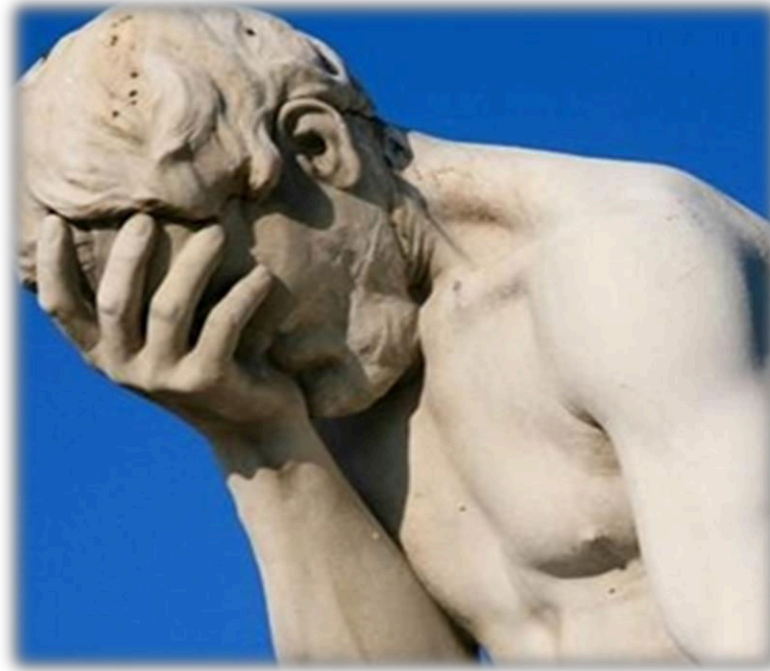


# *Election 2019*



# *The Political Anti-Climax*

Presented by Bismarck Rewane  
CEO, Financial Derivatives Company Ltd.  
February 6<sup>th</sup>, 2019

*"Don't boo...just vote"*



*"Dummies can win if you don't vote"*

*"Turnout is everything"*



# Outline

*Highlights*



*Stock Market Review*

*Global Developments*



*Policy and Politics*

*Domestic Economic  
Performance*



*February Outlook*



# Highlights

# So Far in February

## Bright Side

- External reserves flat at \$43bn
- US Fed Reserve keeps interest rates unchanged
- Inflation to fall to 11.35%
- Stock market gains 1% in the last 5 days, after a correction



## Dark Side

- Naira falls to N361/\$
- Revenue decline at FMCGs
- FPI falls by 25%
- Increased shale production is negative for oil prices



# January Highlights – Post-Christmas blues

- PMI for January down 14% to 51.5 from 60.2 in December
- A forward indicator pointing towards weaker growth in Q1 2019
- IMF revises 2019 growth for Nigeria down to 2% from 2.3%
- On weaker oil prices and production challenges
- January oil production up marginally to 1.75mbpd
- In line with the reduced OPEC quota
- Total-Elf started producing at the Egina field peak at 200,000bpd
- Nigeria's score on the corruption index remains unchanged at 27/100 in 2014 and 2018

# January Highlights – Post-Christmas Blues

- Average on grid output in January fell to 3,595MW from 4,092MW in December
- Unemployment in Q3 up to 23.1%
- Broad money supply M2 expanded at 6.08% (annualized) to N25.46trn
- Credit to the private sector grew by a tepid 3.54%
- The revenue shared by the states fell 20.1% to N649.2bn in January

# January Highlights – Post-Christmas Blues

- CBN reverts to stabilization securities to reinforce M2 tightening again
- Inflation increased for the second month in December to 11.44%, reigniting fears of a trend of rising prices
- Banking system liquidity down in January to N32bn long
- CBN preemptively increased forex intervention by 15.8% to \$972mn
- External reserves were flat at \$43bn



# January Highlights – Post-Christmas Blues

- The stock market traded flat at the 30,000 resistance level
- Supermarket traffic was much lower in January
- Retail inventory levels fell sharply to approx 5 weeks stock



The beer market showed the first sign of growth in December after many months of broad decline in all segments

- Carbonated soft drinks demand remained weak, aggregate volume down
- Beer prices have rolled back to pre-excise duty levels
- Malt market yet to recover as consumers reduce sugar-intense drinks

# *Global Developments*



# New World Bank President

- Trump to name David Malpass as new President of the IBRD (World Bank)
  - Currently serves as Under Secretary of State in Treasury Department
  - Ex Bear Stearns chief economist
  - Extremely critical of the World Bank
  - Likely to have an anti-globalization attitude

# US Fed Leaves Rates Unchanged

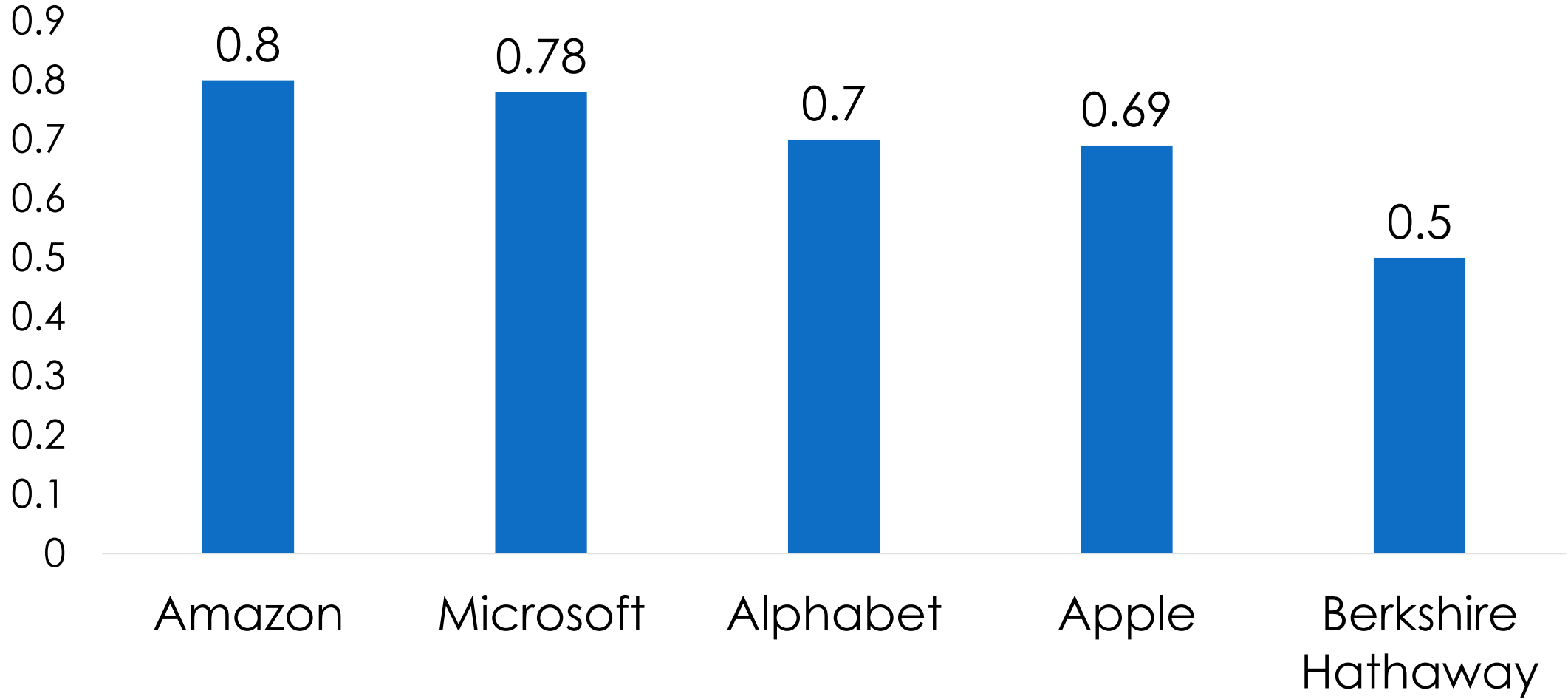
- Rates left unchanged at 2.25%-2.5% pa
- Signals slow down in pace of rate hikes in 2019
- Concerned about the implications of slowdown in global growth on the US
- Committee remains optimistic about the economy in 2019
  - Subdued inflation, low unemployment rate
- Two rate hikes expected in 2019
- Emerging markets can now breathe a sigh of relief, or can they?

