FDC

January 26, 2023

PRISM

P R I S M

BIZNOMICS

CONTENTS

01 THE PRISM (BIZNOMICS) OVERVIEW: GLOBAL & DOMESTIC

The global economy navigated aggressive monetary tightening in 2023, resulting in a decline in global inflation and fostering expectations of interest rate cuts in 2024. However, sticky inflation, along with emerging threats such as the conflict in the Middle East, have tempered initial expectations of early interest rate cuts in the year.

Setting the stage for advanced economies' interest rate decisions in 2024, the European Central Bank held interest rate hike steady at 4.5%p.a. in its January meeting. After declining for seven consecutive months, headline inflation in the Euro Area rose to 2.9% in December 2023 from 2.4% the November 2023 due to energy-related base effects. Similarly, headline inflation in the US and UK in December 2023 increased to 3.4% and 4%, respectively, from 3.1% and 3.9%, likely leading the central banks to maintain policy rates at the upcoming monetary policy committee (MPC) meetings. The US Fed is set to convene for its MPC meeting on January 30-31, 2024. Markets expect the committee to hold interest rates steady.

In Nigeria, headline inflation also rose to 28.92% in December 2023 from 28.2% the previous month, driven by increased food prices. Food inflation surged to 33.93% in December 2023, approaching the country's record level of 39.54% in September 2021. The MPC is scheduled to meet on February 26-27, 2024, with expectations of a 150-200 basis point rate hike, to signal a commitment to curbing inflation. However, addressing the escalating food inflation and growing food insecurity requires additional policy reforms.

The first article, "Addressing Infrastructure and Marketing Challenges to Improve Productivity in the Agriculture Sector of Nigeria," emphasizes the need to mitigate the effects of infrastructural deficits in the agricultural sector. These deficits have frequently resulted in a significant premium between the final price of produce and the farm-gate price. The second article expands on strategies to enhance productivity and overall value in the sector by focusing on the development of human capital in agriculture.

The development of the agricultural sector, which contributes 29.31% to the Q3'23 GDP, and engages over 70% of the population, is crucial for the growth and development of the country. It plays a pivotal role in enhancing food security and diversifying export earnings. This, in turn, would bolster the country's external reserves and contribute significantly to easing inflationary pressures.

This edition of the Prism further explores a Global perspective on "The World Must Try to Break a Vicious Cycle of Insecurity," a corporate focus on the leading sugar supplier in Africa (Dangote Sugar Refinery Plc) as well as a robust outlook (global & domestic) for the coming month.

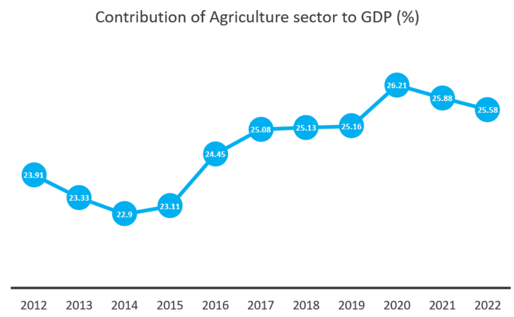
02

ADDRESSING INFRASTRUCTURE AND MARKETING CHALLENGES TO IMPROVE PRODUCTIVITY IN THE AGRICULTURE SECTOR OF NIGERIA

"Agricultural growth is a proven driver of poverty reduction. When agriculture stimulates growth … the growth is twice as effective in reducing poverty as growth based in other sectors" - ***Giza Mdoe***

Before the discovery of oil in Nigeria, agriculture was the dominant industry, providing livelihoods for about 90% of the people in the rural areas and serving as the primary source of foreign exchange earnings. However, the shift towards an oil-dependent economy has led over 200 million people into food insecurity in Nigeria. The agriculture sector growth rate in 2022 was 1.88%, when compared to the country's population growth rate of 2.41% and 2.5% in 2022 and 2023, respectively, it shows that the food production in the country is far below the needs of the growing population. When looking at its contribution to the gross domestic product (GDP) for the past decade, it has been volatile; the sector input to GDP has declined from 26.21% in 2020 to 25.58% in 2022.[1] According to the 2023 Global Hunger Index report, Nigeria was ranked 109th out of 125 countries with a 28.3 score, and 11.9% of people with malnutrition in 2023.[2] This signals how severe the level of food insecurity in the country is.

Exchange rate, per capita income, inflation and capital importation



Source: NBS. 2023. "Nigerian Gross Domestic Product Report Q3 2023." http://www.nigerianstat.gov.ng/

The challenges facing the agriculture sector in Nigeria

One of the major factors impeding the productivity of the sector is inadequate infrastructure, particularly in transportation and storage. Poor road networks and a lack of proper storage facilities lead to post-harvest losses. Given that agricultural products are perishable goods, without proper storage goods are susceptible to damage, pests, and diseases, diminishing their market value and attractiveness to buyers. Inadequate storage facilities coupled with challenges in transporting the produce from farms to markets contribute to food wastage, which in turn reduces the overall production of the sector. Furthermore, the wasted output results in lower income for farmers.

