% to close at N752/$ on March 15th from N755/$ on March 1st.



Source: FDC Think Tank

▲ 0.39%

N752/$

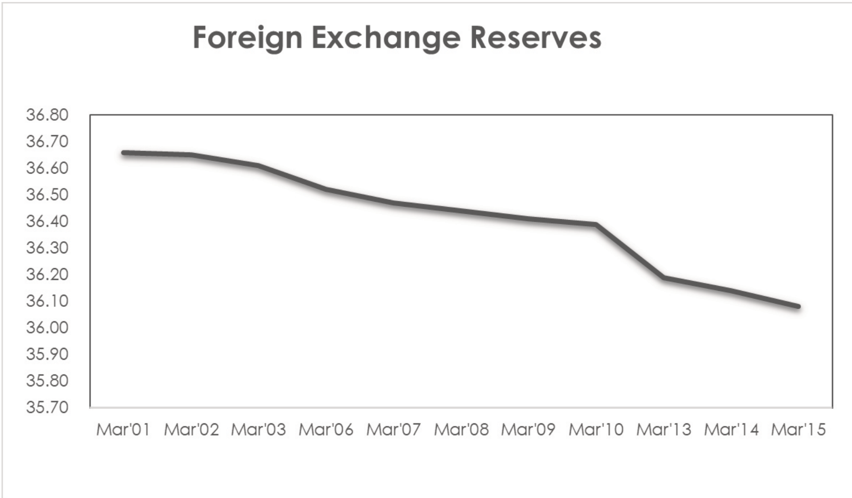
PARALLEL MARKET RATE

OUTLOOK

The currency is expected to remain under pressure at the parallel market due to cash scarcity and speculative activities at the forex market. This would likely lead to forex rationing by the CBN and depreciation of the naira at both the parallel market and I &E window.

EXTERNAL RESERVES

The country's external reserves continued its steady depletion, losing 1.42% to close at $36.08bn on March 15th from $36.6bn at the beginning of the month. This was largely due to the drop in oil prices by 11.70% to $73.69pb on March 15 from $83.45pb on March 1.