**“Case for raising rates has weakened somewhat”- Fed Chairman, Jerome Powell**

# World's Biggest Companies by Market Cap



\$trillion

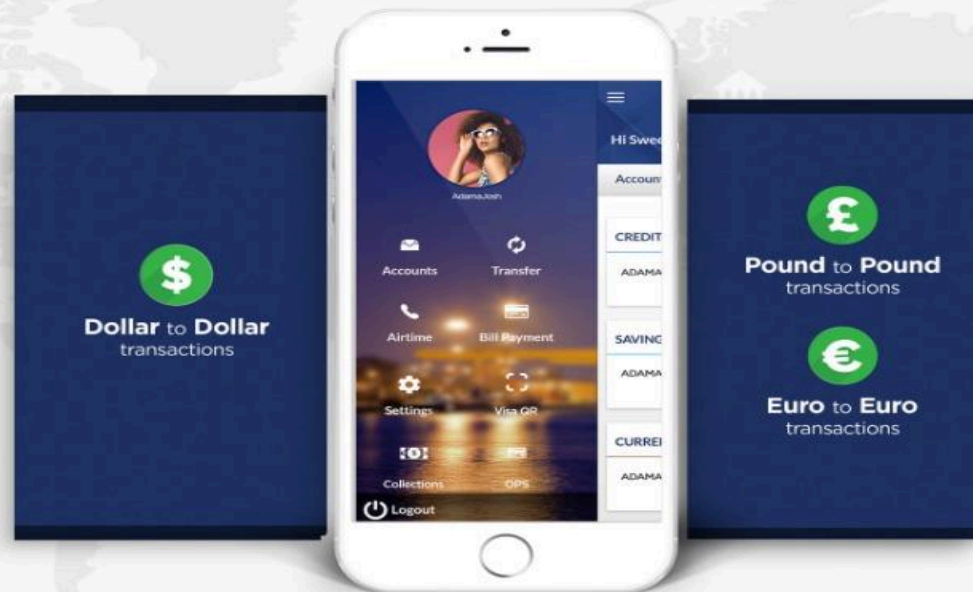


# World's Biggest Companies By Market Cap

- Fed FOMC to leave rates unchanged today
- The next hike in Q2 after inflation numbers are released
- Theresa May gets leeway to renegotiate Irish back stop
- Unlikely to be acceptable to Ireland and France
- March 29 deadline may be postponed

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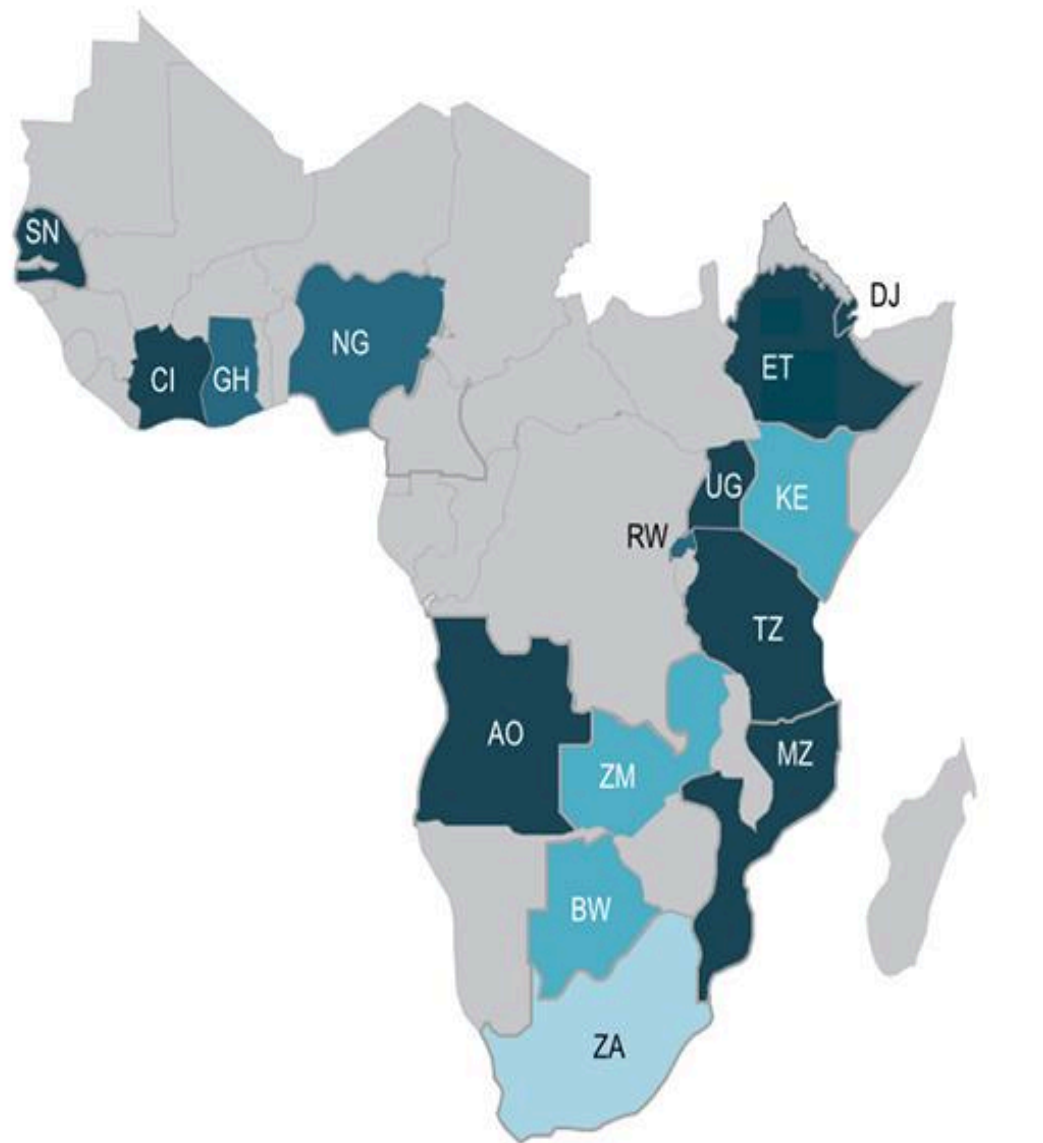
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# *Sub-Saharan Africa*

*Stability before Democracy  
The Credible Election Dilemma*





# Elections in Africa- An Inconvenient Ritual

## *Do Elections Scuttle Economies? Yes & No*

- Our research shows that elections help GDP, inflation and exchange rates
- When it is credible, transparent and power changes to the opposition
- Rancour free and seamless also - *Ghana and Senegal*

# Senegal vs Ghana



Indicators	Senegal			Ghana		
	Pre-election (2011)	Election (2012)	Post-election (2013)	Pre-election (2015)	Election (2016)	Post-election (2017)
GDP (%)	1.46	5.12	2.82	3.8	3.7	8.5
Inflation (%)	3.40	1.42	0.71	17.2	17.5	12.4
Unemployment (%)	10.36	9.03	7.69	2.2	2.3	2.4
Misery Index	13.76	10.45	8.40	19.4	19.8	14.8
MPR (%)	4.25	4	3.75	26	25.5	20
External Reserves (\$'bn)	1.95	2.08	2.25	5.9	6.2	7.6
Exchange Rate (local currency/\$)	471.87	510.53	494.04	3.8	4.3	4.5
Ratings – Moody's (2017)	Ba3			B3		
Next Election	2019			2020		

- Exchange rate depreciates even if elections are peaceful
- Uncertainty premium eats into investment flows
- Investors do not return to a market for at least 3 months post election

# Elections in Africa- An Inconvenient Ritual

- When a younger candidate with energy wins, economies also recover
- Expect elections in Senegal in 2019 to be rancour free
  - Likely to be a slam dunk for the incumbent
- If it is a bitter struggle with violence and near violence, economic performance declines even if opposition wins –

# Ivory Coast

Indicators	Pre-Election (2014)	Election (2015)	Post-Election (2016)
GDP (%)	8.8	8.8	8.3
Inflation (%)	0.5	1.2	0.72
Unemployment (%)	2.7	2.7	2.6
MPR (%)	3.5	3.5	4.5
External Reserves (\$'bn)	4.5	4.8	4.3
Exchange Rate (XOF/\$)	541.8	613.9	628.9
Ratings – Moody's (2017)	Ba3		
Next Election	2020		

- Election fight was bitter
- Led to a civil war
- Gbagbo lost and arrested
- Released by ICC in the Hague
- Returning for another election battle

# Angola vs Zimbabwe



Indicators	Angola			Zimbabwe		
	Pre-election (2016)	Last Election (2017)	Post-election (2018)	Pre-election (2017)	Election (2018)	Post-election (2019)
GDP (%)	-2.6	-2.5	0.7	3.4	3.5	4.2*
Inflation (%)	32.4	31.7	21.1	0.9	n/a	n/a
Unemployment (%)	7.72	8.17	20.0	5.16	n/a	n/a
MPR (%)	16.0	18.0	n/a	n/a	n/a	n/a
External Reserves (\$'bn)	24.4	18	n/a	0.4	0.43	0.45
Exchange Rate (/ \$)	165.9	165.8	n/a	n/a	n/a	n/a
Ratings – Moody's (2017)	B3					
Next Election	2022			2023		

- Both countries had forex liquidity crisis in 2017/18
- Both had elections in 2017/18

# DRC vs Kenya



Indicators	DRC			Kenya		
	Pre-election (2016)	Election (2017)	Post-election (2018)	Pre-election (2016)	Election (2017)	Post-election (2018)
GDP (%)	3.7	4.0	4.5*	5.9	4.9	5.9
Inflation (%)	41.5	27.7	n/a	6.3	8.0	4.7
Unemployment (%)	10.95	n/a	n/a	11.52	11.47	n/a
MPR (%)	20.0	14.0	n/a	10	10	9.0
External Reserves (\$'bn)	0.8	n/a	n/a	7.6	7.3	8.5
Exchange Rate (XOF/\$)	1,592	n/a	n/a	102.5	103.2	n/a
Ratings – Moody's (2017)	Caa2			B2		
Next Election	2022			2021		