Moreso, as population growth continues to outpace domestic food production, Nigeria imports, leading to trade deficits. For instance, in Q3'23, agriculture imports rose by 25.5% to N643.68 billion (bn) (7.61% of total imports) from N512.91bn in Q3'22, while its export stood at N219.99bn, making Nigeria a net importer in this sector.[3]

Given this context, revitalizing the agricultural sector is crucial for ensuring food security and addressing the challenges posed by a growing population.

[1] World Bank. 2023. "Nigeria Overview: Development news, research". https://www.worldbank.org/en/country/nigeria/overview
National Bureau of Statistics. 2023. "Nigerian Gross Domestic Product Report Q3 2023." http://www.nigerianstat.gov.ng/
[2] NBS. 2023. "Foreign Trade in Goods Statistics (Q3 2023)". http://www.nigerianstat.gov.ng/
[3] FAO. 2023. "Nigeria Agriculture at a Glance." https://www.fao.org/nigeria/fao-in-nigeria/nigeria-at-a-glance/en/

Government developmental programs for the sector

The Nigerian government has initiated a series of agricultural development projects, including:

The National Fadama Development Project (NFDP, 1990 - 2019) – This $450 million project began in 1990 intending to lift farmers out of poverty. The scheme supported small-scale farmers by providing simple, low-cost, improved irrigation infrastructure and technical assistance to farmers through World Bank financing. It helped increase rice and cassava production in Fadama areas, which covered 12 out of 36 states in Nigeria and raised farmers' income by 63%. The assessment of Fadama projects revealed a need for increased attention to downstream marketing of local products, as phase 1 experienced significant crop losses due to the absence of essential marketing infrastructure and value-added interventions, such as storage facilities and processing capabilities.[4]

The Rural Access & Mobility Project (RAMP, 2008-2016) – This project enhanced the road construction and rehabilitation of rural roads connecting farming areas to the market, particularly in the northern part of the country, making northern states the most beneficiaries of good road and rail transportation networks. With this project, food prices and the cost of living were cheaper in the north compared to other parts of the country. However, transporting the food produced in this region to non-producing regions remains costly due to the bad transportation network outside the north.[5]

Agricultural Transformation Agenda (ATA, 2011-16) – The ATA focused on policy reforms, infrastructure investments, and increased private sector involvement in agriculture. Its program developed about 20 value chains on food commodities such as rice, cassava, sorghum, and cocoa, but its success varied across different agricultural subsectors.[6]

Despite several government initiatives, inadequate infrastructure still lingers, negatively impacting the growth of this sector. The attributable factors include insufficient funding, corruption, bureaucratic hurdles, and maintenance issues that have dented the sustainability of many productive programs.

Lessons from India's infrastructure programs

India, with an estimated 1.43bn people in 2023, was once a food deficit country but is now a prominent producer and exporter of agricultural commodities such as rice and sugar in the world.[7] The achievement of its transformation can be attributed to effective programs designed to tackle agricultural challenges in the country, which include:

Pradhan Mantri Gram Sadak Yojana (PMGSY, 2000 - Present) – This is also the Prime Minister's Rural Roads Program. The primary objective of PMGSY is to provide all-weather road connectivity in rural areas to improve access to infrastructure. This includes connecting agricultural areas to markets and transportation hubs. It is a centrally sponsored scheme with cost sharing between the central and state governments. This development has assisted economic activities in India, including the agriculture sector, enabling significant contributions to economic growth. This initiative supported rice production in India, making the country the world's second-largest producer of rice in 2021, after China.

National Agriculture Market (e-NAM) - is a pan-India electronic trading portal launched in 2016 and upgraded in 2022 into e-NAM PoP (e-NAM Platform of Platforms) to create a unified national market for

[4] Halimatou Hima, Fadama User Group (FUG) 2016. 'Delivery Case Study on the National FADAMA National Development Series'. http://www.worldbank.org/en/news/feature/2010/07/28/fadama-iii-rural-agriculture-project-fast-becoming-a-household-name-in-nigeria.
[5] The World Bank Group. 2023. "Rural Access and Mobility Project (RAMP)". https://projects.worldbank.org/en/projects-operations/document-detail/P072644?type=projects
[6] USAID. 2012. "IFPRI – Africa lead report on assessment of Nigeria Agriculture Transformation Agenda (ATA) and capacity building needs." https://www.usaid.gov/
[7] District South West, Delhi (2023) Pradhan Mantri Gram Sadak Yojana (PMGSY) 2000 https://dmsouthwest.delhi.gov.in/scheme/pradhan-mantri-gram-sadak-yojana-pmgsy/,http://www.pmgsy.nic.in/

agricultural commodities by integrating physical markets through an online trading platform. All Indian market prices of commodities were displayed on LED boards in markets, while daily prices were sent to farmers through messages. It enables farmers to sell their produce online, promotes transparent price discovery, and facilitates better market access. This has reduced intermediaries in the agricultural supply chain by providing reliable information to farmers on commodity prices and demand in different markets. The platform often includes logistic information, such as the availability of transport services and storage facilities in various markets, allowing farmers to store their produce temporarily until a suitable buyer is found. Farmers were trained in the grading of tomatoes and other perishable goods through the adaptation of post-harvest technologies like plastic crates to reduce transportation losses and post-harvest losses for the agricultural sector in India.[8]

Conclusively, by drawing inspiration from these Indian programs and adapting their successful components to the Nigerian context, the country can overcome infrastructural challenges and create a more efficient and resilient agricultural sector. Collaboration between the public and private sectors, alongside technology integration, will play a crucial role in driving these improvements.