Source: CBN, FDC Think Tank

▼1.42%

$36.08BN

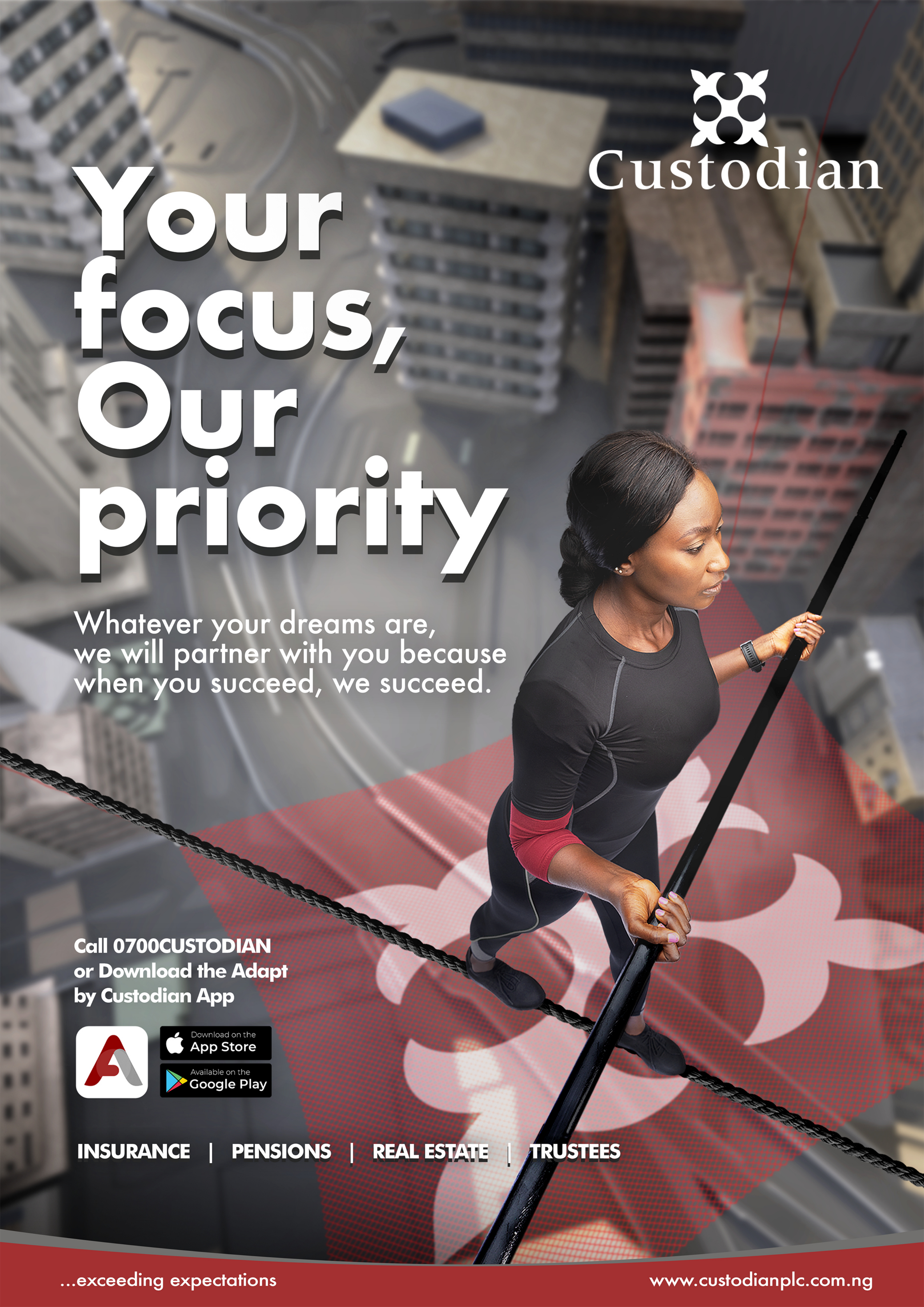
NIGERIA'S EXTERNAL RESERVES

OUTLOOK

We expect a boost in oil production due to improved measures to curb oil theft and other insecurity issues in the oil sector to support the external reserves in the coming weeks. However, lower oil prices could keep oil revenues low.

IMPLICATION

Lower oil prices or production on the other hand could lead to a sustained depletion in the external reserves which is likely to reduce the CBN's supply of forex at the I & E window and possibly widen the gap between the IEFX rate and the parallel rate.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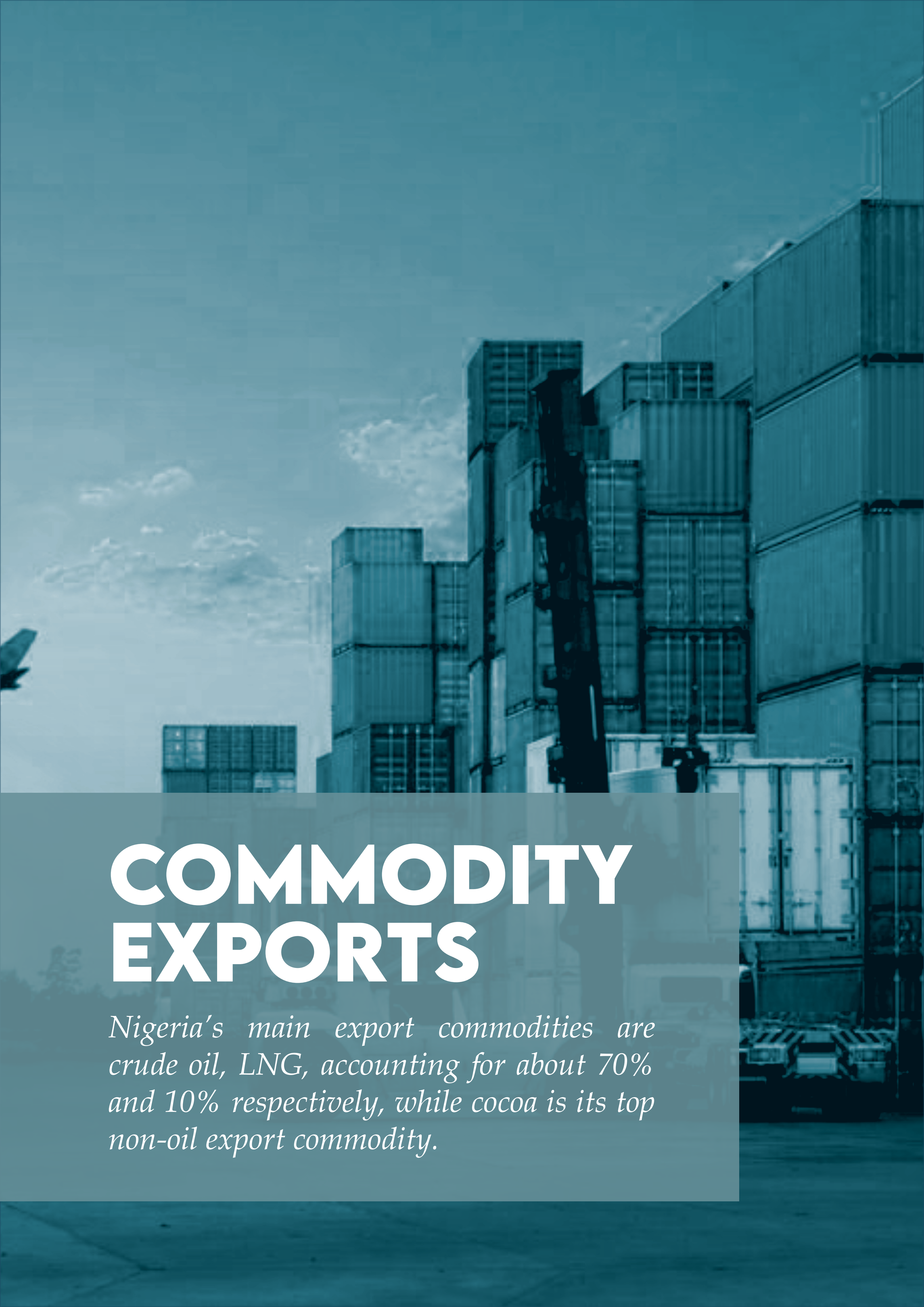