- Elections in both countries were contentious
- All indicators were sensitive to election



2019

*The Political*

*Credibility Gap*

*Process More Important than*

*Outcome*



# Brinkmanship or Leadership

## General Martin Dempsey

- Brinkmanship- the art of pushing a confrontation to the limit of safety to force a desired outcome
- Leadership- the art of motivating people to act toward achieving common goals
- One is persuasive, the other coercive
- One feels like success, the other like failure
- The most effective leaders use their influence much more than their authority
- The goal is to solve problems so they stay solved

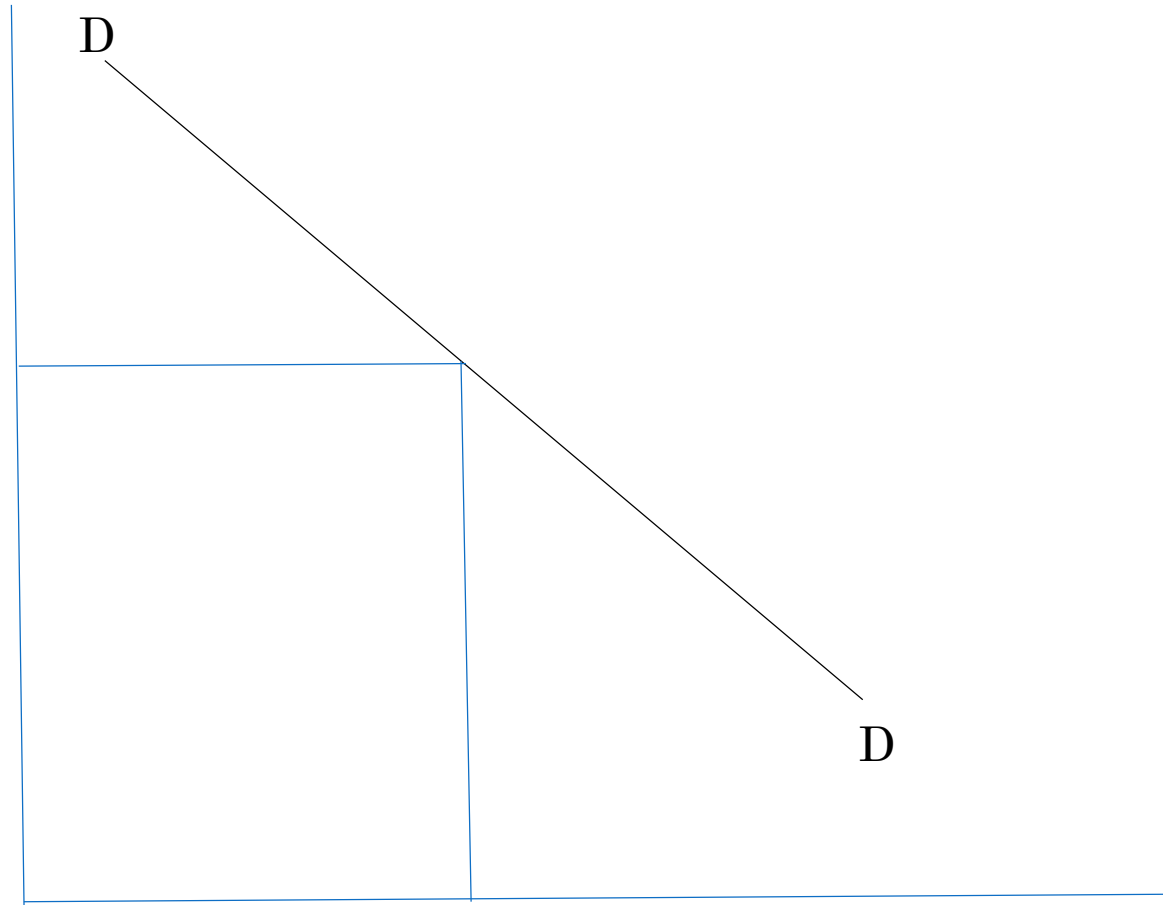


# Brinkmanship or Leadership

- Brinkmanship ends up in SAD
- Leadership results in MAD
- So in the election ahead you should differentiate between a leader and a brinkman
- Remember Fareed said
  - For Nigeria: stop doing the dumb things
    - Start doing the smart things
    - Then do the modern things

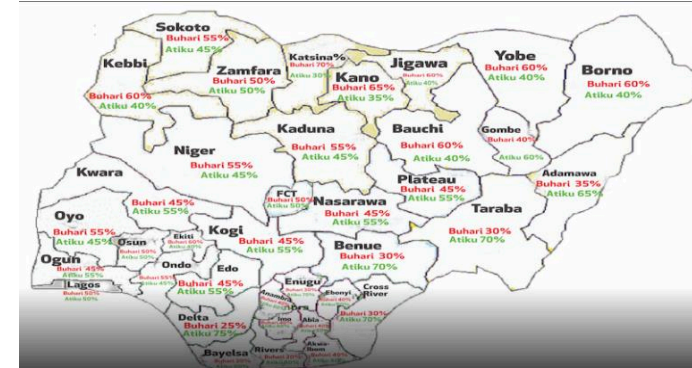
# The Political Credibility Gap

Buhari



Atiku

# Different Strokes for Different Folks



*Eurasia: too close to call*

**How Nigerians are likely to vote**



*EIU: 'Atiku Abubakar will win the presidency'*

*ThisDay: tight and tough contest between PDP and APC*

*Williams Associates: Atiku Abubakar will win the election*

# Political-Domestic

- Recent developments have raised eyebrows of analysts
- Before the judicial distractions, the election was a close call
- The campaigns have been less than inspiring compared to 2015
- Voter response has not been enthusiastic
- Citizen apathy and very low turn-out expected
- Widespread poverty is being exploited by incumbent governments

leading to

PVC for sale or hire

# Near Miss & Flash Points

- Nigeria escaped a slide into turmoil as VP survives helicopter crash in Kabba, Kogi state
- Eyebrows raised as to what happened
- Nigeria lucky for it could have been worse
- Conspiracy theory (motive + opportunity)
- 10 days to polls: anything is possible
- Be vigilant



# Likely outcomes

- Battle for 2023 is muddying 2019
- Elections will not be violence free
- Contained and managed skirmishes or widespread breakdown
- Incident reports and PVC not part of the law
- Judiciary in turmoil
- If not well managed, could slide into a deadlock and anarchy
- Most voters have decided on candidate or not interested
- Not a binary choice
- Many believe it will not be fair

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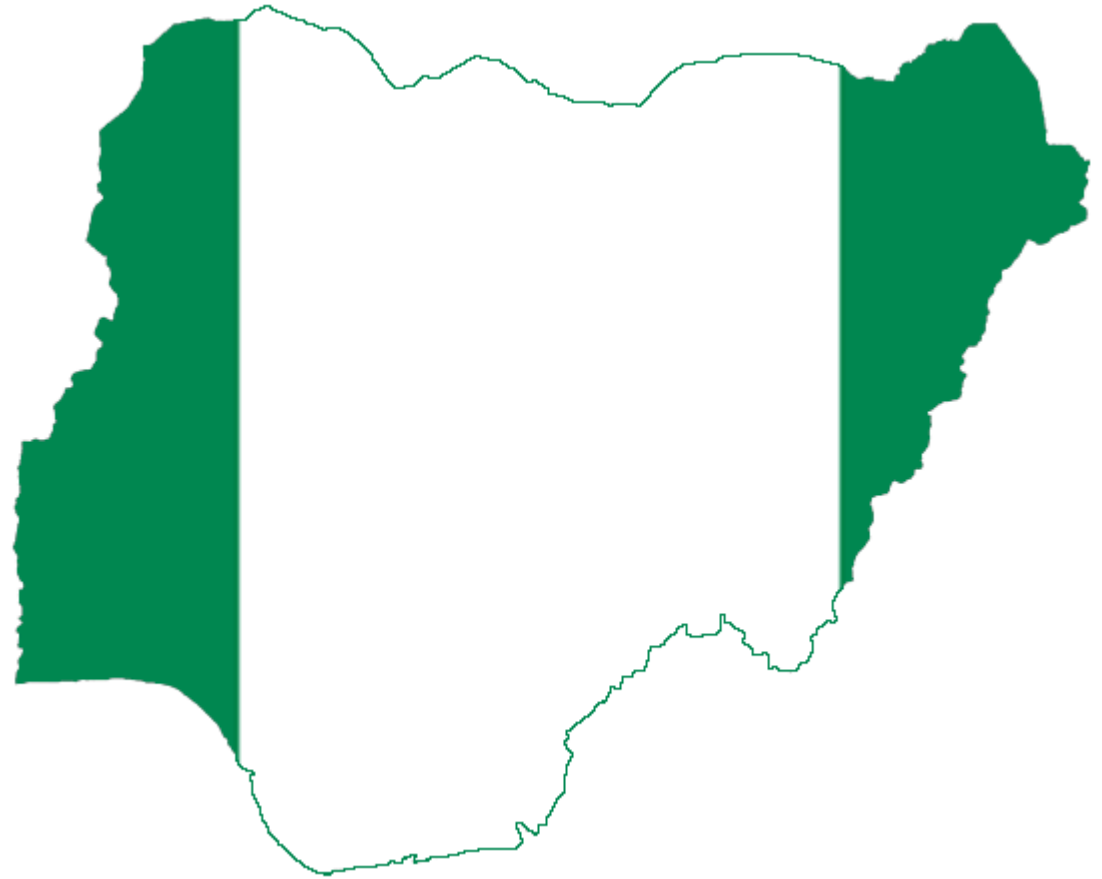