[8] FAOSTAT (2023) World rice production www.fao.org. Retrieved 27 July 2023.

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03 TRANSFORMING NIGERIA'S AGRICULTURAL SECTOR THROUGH HUMAN CAPITAL INVESTMENT

Human capital is without a doubt the most important intangible asset to develop, and will continue to be..... ***Roger Spitz***

In Nigeria, the agricultural sector has been sub-optimal for many decades, contributing to high levels of food insecurity and rising food inflation. Food inflation rate in December 2023 was 33.93%, close to the country's record level of 39.54% in September 2021.[9] The sector's growth has averaged 2.35% in the last six years, hindered by legacy constraints such as low financing, subsistence & non-mechanized farming and low productivity. The only period in the past two decades when the sector maintained consistent annual growth rates above 5% was between 2004 and 2010, averaging around 7%. However, this growth was primarily attributed to an increase in crop production resulting from the expansion of farmlands, rather than improved productivity.[10]

To address one of the constraints in the sector—inadequate financing—Nigeria's Central Bank implemented schemes like the Anchors Borrowers Program (2007–present) to provide capital for farmers. However, a lack of investment in human capital alongside these financial investments undermined the success of the program.

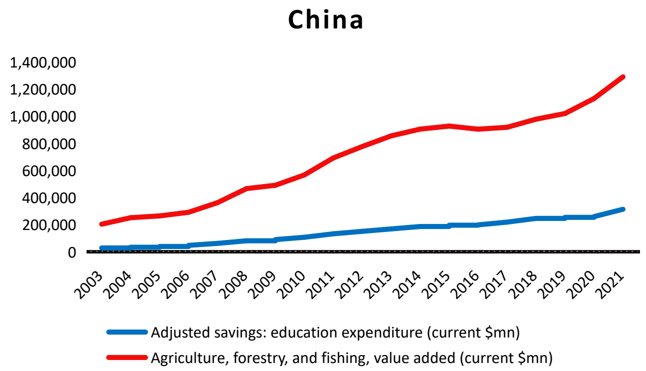
Investing in agricultural human capital involves investing in developing technical skills in crops and livestock, business skills in marketing and records, and functional skills like empowerment and innovation.

Notably, education investment is crucial, and studies have demonstrated that countries showing significant growth in their agricultural sector performance over the last two decades, such as Vietnam and China, increased their investment in human capital, especially in the education sector. A recent study forecasting trends in China and Vietnam from 2000 to 2019 revealed a positive relationship between education investment and agricultural performance in both countries, influenced by past agricultural performance.

The graphs below illustrate the correlation between education investments and agricultural performance.

Figure one depicts rising education expenditure in China over the last 20 years, aligning with positive agricultural growth.

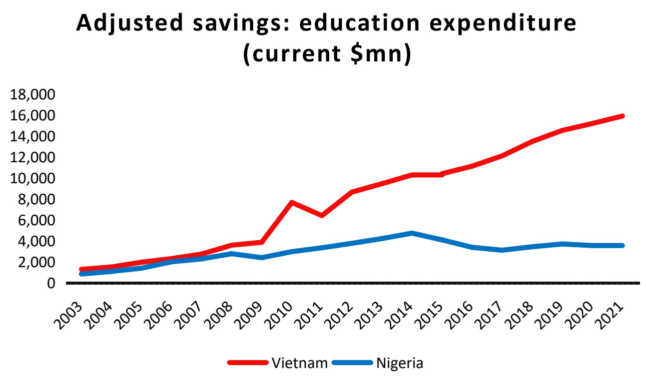
Fig. 1: China's education expenditure and agriculture sector



Source: World Development Index (WDI)

Figure two shows divergent trends in education expenditure for Vietnam and Nigeria, with Vietnam rising and Nigeria declining after starting at similar levels.