COMMODITY EXPORTS

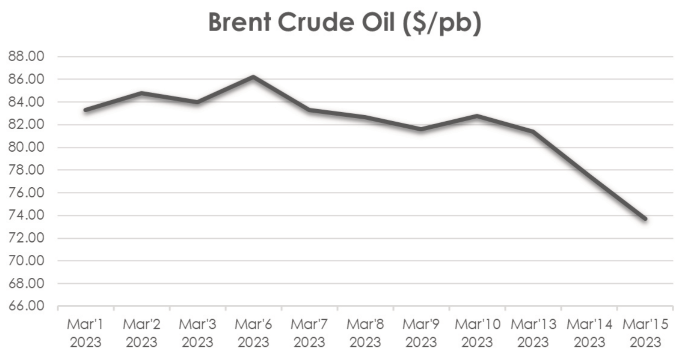
Nigeria's main export commodities are crude oil, LNG, accounting for about 70% and 10% respectively, while cocoa is its top non-oil export commodity.

OIL PRICES

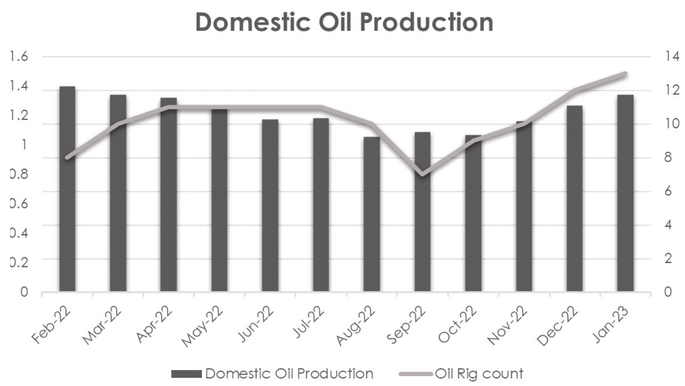
The price of oil was largely dovish in the review period and traded below the $100pb threshold. It touched a high of $86.18pb on March 6th from $83.27pb at the start of the period despite weak global demand as China set a lower-than-expected target for economic growth. It later fell by 14.49% to close at $73.69/pb on March 15th as the collapse of Silicon Valley Bank (SVB) raised fears of a fresh financial crisis. On average, oil prices declined by 2.19% to $81.91pb in the first half of March from $83.75pb in the corresponding period in February.

OIL PRODUCTION

Domestic oil production increased slightly by 5.5% to 1.38 million barrels per day in February from a revised figure of 1.31 million barrels per day in January 2023. The oil rig count, on the other hand, remained constant at 13 from January. OPEC's crude oil production rose by 117,000 barrels per day in February to an average of 28.92mb/d with oil production increasing mainly in Saudi Arabia, Nigeria and in Congo, while it declined in Iraq and Angola.