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*Domestic  
Economic  
Performance*





# Economic Indicators- Output

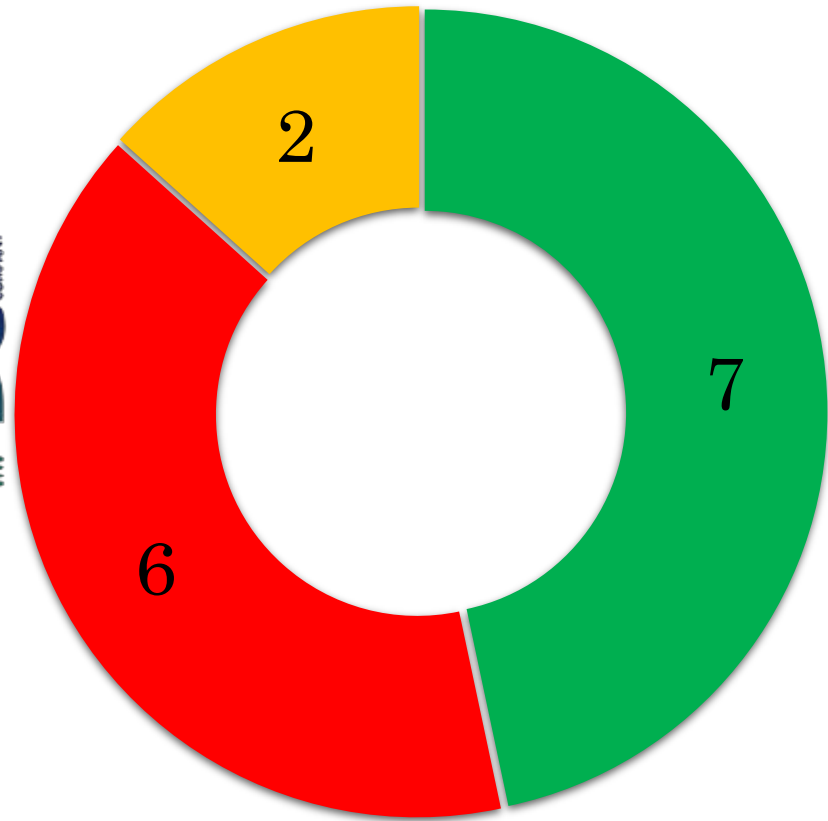
Leading Economic Indicator	December	January	% Change	Comments	February's Forecast*
<b>GDP Growth Rate (%)</b>	1.5 (Q2'18)	1.81 (Q3'18)	0.31	<ul style="list-style-type: none"> <li>Tepid and fragile growth</li> <li>Remains below population growth of 2.6%</li> </ul>	2.2-2.4 (Q4'18)
<b>Oil Production (mbpd)</b>	1.74 (Nov)	1.75 (Dec)	0.57	<ul style="list-style-type: none"> <li>Nigeria to cut oil production by 53,000mbpd</li> <li>Negative for oil revenue</li> </ul>	1.65-1.70 (Jan)
<b>Power (MW; avg)</b>	4,089	3,953	-3.33	Will cripple activities across various sectors	3,900-4,000
<b>PMI</b>	FBN: 58.9 (Nov'18) CBN: 57.9	FBN: 60.2 (Dec'18) CBN: 61.1	2.21 5.53	Likely to fall in January owing to lull in economic activities	56-58 55-58
<b>Inflation (%)</b>	11.28 (November)	11.44 (December)	0.16	Minimum wage review could lead to a spike in headline inflation	11.35 (Jan)
<b>Oil Price (\$pb; avg)</b>	56.96	60.02	5.37	<ul style="list-style-type: none"> <li>US sanctions on Venezuela's state owned oil output could push prices up in the near term</li> <li>Positive for fiscal and external revenue</li> </ul>	60-62
<b>Natural Gas (\$/MMBtu; end)</b>	2.94	2.93	0.34	<ul style="list-style-type: none"> <li>Gas accounts for 12.6% of total exports</li> <li>Would reduce Nigeria's export revenue</li> </ul>	2.9-3.0

# Economic Indicators- Market

34

Leading Economic Indicator	December	January	% Change	Comments	February's Forecast*
M2 growth (%)	6.08 (Nov.)	12.17 (Dec.)	0.67	0.31% lower than CBN's target of 12.48%	12.4
Average Opening Position (N'bn)	136.05	34.44	-74.69	Tight naira liquidity as CBN mitigates demand pressures on the naira through frequent OMO sales	25-30
T Bills (91 days) (%) – Primary	10.90	11.10	+0.20	Will increase government debt service	11.0-11.2
T Bills (182 days) (%) – Primary	13.10	13.10	-		13.1-13.2
Average NIBOR (%) (OBB, O/N)	24.15	19.85	-4.30	Despite the liquidity squeeze witnessed within the banking system	20-22
Average Lending Rate (%) (pa)	25.00	22.00	-3.00	Expected to increase if liquidity within the banking system remains tight	24-26
External Reserves (\$bn) (end)	43.12	43.16	0.09	Still under pressure as CBN fights to defend the naira	42-43
Exchange Rate (N/\$; month-end)	Parallel: 363 IFEM:307 IEFX:364	Parallel : 363 IFEM: 306.75 IEFX: 363.34	- 0.08 0.18	Investors would prefer to go long on the dollar until the elections are over	Parallel: 365-367 IFEM: 306-307 IEFX: 363-364
Stock Market Cap (N'trn)	11.72	11.62	-0.85	<ul style="list-style-type: none"> <li>Investors taking position in anticipation of FY'18 corporate earnings</li> </ul>	11.5-11.8

# Mixed Bag of Economic Indicators






■ Positive ■ Negative ■ Neutral

## Impact

- Liquidity squeeze within the banking system
- As CBN mops up excess liquidity using OMO sales
- Vulnerabilities are rising
- Risks are elevated

# GDP Outlook - Economic Argument

## Theory

- Savings = Investment
  - \*you invest what you save
- Increased investment leads to increased aggregate demand and GDP
- Investment  = Aggregate demand  = GDP 

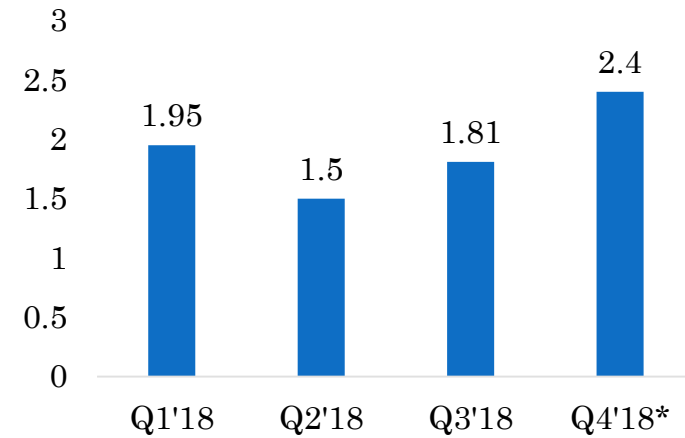
## Facts

- Investment projected to increase by 5.98% to \$63.8bn in 2019



# GDP Outlook – 2.2%-2.4% (Q4'18)

- Growth to remain below population growth rate
- Projection: 2.2%-2.4% in Q4
- Driven by improved performance in output indicators
- PMI remained in the expansion territory within the quarter
- Average power output up 10% to 3,959MWh/hour
- Sectors driving growth will remain:
  - Services
  - Agriculture