Fig. 2: Education Expenditure in Vietnam and Nigeria



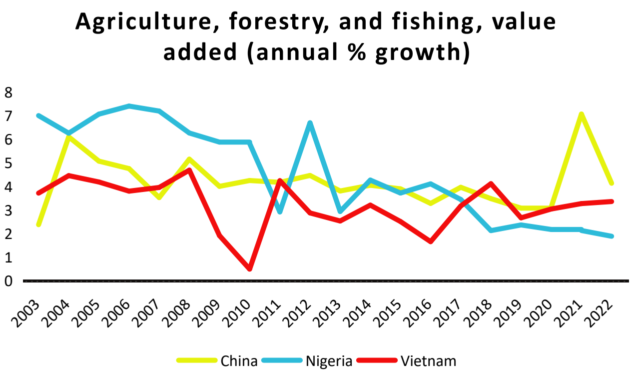
Source: World Development Index (WDI)

Figure three displays the annual agricultural sector growth rates, revealing a declining trend in Nigeria, ultimately leading to the lowest growth at the end

[09] National Bureau of Statistics. 2024. "CPI and Inflation Report December 2023". https://nigerianstat.gov.ng/elibrary/read/1241439
[10] S. T. Penda. 2012. "Human Capital Development for Agricultural Business in Nigeria". International Food and Agribusiness Management Review. Volume 15 Special Issue A. https://ideas.repec.org/a/ags/ifaamr/129182.html.
[12] Franzel, S. 2023. "Investing in agriculture human capital – Roles for the private sector". Investment brief. Food and Agriculture Organization International Food Policy Research Institute. https://doi.org/10.4060/cc4370en

of the period after initially having the highest growth.

Fig. 2: Education Expenditure in Vietnam and Nigeria



Source: World Development Index (WDI)

Investing in agricultural human capital

Notably, Nigeria has invested in agricultural extension services (a form of agricultural human capital) such as the National Accelerated Food Production Program (NAFPP) (1972 - 1976) and the Agricultural Development Projects (ADP) (1974 - 2024).[13] While these programs initially contributed to the development of the sector at the micro level, leading to increased output among participants, the success has not translated to macro-level impacts or been sustainable over an extended period. Some factors responsible for this include the limited scope of the services and implementation, inadequate financing and technical expertise, lack of continuity, and a restricted number of participants.[14]

Importantly, studies reveal that a substantial number of farmers who do not engage in agricultural extension services in Nigeria are older individuals inhibited by their low level of education (majority have no formal and only primary level (55%), followed by secondary education (30%), and about 15% with tertiary education). Given that a significant portion of Nigerian farmers are older individuals (ages 45 and above), it implies that the limited educational background of farmers has also affected the effectiveness of agricultural extension services in the country.[15]

This has led to the demand for more youth and private-sector involvement to improve the effectiveness of agricultural extension services and develop the sector's human capital. Below are examples of successful initiatives from other countries that have contributed to the growth of their agricultural human capital.

Professional training program in the agropastoral and fisheries sectors in Cameroon: The Food and Agriculture Organization Investment Centre, in collaboration with Cameroon's Ministries of Agriculture and Rural Development, and Livestock, Fisheries, and Animal Industries, introduced the Agropastoral Training Program. The program aimed to integrate young individuals (18-35 years old) in rural areas into agriculture by promoting vocational skills and opportunities. It utilized schools and centers to offer professional education and diplomas.[16]

The program encompassed skills for ten different professions, including marketing, entrepreneurial and social skills, leadership, and training skills. The initiative has resulted in the training of 10,509 young people in entrepreneurship, 480 in support professions for entrepreneurs, and 2,330 in advising professions, making a total of 13,319 young people trained.[17] Through tailored technical knowledge, financial empowerment, and leadership development, the program has enabled individuals to perceive agriculture as a profitable and fulfilling life project.

Participants experienced improved living conditions, acquired financial skills, and gained social recognition within their communities as agricultural innovators. The program not only equipped the participants with practical farming skills but also instilled self-confidence as they are now viewed as resource persons in the community and consulted for professional expertise. The graduates of the program were also reported to have generated an estimated average annual profit of $2880 from their businesses. The program's success is largely attributed to cultivating shared values around the young individual's life goals, engaging professionals and families in training, and

[13] Noah, O. A. & Abidoye, A. G. 2019. "Effective Agricultural Extension Service: a Strategy For Improving Food Production In Nigeria". Entrepreneurial Journal of Management Sciences. Volume 6, Number 1, 2019. https://www.alhikmah.edu.ng/ejms/index.php/ejms/article/view/11
[14]Christian Love. 2020. "Impact Of Selected Agricultural Policies And Intervention Programs In Nigeria – 1960 Till Date". "IR Global" https://irglobal.com/article/impact-of-selected-agricultural-policies-and-intervention-programs-in-nigeria-1960-till-date/#:~:text=National%20Accelerated%20Food%20Production%20Programme%20(NAFPP)%20was%20an%20agricultural%20extension,during%20General%20Yakubu%20Gowon's%20regime.
[15] Obiadi, Adaobi J.1, Nwankwo, Frank O.1 & Ezeokafor, Uche R.2. 2020. "Agricultural Development Programme (ADP) Capacity Building and Cassava Farmers Productivity in Anambra State". Business and Management Research. https://doi.org/bmr.v8n4p43.
[16] Lhoste, Frédéric; and Takamgang, Martial Franck. 2021. "Investing in youth vocational training: Professional training programme in the agropastoral and fisheries sectors in Cameroon". Food and Agriculture Organization International Food Policy Research Institute. https://doi.org/10.4060/cb7819en
[17] Lhoste, Frédéric; and Takamgang, Martial Franck. 2021. "Investing in youth vocational training: Professional training programme in the agropastoral and fisheries sectors in Cameroon". Food and Agriculture Organization International Food Policy Research Institute. https://doi.org/10.4060/cb7819en.

developing national expertise in system conception, design, implementation, and evaluation.