Source: Bloomberg, FDC Think Tank



Source: OPEC, FDC Think Tank

▲ 5.50%

1.38mbpd

DOMESTIC OIL PRODUCTION

OUTLOOK

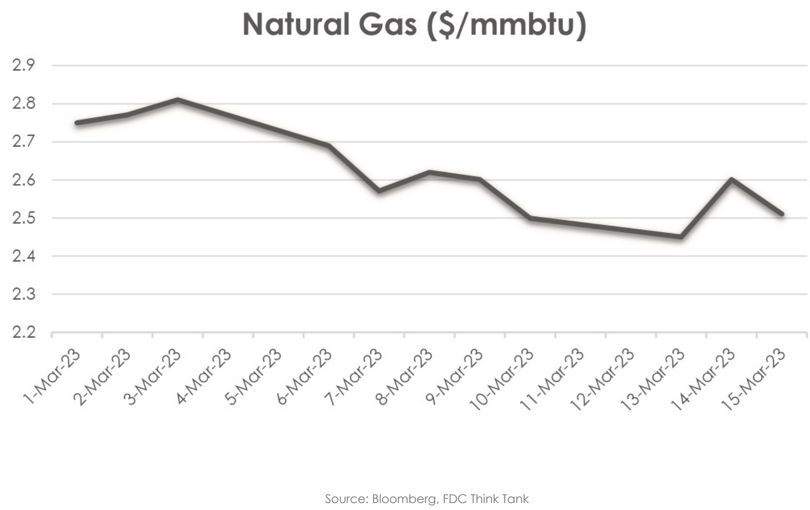
Oil price is expected to reverse its downward trajectory owing to a tighter supply outlook after the temporary closure of Turkey's Ceyhan oil terminal and Russia's unilateral and voluntary plan to reduce crude oil production by 500,000 b/d this month.

IMPLICATION

Despite the increase in the country's oil production, the fall in oil price could lower the oil revenue and limit foreign exchange earnings. As a result, FAAC allocation to the three tiers of government could shrink.

NATURAL GAS

The price of gas touched a high of $2.81/mmbtu on March 3rd on expectations of an increase in China's demand, before settling to close the period at $2.51/mmbtu. When compared to $2.75/mmbtu at the beginning of the review period (March 1st), the price of gas decreased by 8.7%. However, on average, the gas price increased by 5.22% to $2.62/mmbtu from $2.49/mmbtu in the first half of February. The slowdown in gas prices was fueled by an increase in global supply.



▲ 5.22%

$2.62/MMBtu

AVG NATURAL GAS PRICE

OUTLOOK

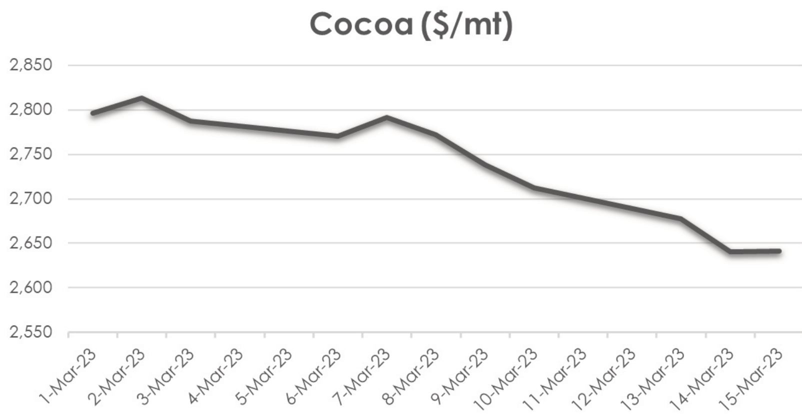
Gas price is expected to remain low due to milder weather forecasts and reduced demand from Europe on high gas stockpiles.

IMPLICATION

Lower gas prices will reduce the country's revenue, and could limit budget implementations.

COCOA

The price of cocoa declined steadily in the first half of March despite supply tightness in Ivory Coast as cocoa arrivals fell 3.7% to 1.688 million tonnes in the 2022-2023 season. During the review period, the price of cocoa fell by 5.54% from $2796/mt on March 1st to close at $2641/mt on March 15th. On average, the price of cocoa rose by 4.7% to $2740/mt when compared to $2617/mt in the first half of February. This was due to forecasts of improved production in Ivory Coast and Nigeria on sustained favourable weather conditions.