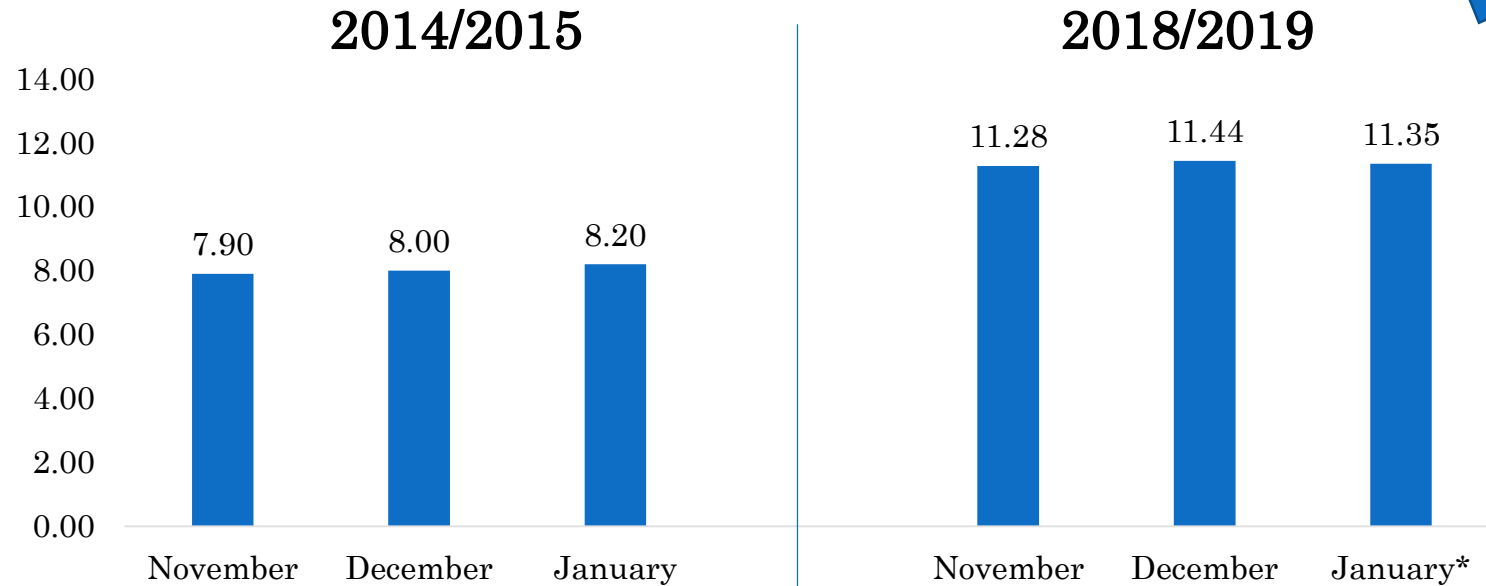


Source: NBS, FDC Think Tank

# Is Inflation Election Sensitive?

Depends on level of election spending

Source: NBS, FDC Think Tank



- Free cash flow, high election spending

- First post-recession election
- Lull in election spending



# Inflation to fall to 11.35%

- Inflation projected to decline to 11.35% in January
- Driven by slow-down in consumer spending



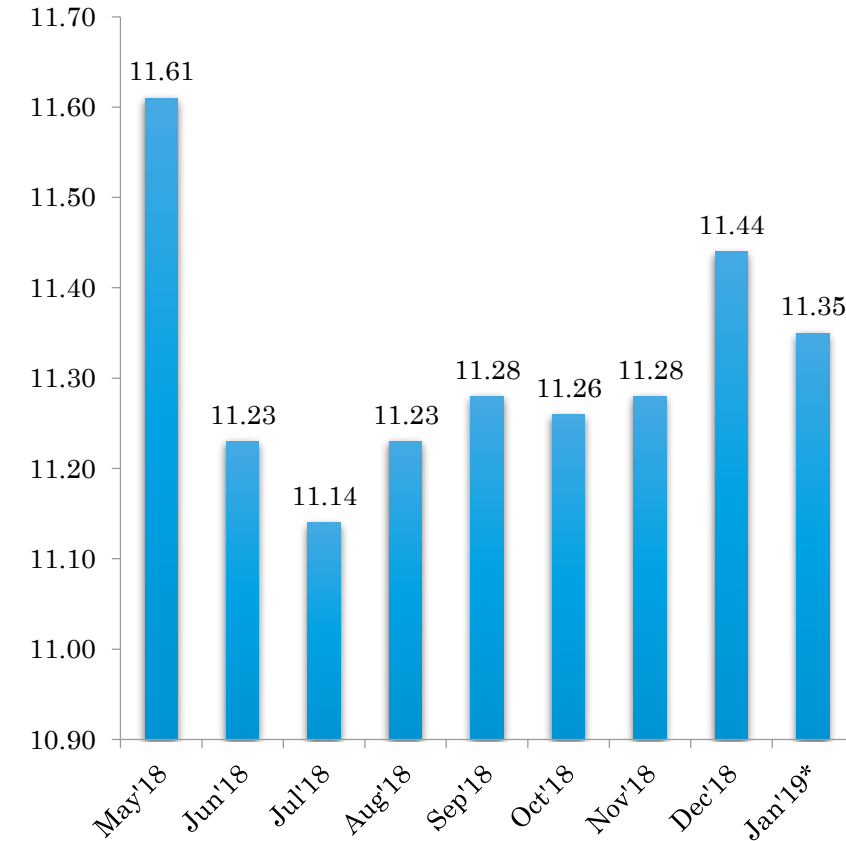
## • Risks to forecast:

- Securitization of contractual debt and subsidies

## • Likely strategy by CBN to curb inflation:

- Increased OMO and T/Bills sales
- Delay in minimum wage impact

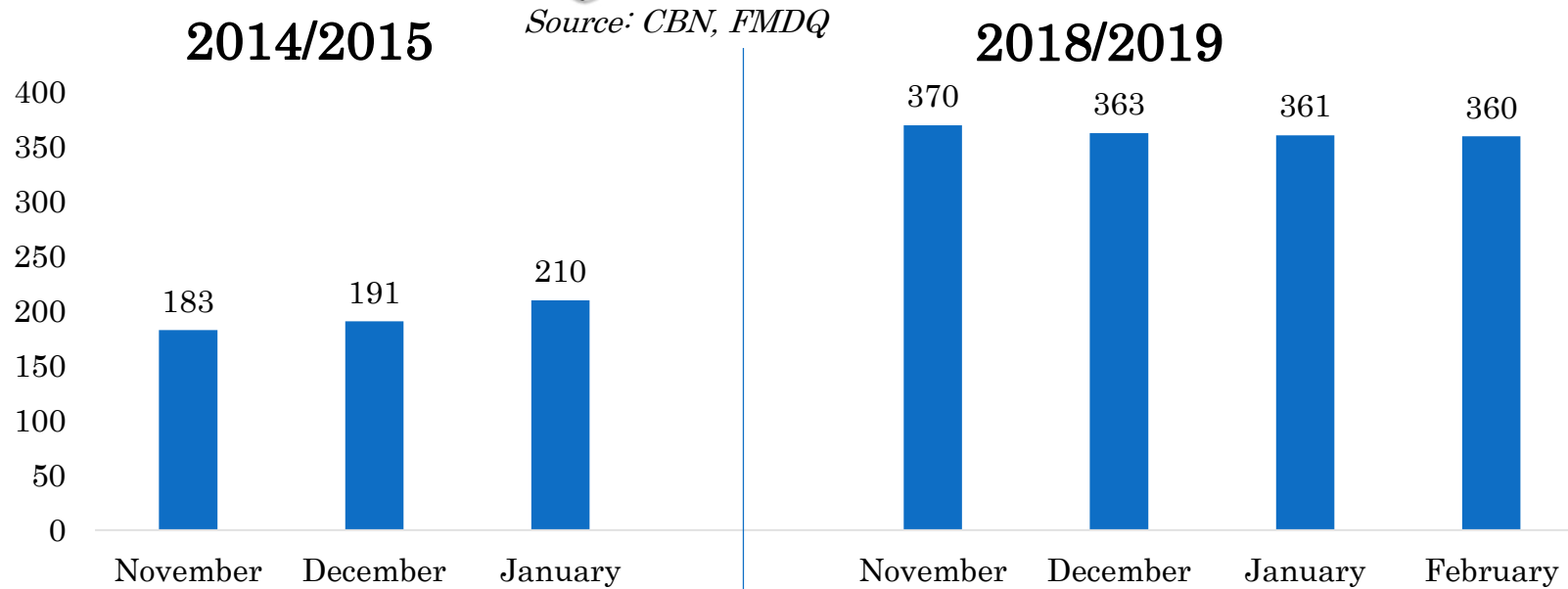
Inflation (%)



Source: NBS, FDC Think Tank

**“Outlook for inflation in H1’19 is mixed”- CBN Governor, Godwin Emefiele**

# Naira Gains 1% in 7 Days-Contrived or for Real?



Exchange rate (N/\$) (Parallel; month-end)

- No IEFX window
- No CBN intervention
- External reserves were approx. \$34bn

- IEFX window eases pressure on parallel market
- Regular CBN intervention
- External reserves now at \$43bn