Rural Empowerment and Agriculture Development Scaling Initiative (READSI) in Indonesia: In 2018, the Indonesian government, in collaboration with Mars Incorporated, a US-based chocolate company, and the International Fund for Agricultural Development, launched READSI. This innovative initiative aimed to empower local extension workers and village facilitators through training, focusing on improving cocoa farming techniques, adopting new practices, and enhancing post-harvest processes. The training emphasized technical skills, good agricultural practices, marketing, and group development. The positive outcomes included increased knowledge, practical skills, and empowerment for cocoa farmers. This resulted in improved cocoa quality, productivity, and confidence in selling high-quality products.

In the East Luwu District, one of the areas where the scheme was carried out, cocoa productivity approximately doubled from 0.595 metric tons per hectare before READSI in 2016 to 1.184 metric tons per hectare in 2019 during READSI.[18] The success of the program has been attributed to a unique public-private-producer partnership with several resources and expertise. This dynamic collaboration fostered intensive dialogue, mutual trust, respect, and accountability among stakeholders.

The two cases presented above clearly highlight the positive outcomes of investing in the human capital of the agricultural workforce and demonstrate improvements in indicators measuring agricultural human capital within a country. A common factor in both cases was the collaboration and partnership between governments and private entities with relevant expertise.

Notably, the private sector has proven successful in developing agricultural extension services and enhancing the capacities of farmers in specific value chains and locations. The private sector is characterized by greater flexibility, motivation, cost-consciousness, and a client-oriented approach compared to public institutions. Therefore, it is imperative for the government to facilitate private sector investment in expanding farmers' capabilities. This can be achieved by creating an enabling environment with low operating costs, and favorable policy measures.

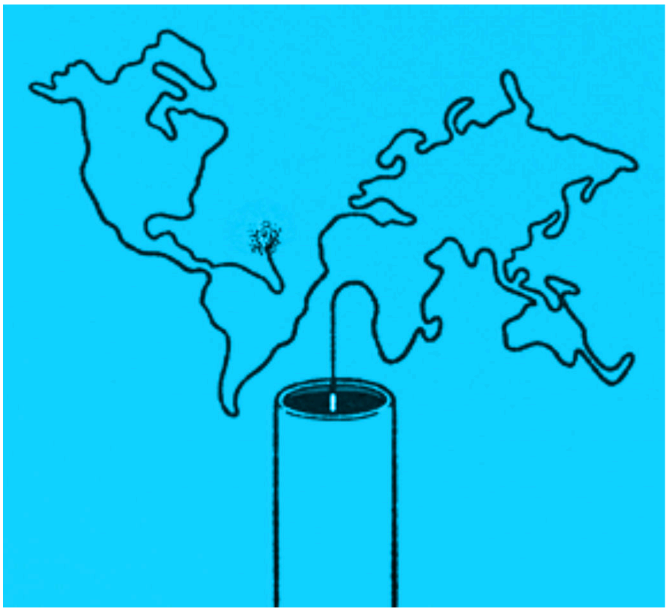
Furthermore, an educated workforce cannot be over-emphasized. The level and quality of education, which can be influenced by government spending on education, will be a major determinant to the growth prospects of not just the agricultural sector, but the economy as a whole.

It is incumbent upon the government to formulate policy programs specifically targeting the development and increase of human capital in the sector and the country at large. The proliferation of public-private agricultural extension services, and programs aimed at enhancing human capital in the agricultural sector nationwide, would make significant strides in boosting productivity and improving food supply and security.

[18] Iskandar, Elvira. 2021. "Rural empowerment and agricultural development scaling-up initiative in Indonesia". Food and Agriculture Organization International Food Policy Research Institute. https://www.researchgate.net/publication/356260295_RURAL_EMPOWERMENT_AND_AGRIGULTURAL_DEVELOPMENT_SCALING-UP_INITIATIVE_IN_INDONESIA

04 GLOBAL PERSPECTIVE: THE WORLD MUST TRY TO BREAK A VICIOUS CYCLE OF INSECURITY - CULLED FROM THE ECONOMIST

The fragility of the Western coalition is a crucial weakness



As 2023 drew to a close, wars were raging in Africa, Israel-Gaza, and Ukraine. These crises are explosive in their own right. Combine them with a presidential race in America and 2024 promises to be a make-or-break year for the post-1945 world order.