Source: Bloomberg, FDC Think Tank

▲ 4.70%

$2740/mt

AVG COCOA PRICE

OUTLOOK

Expectations of an additional 10,000 tonnes of exports from Ivory Coast and bumper harvest from Nigeria (midcrop cocoa 2022-2023) is likely to support lower cocoa prices.

IMPLICATION

Lower cocoa prices will limit the country's foreign exchange earnings as well as government revenue. This will also result in a fall in the income of cocoa farmers.

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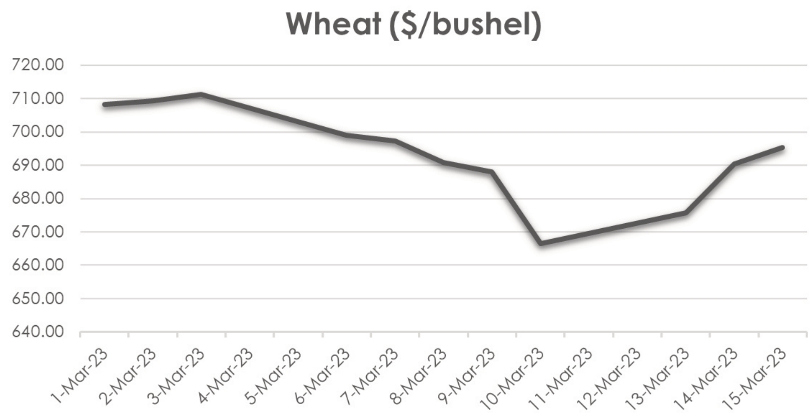
COMMODITY IMPORTS

WHEAT

The price of wheat fell to a low of $666.5/bushel on March 10th buoyed by expectations of a rise in supply from Ukraine before gaining momentum to close the period at $695.25/bushel. On average, wheat prices fell marginally by 9.5% to $693.77/bushel within the review period from an average of $766.73/bushel in the first half of February. This price increase was despite limited crop yield in the United States due to dry weather.



Source: Bloomberg, FDC Think Tank

▼ 9.50%

$693.77/b

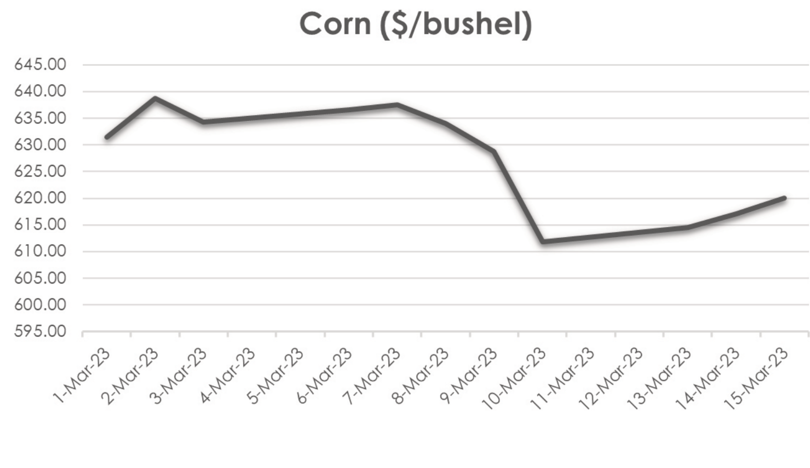
AVG WHEAT PRICE

OUTLOOK-GRAINS

The price of wheat is expected to taper in the near term due to forecasts of higher supply and renewed optimism about the Black Sea export grain deal while corn price is expected to decline in the near term as a result of projections of improved production from Brazil, the third largest global producer.

CORN

The price of corn fluctuated in the first half of March, it fell to a low of $611.75/bushel on March 10th despite tight supply in Argentina due to extreme drought conditions, before climbing to close the period at $620/bushel. Corn price averaged $627.68/bushel in the first half of March, down 7.32% from the average of $677.25/bushel in the first half of February on projections of an increase in Black Sea supplies.