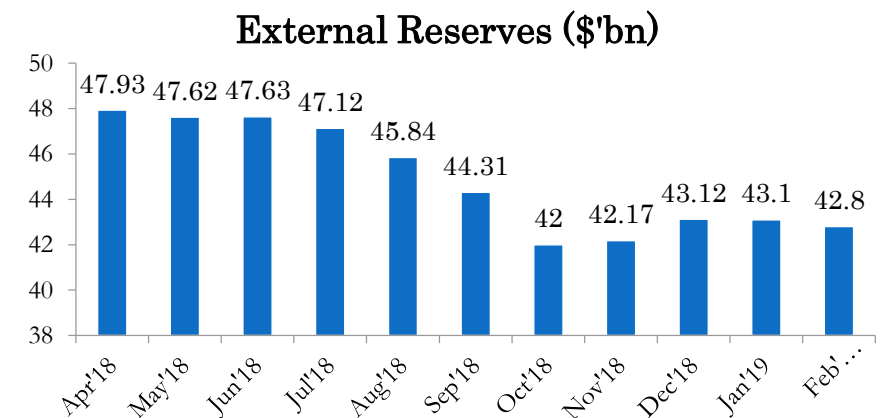
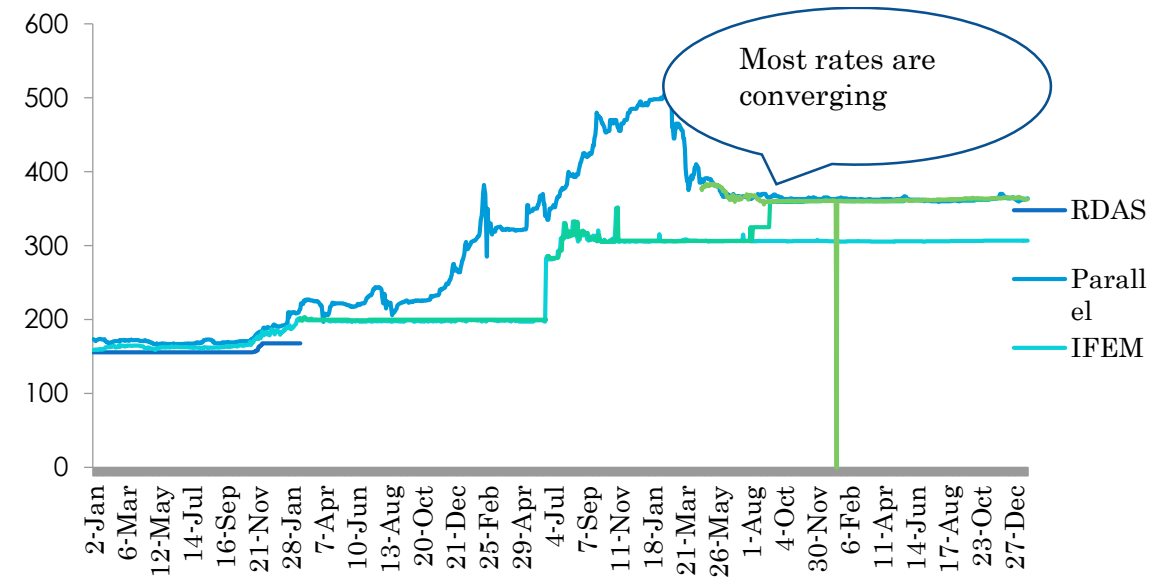


# Exchange Rate Outlook

- Exchange rate to remain stable in February/ March despite political risk premium
- CBN supporting the currency
- Demand pressures to increase
- Projection: N365-N370/\$- March/ April
- PPP value of the naira is currently at N345.88/\$
- Effective exchange rate is N356- N358/\$
- REER is trending towards N390/\$
- Time to buy call option at N375/N380

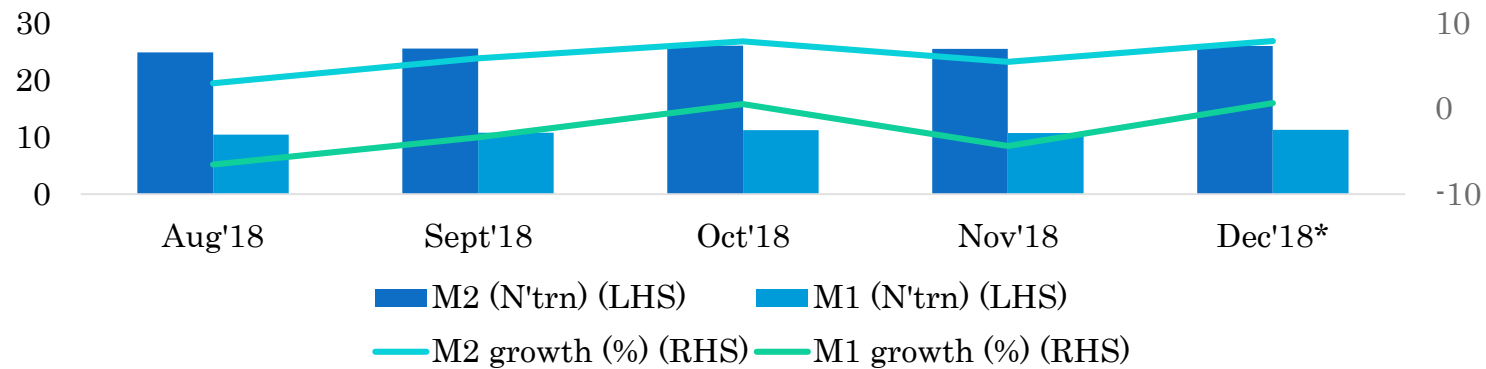
Source: FMDQ, FDC Think Tank

41



# Money Supply: Minimum Wage Looms

Source: CBN, FDC Think Tank



- M2 up 6.08% (annualized) to N25.46trn in November
- Still below CBN's target of 10.48% in 2018
- Likely drivers of M2 growth: minimum wage review and election spending
- Implication: mounts inflationary pressures, consumers could come under increased pressure



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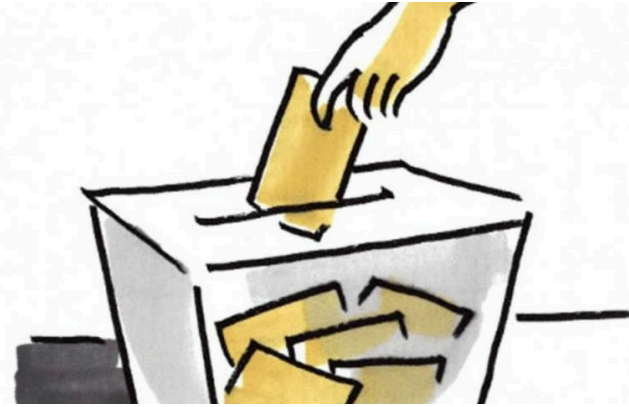
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# *Market Proxies*

# Business Proxies: Scenarios



*Smooth elections*



*Election deadlock*



**PMI**

Activities within the manufacturing sector remains at current levels

Activities within the manufacturing sector is negatively affected; PMI could crash to 40

**Rig count**

Investor confidence boosted and increase number of operational rigs

Investment in oil sector drops sharply; militancy attacks in Niger Delta could reduce operational rigs

**Vacancy factor**

Expatriate demand for housing units could increase on increased investor confidence

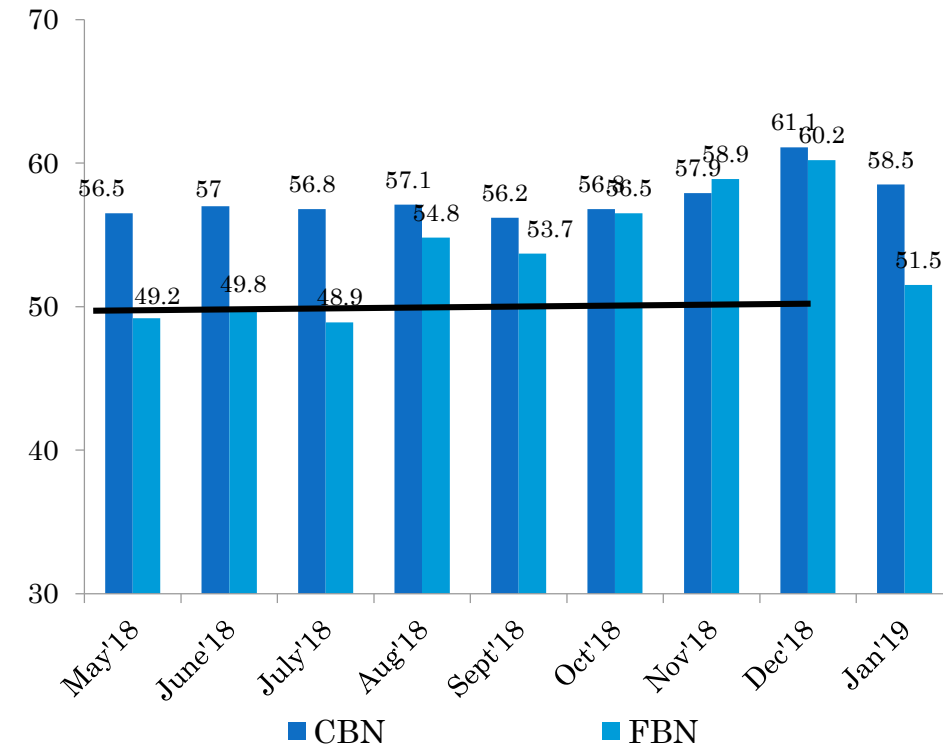
Exchange rate falls sharply and affects demand for luxury properties

# PMI Down- Seasonal or Fundamental?

- FBN: 60.2 → 51.5 (-14.45%)
- CBN: 61.1 → 58.5 (-4.26%)