The 2020s were destined to be dangerous. The West's share of world GDP has fallen towards 50% for the first time since the 19th century. Countries such as India and Turkey believe the global institutions created after 1945 do not reflect their concerns. China and Russia want to go further and subvert this system. Though America's economy is still pre-eminent, its unipolar moment has ended. Allies in Europe and Japan are in relative economic decline. There is tepid support among the middle class for America's global role and an isolationist tilt in the Republican Party.

At the start of 2023, America was busy adapting to this reality, implementing the Biden administration's foreign policy. The idea was to be a more selective, even selfish, superpower. Prioritisation had meant quitting Afghanistan and shifting resources to Asia to counter China. Alliances were rejuvenated in the Pacific and in Europe, where NATO expanded and Ukraine was kept afloat. Energy and tech embargoes were used to weaken adversaries, at little cost to the West. Domestic industrial subsidies, though inefficient, were potent: in mid-2023 American factory construction hit its highest rate since the 1950s.

By some yardsticks—oil and grain prices, Western combat casualties—geopolitical risk is tolerable. Yet the new dynamic is one of instability. In the 1990s many countries aspired to a self-reinforcing cycle of freedom, market economics and rules-based globalisation. Now there is an unpredictable cycle of populism, interventionist economics and transactional globalisation. As a result, three threats loom in 2024.

The final threat is the fragility of the Western coalition

First, there is a growing zone of impunity where neither global powers nor global institutions tread. You can walk 6,000km from the Red Sea to the Atlantic through six African countries that have faced coups in the past 36 months. Azerbaijan has just fought a war against Armenia involving ethnic cleansing, without much blowback. Iran's proxies thrive in failing states across the Middle East. In 2024 this zone of impunity could expand further across Africa and Russia's flanks.

Second, a trio of trouble is emerging featuring China, Iran and Russia. They have much less in common than Western allies do, and China is far larger and more integrated into the world economy than the others. But their interests intersect: all want to undermine American legitimacy and evade actual or potential sanctions. China buys Russian and Iranian oil. None has condemned Hamas or the invasion of Ukraine. Their collaboration is likely to expand into tech. China is pioneering ways to bypass Western finance: half of its trade is now in yuan. Iran exports drones to Russia; China and Russia collaborate on nuclear-warning systems and patrols in the Pacific. In 2024 the world will learn how far this nascent club might go.

The final threat is the fragility of the Western coalition. The response to Ukraine's invasion was exhilarating: America and Europe united, public opinion was supportive and the principles of the 1945 order were defended, even if non-Western countries were not fully onboard. Now, with a military stalemate, cracks are showing. In America, Republicans are divided over funding for Ukraine. Israel's invasion of Gaza is even more divisive: it has split the EU and America, which has vetoed a UN ceasefire resolution, fuelling claims of double standards and Western illegitimacy. Other crises could expose more splits: would Europe join America in fighting to defend Taiwan?

How these threats play out in 2024 partly depends on the performance of the West's autocratic competitors. Just as the very different regimes of China, Iran and Russia share some interests, they have some similar vulnerabilities. All face economic difficulties and rely on intensifying repression. Vladimir Putin faced a mutiny in 2023; Ayatollah Ali Khamenei is 84 and has no clear successor; Xi Jinping relies on purges. All this could sap their vitality and their claim to have a rival model that others should emulate.

But America's election is key. An isolationist president would not drop treaties overnight but will be tested quickly: think of China "inspecting" Taiwanese ships or Russia "reinterpreting" borders. If America's commitment falters, Europe will soldier on in Ukraine but will struggle to provide funding or military muscle. Asian allies will placate China and bolster their defences. Middle powers such as South Korea and Saudi Arabia may seek nuclear weapons.

If America elects an internationalist at the end of 2024, much of the world will breathe a sigh of relief. But America faces a long slog to stabilise and then renew a system of international trade and security. The to-do list includes European enlargement; deepening cooperation with India; and a two-state solution between Israel and the Palestinians. Perhaps one day historians will talk of the post-2025 order.

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DANGOTE SUGAR

Market Capitalization	Share Price	Industry
N971.75 billion	N82.65	Consumer Goods

Analyst Note

Dangote Sugar Refinery (DSR) is an integrated sugar business and the largest sugar supplier in Sub-Saharan Africa. Its Vitamin A-fortified refined white sugar is a household name among Nigerian consumers, and its non-fortified granulated white sugar is essential for the beverage industry. The company has maintained an average revenue growth of 22.29% over the past seven years (2016-2022), and its stock yielded a total return of 261.83% in 2023, surpassing the overall market return of 45.90%. The announcement of its merger with NASCON and Dangote Rice Limited, fellow subsidiaries of its parent company, Dangote Industries Limited to establish a new entity, Dangote Foods was the main driver of its excellent stock performance.

Company Overview

Established in 2000, DSR has evolved into a fully integrated business that cultivates its own sugarcane, moving beyond refining imported raw sugar (sugarcane). The firm strategically maintains dominance in Nigeria's sugar industry through active participation in the National Sugar Development Council's (NSDC) Backward Integration Program (BIP).