Source: Bloomberg, FDC Think Tank

▼ 7.32%

$627.68/b

AVG CORN PRICE

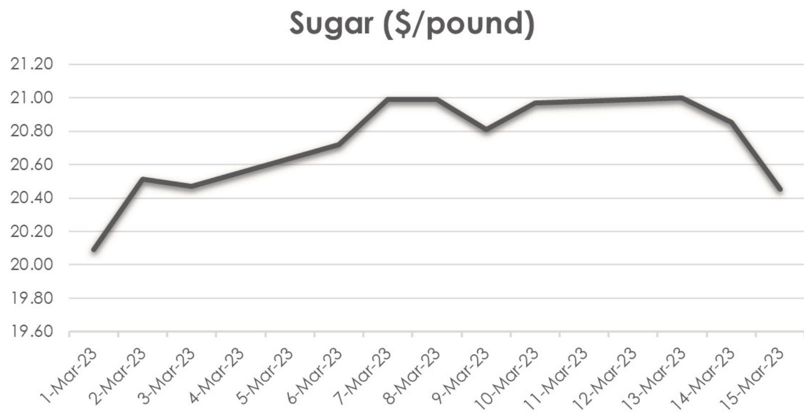
IMPLICATION-GRAINS

Declining wheat prices will lower pressure on the country's foreign reserves and reduce the country's import bill. This will also push down production costs for flour-dependent firms.

Also the fall in the price of corn will lower the country's import bill while reducing manufacturing costs for food processing industries. This is also likely to ease inflationary pressures.

SUGAR

The price of sugar was mostly elevated in the first half of January, before easing to close the period at $20.45/pound on March 15th on prospects of increased supply from Brazil. Overall, the price of sugar averaged $20.71/pound in the review period, 0.43% higher than the average of $20.62 /pound in the first half of February. This was as a result of growing supply concerns in India, Thailand and China.



Source: Bloomberg, FDC Think Tank

▲ 0.43%

$20.71/lb

AVG SUGAR PRICE

OUTLOOK

The price of sugar is likely to rise in the near term owing to lower crop outputs in India due to adverse weather conditions.

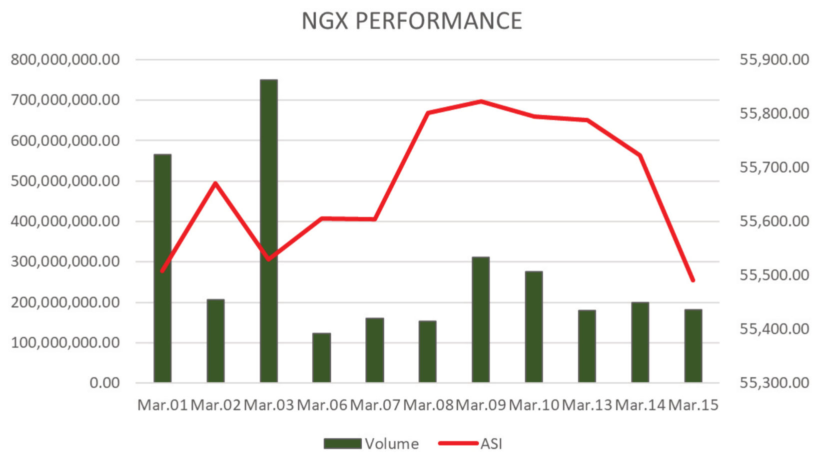
IMPLICATION

The high price of sugar will raise the country's import bill while worsening its balance of trade. It would also put pressure on the foreign exchange reserves and increase production costs for confectioners.

STOCK MARKET REVIEW

MARCH 1ST – 15TH

Nigerian Exchange Limited closed on a negative note between March 1-15. It lost 0.57% to close at 55,490.20 basis points on March 15 from 55,806.26 basis points on February 28. Also, the market capitalization decreased by 0.56% to N30.23trn relative to its close of N30.40trn on February 28. The market YTD return closed at 8.27% in the review period. The market breadth was negative at 0.54x as 30 stocks gained, 71 stocks remained unchanged while 56 lost.



Source: NGX, FDC Think Tank

Market activity level was mixed in the review period. The average volume traded increased by 74.27% to 282.32mn units from 162.00mn units. Meanwhile, the average value of trades fell by 19.96% to N3.77bn from N4.71bn in the review period.

The performance of the sectors was mixed in the review period, as two sectors gained while three lost. The consumer goods sector recorded the highest gain (4.60%). This was followed by the industrial sector (1.44%). Meanwhile, the oil and gas sector recorded the highest loss (7.79%). This was followed by the banking sector (6.48 %) and the insurance sector (1.90%).

SECTOR PERFORMANCE

Industrial	FMCG	Banking	Oil &Gas	Insurance
1.44	4.60	6.48	7.79	1.90

TOP 5 GAINERS

Sunu Assurance Plc topped the gainers' list with an 18.92% increase in its share price. This was followed by Geregu Power Plc (10.34%), BUA Foods Plc (10%), Julius Berger Nigeria Plc (10%) and Computer Warehouse Group Plc (10%).