January= lull in consumer spending

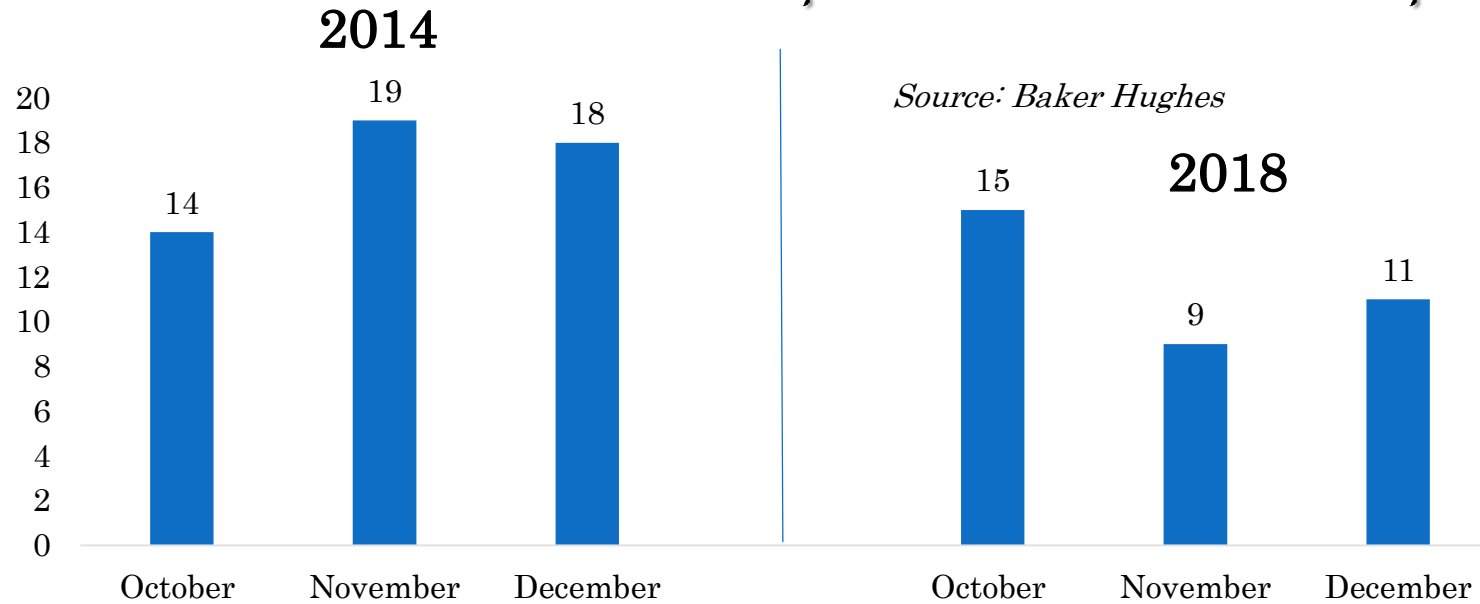
- Typically PMI climbs back in Feb/Mar
- Driven by increased trading activity, consumer confidence, and stable FX liquidity



Source: CBN, FBNQuest



# Rig Count: Do Elections Spook Oil Companies?



- Rig count in 2018/19 is 50% of level in 2014
- No cash call arrears in 2018
- No PIB or fiscal incentives
- Oil majors are election agnostic

# Ships Awaiting Berth: Is it Correlated to Forex Sold?

48

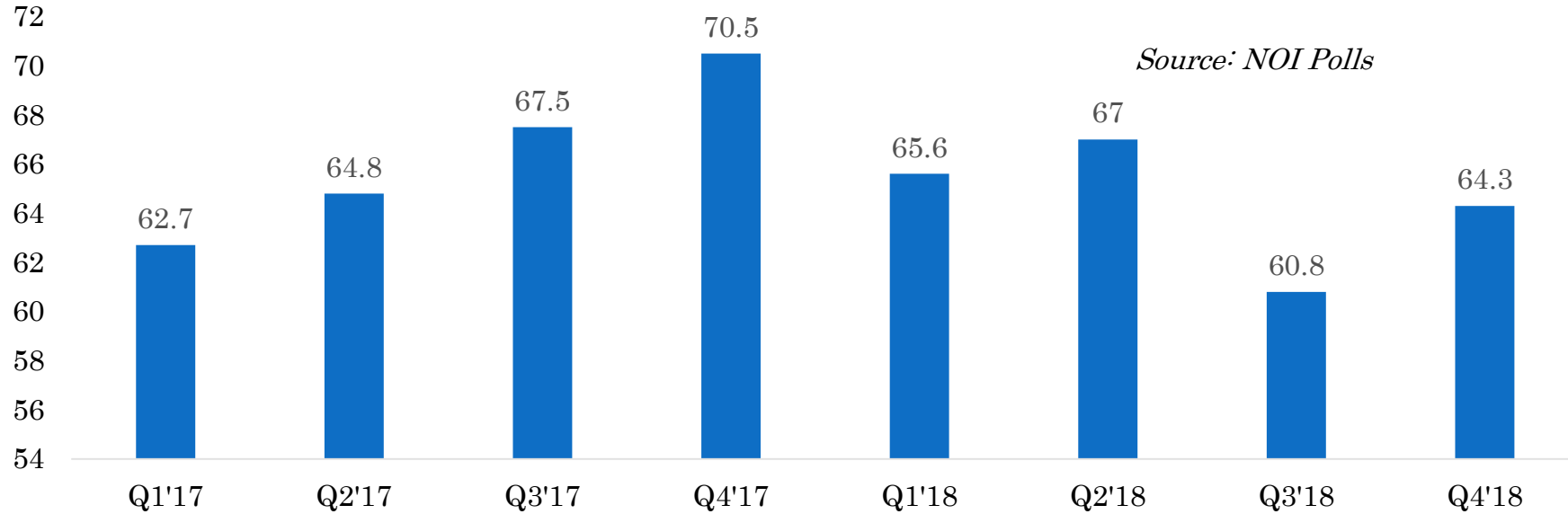
Ships awaiting berth (% change)	Total forex sold (% change)
18.52 (January) ↑	26.61 (October) ↓



- **Theory:** increased forex sold translates to increased letters of credit and ships awaiting berth
- **Evidence:** shows no correlation between forex sold and ships awaiting berth

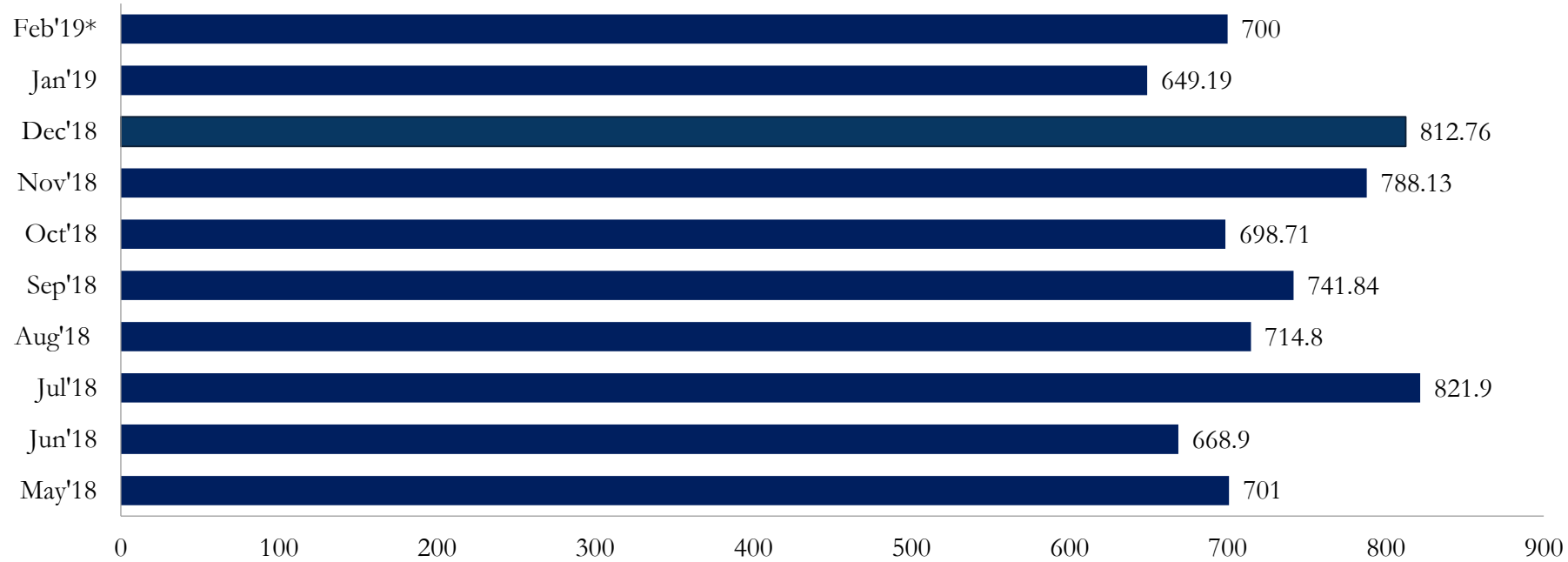


# Consumer Confidence Index Up



- Consumers are optimistic
- In a crisis of false expectations
- Increase in nominal wage but fall in real wage
- Labor productivity negative and wage increase will increase inflationary gap





# FAAC Down on Lower Oil Prices







- Disbursements fall to N649.19bn in January, 20% lower than N812.76bn in December
  - In line with the sharp decline in Brent prices in December
- Expected to remain around current levels (N650-N700bn) in the coming months