The BIP aims to boost local sugarcane production, addressing the country's heavy reliance on sugar cane imports (over 90%), due to challenges like inadequate financing and limited infrastructure for domestic production. NSDC requires sugar refineries to invest in sugarcane cultivation and allocates sugar import quotas based on BIP achievements. By excelling in BIP, DSR secures the largest sugar import quota, surpassing all other competitors combined.

Prioritizing domestic cane sugar production, the company operates three plantations and aims to expand its crushing capacity from 6000 tonnes to 250,000 tonnes in the near future, contributing about 15% of Nigeria's total sugar consumption.

Industry Overview

The primary focus in Nigeria's sugar sector is the processing stage, involving milling, refining, and bleaching of raw sugar. The market is dominated by three major players (Dangote, BUA, and Flour Mills of Nigeria), collectively controlling over 95% of Nigeria's sugar market.

Sugar demand is primarily driven by urbanization and a shift towards processed food with higher sugar content. The high rate of population growth in Nigeria and its annual urbanization rate of 3.92% are expected to boost sugar demand in the next decades. However, health concerns about excessive sugar intake and requests to raise taxes on Sugar-Sweetened Beverages (SSB) and alcohol by global and domestic health organizations could impact sugar demand amid an increased cost of living crisis. In June 2022, the federal government announced a N10 per litre sugar tax on carbonated sugar drinks and beverages to address Noncommunicable Diseases.

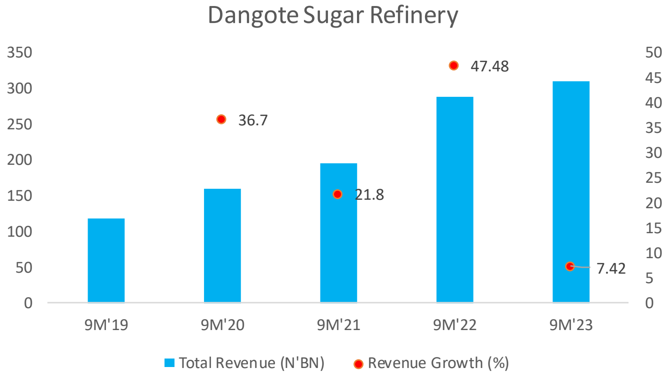
Financial Analysis

Top-line Growth Slows Amid Macroeconomic Woes

In the nine months ended September 2023, Dangote Sugar Refinery reported a 7.42% revenue growth to N309.71bn, from N288.32bn in the same period in 2022. While indicative of positive growth and a resilient business model, this figure is relatively modest compared to its last three-year average (2020 - 2022) of 35.32% in the nine-month ended period. The marginal growth can be attributed to reduced consumer spending and demand during the period (9M.23), influenced by cash scarcity in Q1'23 and high inflation for most of the year (23.31% in 9M'23 vs 17.92% in 9M'22).

Revenues from the retail sugar segment (1kg, 500 grams and 250 grams) surged by 54.28% to N8.51bn, while revenue from the 50kg sugar segment, constituting around 96% of total revenue, grew by 6.63% to N298bn in the nine months ended September 2023.

Figure 1. Dangote Sugar Refinery 9M'23 Total Revenue & Revenue growth



Source: Dangote Sugar Refinery Financial Statements

Foreign Currency Revaluation Results in Net Income Loss

During the reviewed period, Dangote Sugar Refinery reported a net income loss of N27.03bn, a significant shift from the N24.83bn profit recorded in the corresponding period last year. This substantial loss can be primarily attributed to a revaluation loss of N90.42bn incurred during the period.

The revaluation loss is linked to changes in Nigeria's forex market dynamics in June 2023, specifically introducing the "willing buyer willing seller" approach on the Investors and Exporters (I & E) Window, based on prevailing market rates. Consequently, the firm adjusted its USD/Naira closing rate from 461 as of 31 December 2022 to 756 as of 30 June 2023 and further to 776.79 as of 30 September 2023. It is crucial to emphasize that this represents a one-time impact on the company's operations, as it has consistently demonstrated the ability to generate profits, displaying an increasing trend over the years. Consequently, the foreign currency risk was an industry/economic-level exposure rather than a specific headwind for the firm.

Fundamentals

DSR's profit margins have shown consistency over the years with occasional volatility. In 2022, the firm had a gross margin of 22.45% and a net margin of 13.57%, slightly above its seven-year averages of

21.77% and 13%, respectively. However, in Q3'23, the company's margins significantly eroded, with the gross margin falling to 5.69% and the net margin dropping to 0.90%. This decline is primarily attributed to the effects of macroeconomic conditions on direct and operating costs.

Meanwhile, the company's financial health has stayed robust. Its debt-to-equity ratio over the last seven years has consistently ranged between 0.01 and 0.03, indicating a low level of debt and minimal financial risk. Importantly, the firm has seen growth in its free cash flow over the years, reaching N85.59 billion in 2022, a 149.39% increase from N34.32 billion in 2016. However, the net income loss in 2023 has offset the growth in its free cash flow.