Company	Feb- 28 (N)	Mar 15 (N)	Absolute Change	Change (%)
SUNUASSUR	0.37	0.44	0.07	18.92
GEREGU	275.50	304.00	28.50	10.34
BUAFOODS	90.00	99.00	9.00	10.00
JBERGER	24.50	26.95	2.45	10.00
CWG	0.90	0.99	0.09	10.00

TOP 5 LOSERS

The laggards were led by MRS Oil Nigeria Plc (-24.15%), United Capital Plc (-23.78%), Conoil Plc (-18.89%), Oando Plc (-16.46%) and Chams Plc (-11.54%).

Company	Feb- 28 (N)	Mar 15 (N)	Absolute Change	Change (%)
MRS	36.85	27.95	-8.90	-24.15
UCAP	15.35	11.70	-3.65	-23.78
CONOIL	46.85	38.00	-8.85	-18.89
OANDO	4.80	4.01	-0.79	-16.46
CHAMS	0.26	0.23	-0.03	-11.54

OUTLOOK

The 50bps interest rate hike to 18%p.a by the MPC in its March meeting could weigh on the stock market performance as investors reshuffle their portfolio in favour of fixed income assets.

Corporate Focus

MTN

Industry: Telecommunication	
Market Cap:	N4.8 trn
Current Price:	N236

Analyst's Note

MTN Nigeria became the first public company in Nigeria to make revenue of N2 trillion in 2022. During the course of the year, the company obtained CBN's approval for MoMo PSB and commenced operations. There was also the 5G commercial launch and the issuance of the N115 billion series 1 fixed-rate bond. This was the first of its new N200 billion bond program and its third bond issuance in the Nigeria debt capital markets. The successful bond issuance gives MTN Nigeria the opportunity to further diversify its funding sources and extend its debt portfolio to match infrastructure investment. The net proceeds will be used to finance its network expansion, optimize working capital, and for general corporate purposes.

MTN Nigeria's broadband coverage at the end of 2022, was up 3.4pp at 87.9%. Consequently, the company has successfully captured 30% of the Nigerian population as its subscriber base now exceeds 70 million. In terms of dividends, MTN Nigeria declared a sum of N317.53 billion in 2022, representing 18.90% higher than N267.05 billion in 2021. Additionally, EBITDA grew by 22.04% to N1.07 trillion, while the EBITDA margin increased by 0.2% to 53.2%.

Record breaking Top line

In 2022, MTN Nigeria, the largest telecom company in the country, had an impressive top-line growth despite the challenging macroeconomic environment amidst currency volatility and rising inflation and interest rates as well as energy costs. In the financial year ended December 31, 2022, the company's turnover spiked by 21.6% to N2.01 trillion, compared to N1.65 trillion in the corresponding period in 2021. The surge in the company's turnover is a result of improvements recorded in all its reported business segments. Voice revenue grew by 5% to N864 billion, followed by the data segment which has increased by over 100% since 2021. The data segment brought in N763 billion, up 38% relative to 2021. With the adoption of 5G technology, revenue from this segment is likely to exceed N1 trillion in the next year. Similarly, revenue from roaming services increased by 14% from 2021 to N159 billion. Lastly, value-added services, which include mobile money and airtime lending, grew by 16% to N81 billion while revenue from SMS services increased by 31% to N63 billion.

A spike in operating profit despite exchange rate loss

MTN Nigeria's operating profit increased by 25.4% to N733.33 billion in FY'22 from N584.74 billion in FY'21, supported by MTN's cost-cutting strategy and a strong revenue figure. However, operating expenses also moved in tandem with top-line growth. A significant increase in the cost of starter packs, handsets, and accessories as well as roaming and sales promotion contributed to the surge in operating expenses to N941 billion. The company is however vulnerable to exchange rate volatility from two sources: forex availability and exchange rate instability, which culminated in a foreign transaction loss of N56.2 billion.

Growing subscriber base supported by evolution from a 'telco to a techno' company

MTN Nigeria's resilient performance can also be attributed to its fast-rising subscriber base. As at the end of 2022, 19 million MTN customers were restricted from making calls, in line with the mandate from the Nigerian Communication Commission to bar lines that were yet to be connected with their National Identity Number (NIN). However, the company was able to curb the impact of this restriction on its operations and reactivated bout 9.5 million customers through its partnership with NIMC.