BULLS SAY

- Market leader in Nigeria's sugar industry with a huge market share
- Merger to increase and diversify the source of revenue
- Increasing urbanisation and population growth to drive demand
- Reputable track record and strong brand name as market power
- Solid fundamentals aiding positive

BEARS SAY

- Harsh operating environment eroding margins
- Fx challenges deeping revolution losses
- Inflationary pressures dampening demand
- Current high valuation mitigating expected stock returns
- Increasing health consciousness

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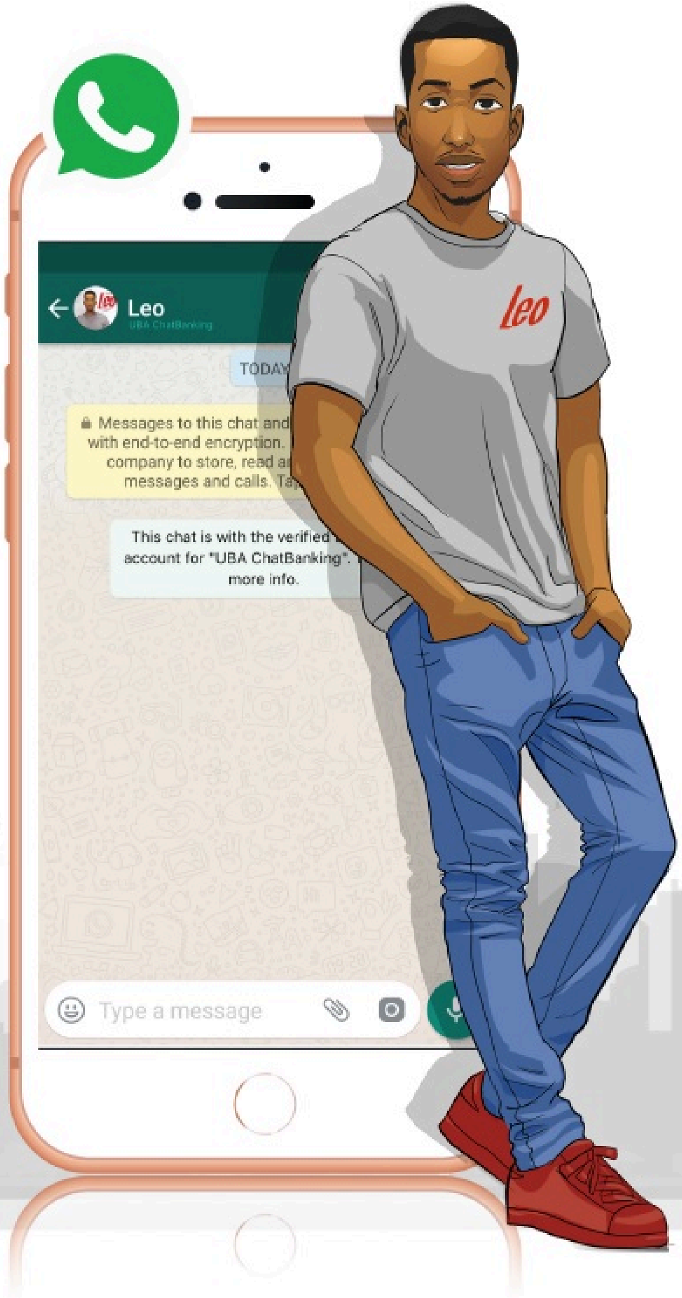

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A PRISM OUTLOOK

Global

- We expect global inflation to continue to ease towards the monetary targets in most advanced economies. This could prompt central banks to commence interest rates normalization in H2'24.

- According to the Economic Intelligence Unit (EIU), supply chain efficiency and softened demand are predicted to lead to a decrease in average inflation in developed economies from an estimated 4.5% in 2023 to 2.4% in 2024.

- However, upside risks such as disruptions in the Red Sea affecting global shipping costs and a potential escalation of the Israel-Hamas conflict could significantly impact global commodity prices.

- Already, oil prices are on a bullish run crossing $80 per barrel (pb) for the first time since the beginning of 2024 supported by rising concerns over global oil supplies following the tensions in the Middle East, Russia-Ukraine, decline in oil production levels in the US due to extreme cold weather. Against this backdrop, we expect oil prices to remain elevated in the near term.

Domestic

- On the domestic front, higher oil prices coupled with the recovery in oil production levels (up 7.58% to 1.42mbpd in December 2023) will bolster export earnings.

- In turn, external reserves, which already gained 0.64% in one week, could be boosted further. The accretion of the external reserves could increase the CBN's ability to support the naira, thus slowing down the pace of the naira depreciation (currently trading at N1,420/$ at the parallel market).

- Meanwhile, the weak naira coupled with a substantial 39% year-on-year increase in money supply, and elevated energy costs will intensify the cost pressures. This would reflect in January's inflation numbers.