Regardless, total mobile subscribers increased by 10.5%, to 75.6 million, with data users inched up by 15.3% to 39.5 million and fintech subscribers increasing to 14.9 million owing to the introduction of mobile money services through its payment service bank operations, popularly referred to as MoMo. Hence, the surge in data, digital and fintech revenue reflects the increased adoption of the modern use of telecommunication owing to the 5G rollout and enhanced network capacity.

Positive bottom-line growth despite high finance cost

A 155.5% increase in net foreign exchange loss and a 26.88% growth in interest expense on borrowings were key drivers of the company's higher finance costs, which rose by 33.18% to N213.09 billion. On the other hand, a 414% surge in interest income on bank deposits exerted upward pressure on finance income offsetting the hike in finance cost. Despite high finance costs, MTN Nigeria pulled through with double-digit bottom-line growth of N358.8 billion in FY'2022, underpinned by a remarkable top-line performance that filtered into the operating profit.

MTN NIGERIA

MTN Nigeria, is the largest mobile operator in Nigeria, controlling 37.9% of the telecommunication industry's market share in Nigeria. Its major sources of revenue are income from the sale and provision of products and services ranging from roaming to Internet, bills payment, device financing, data management, SIM registration, and other related services. It is a subsidiary of MTN Group, the leading cellular telecommunications company in Africa. The company was incorporated in Nigeria in January 2001 and subsequently listed on the Nigeria Stock Exchange (NSE) in 2019.

Since its inception, the telecom giant has remained at the forefront of telecommunication innovations in Africa having the most extensive network coverage and robust network infrastructure. About 79.1%, 83.6% and 92.3% of MTN's population is covered by 4GLT, 3G, and 2G services respectively with a fibre network of over 29,500km across Nigeria. Even after its listing on the Nigerian Stock Exchange, the pacesetter has maintained its position as the second largest capitalized stock on the exchange (N4.8trn market cap) after Airtel, with strong growth potential. The share price has returned about 27% to investors since then. Asides the 5G network rollout with 588 sites, the company was able to reopen NIBSS interface and commend inbound transfers into customers' wallets.

Though faced with stiff regulations, MTN Nigeria has remained determined to deepen its relationship with the Nigerian government. In 2022, its Road Infrastructure Tax Credit (RTIC) project obtained the Federal Executive Council's approval to restore and refurbish the 110-kilometre Enugu Onitsha Expressway.

N2 billion was also deployed into corporate social investment programs through the MTN Nigeria foundation to drive youth empowerment and address national priority issues. These programs included medical outreach, scholarship awards and female entrepreneur training under the Y'elloprenuer initiative. Furthermore, solar-powered boreholes were donated to communities, whereas public secondary schools across the nation received fully furnished ICT and science laboratories.

What the bull says

- Strong brand name
- Effective corporate governance
- Strong partner ecosystem
- Largest distribution network and fibre network coverage
- Strong parental support
- Extensive spread across Africa
- Diversified revenue source
- Favourable demographics
- Increased digital and financial inclusion

What the bear says

- Harsh operating environment
- Stiff regulations
- Foreign exchange challenges
- Stiff competition from other players

OUTLOOK

Over the years, MTN Nigeria has faced a chunk of challenges, which are not peculiar to it, especially in a harsh operating environment. The company has however proven resilient with a robust earning trajectory and well-structured operations. Being a top player in the telecoms space, the telco giant is expected to harness its capacities to take advantage of the possible evolution in the technology space.

In 2022, the telecoms industry accounted for 13.57% of GDP. This is likely to increase following the rising demand for digital services and the shift from voice to data as many telcos are delving into the streaming, digital and fintech space. With the launch of 5G services in Nigeria now well underway, the Nigerian telecommunication sector is expected to witness a further expansion in mobile-subscriber growth and penetration rate.

OUTLOOK FOR NEXT MONTH

We expect the Nigerian economy to remain resilient, sustaining its growth trajectory in coming quarters. However, real GDP growth is likely to slow to 1.25% in Q1’23 due to the impact of Naira cash crunch. Most of the real sectors will be largely affected, particularly trade, manufacturing and agric.

Headline inflation is expected to decline in March before increasing again, partly due to the integration of old and new naira notes. The decline in price pressures is largely due to base effects.

The currency is expected to remain under pressure at the parallel market due to cash scarcity and speculative activities at the forex market. This would likely lead to forex rationing by the CBN and depreciation of the naira at both the parallel market and I &E window.

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