# E-payments Mostly Red in January- Brokitis

- **Volume of transactions** in Jan'19 relative to Dec'18

- Cheques  0.76%
- PoS  11.79%
- NIP  13.85%
- NEFT  42.66%

- **Value of transactions** in Jan'19 relative to Dec'18


- Cheques  37.38%
- PoS  18.03%
- NIP  3.34%
- NEFT  13.40%


*Source: Nibss*


- 2018 vs 2017:


- Total transaction volume  90%
- Total transaction value  32.6%


# Average Power Output

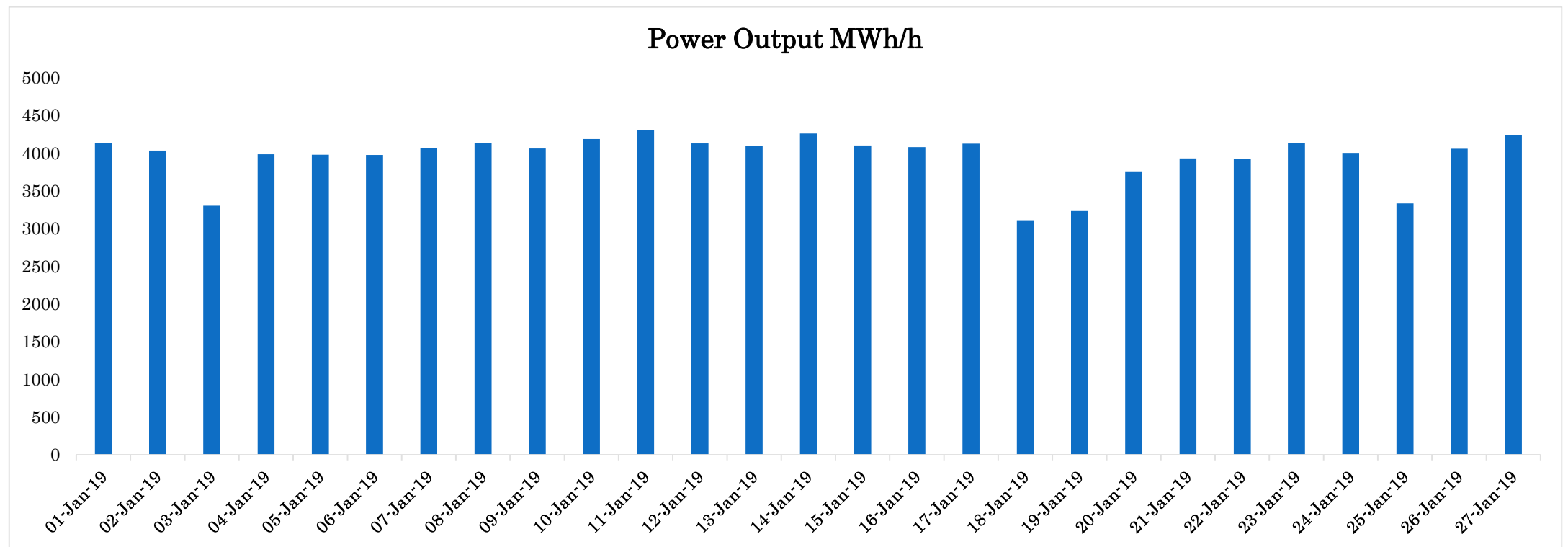
 **5104 MW**  
Peak Energy  
Generated

 **3939 MWh/h**  
Average Energy  
Generated

 **690.3 MMSCF/D**  
Average Gas  
Delivered to Plants

 **0**  
Total Grid  
Collapses

 **2778 MW**  
Average  
Constrained  
Energy



Source: Lavayo Advisors

# Power Sector News

- Discos' operations threatened as Tesla eyes Nigeria's power market
- Nigerian government approves 108 firms to supply meters
- FG bans Discos' connection of affluent Nigerians to 33kv power lines
- Shell, Total cut gas supply to GenCos over rising debts
- Consumers' debts hit N62.2bn in 3 months-NERC



# Impact Analysis

- Slowdown in performance of proxies in January
- Reflective of a lull in economic activities post-Christmas
- Expected to pick up after the election
- Supported by increased government spending



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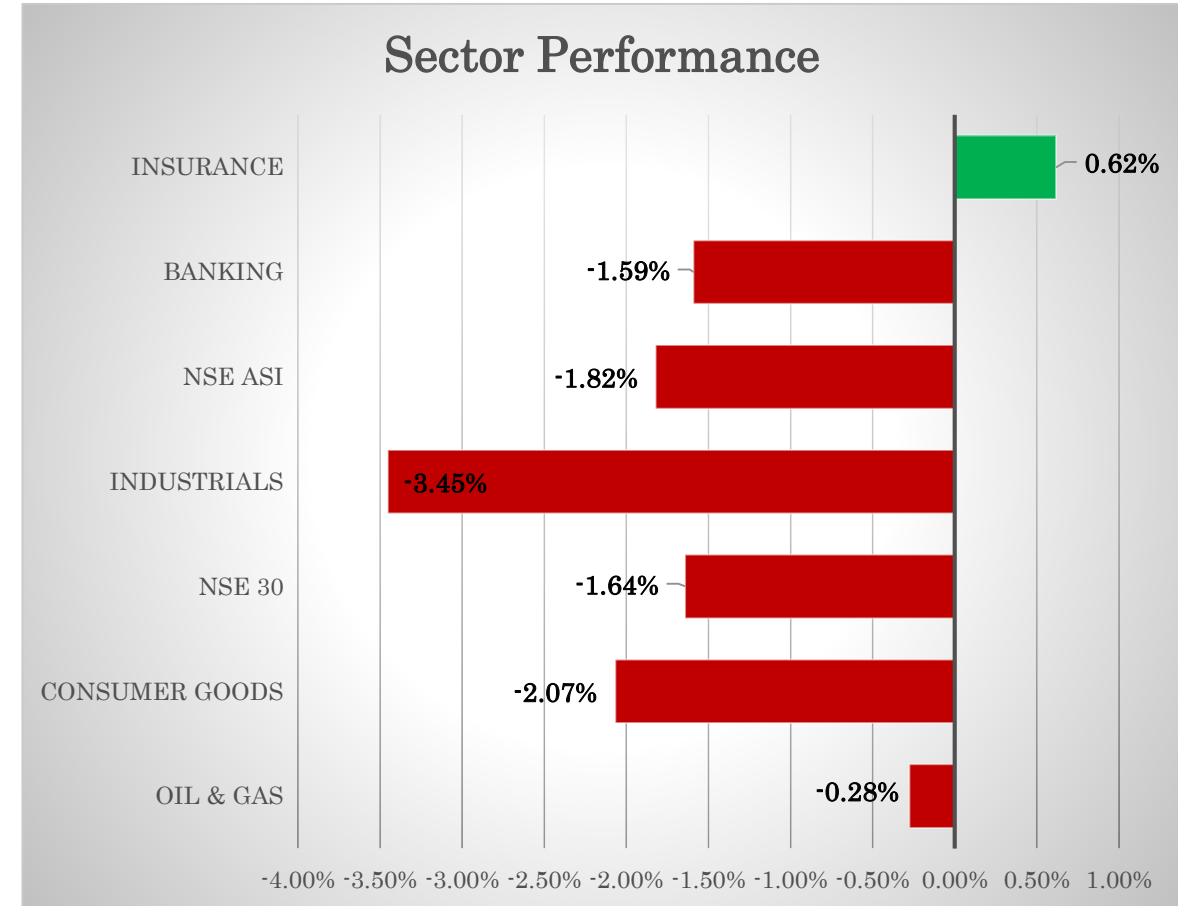
# Stock Market Review




# Market Review – in the Last Week





- Negative sentiment persists
- NSE ASI  1.82% to 30,773.57
- All sub-indices were negative except insurance
- Banking stocks recorded the highest volume traded
  - 65% of total volume traded



# Market Review - January




- International investors withdrawal  48% to N642.65bn in 2018
  - Driven by political uncertainty
  - Increasing rates in developed markets
- 4 companies delisted and 1 company listed on the NSE in 2018
- Great Nigeria Insurance Plc (GNI) voluntarily delists from NSE in January 2019
- Launch of two new indices
  - NSE-Afrinvest Banking Value Index (NSE-Afr BVI)
  - NSE-Afrinvest High Dividend Yield Index (NSE-Afr HDYI)

# Nigerian Stock Market in January

- Market cap  0.8% to N11.63trn
- NSE ASI  0.8% to 31,178.71
- 11 days positive, 9 days negative
- P/E ratio down 3.9% to 9.05x



## Peer Comparison

Exchange	September Return	Driver
NSE ASI	 0.8%	<ul style="list-style-type: none"><li>• Heightened political uncertainty</li></ul>
JSE ASI	 1.95%	<ul style="list-style-type: none"><li>• Bargain hunting as the market recover from tough 2018</li><li>• Stronger rand</li><li>• Improves business and investors confidence</li></ul>
GSE ASI	 2.93%	<ul style="list-style-type: none"><li>• Preference for debt instruments<ul style="list-style-type: none"><li>• Due to rising bond yields</li></ul></li></ul>

# Nigerian Stock Market in January

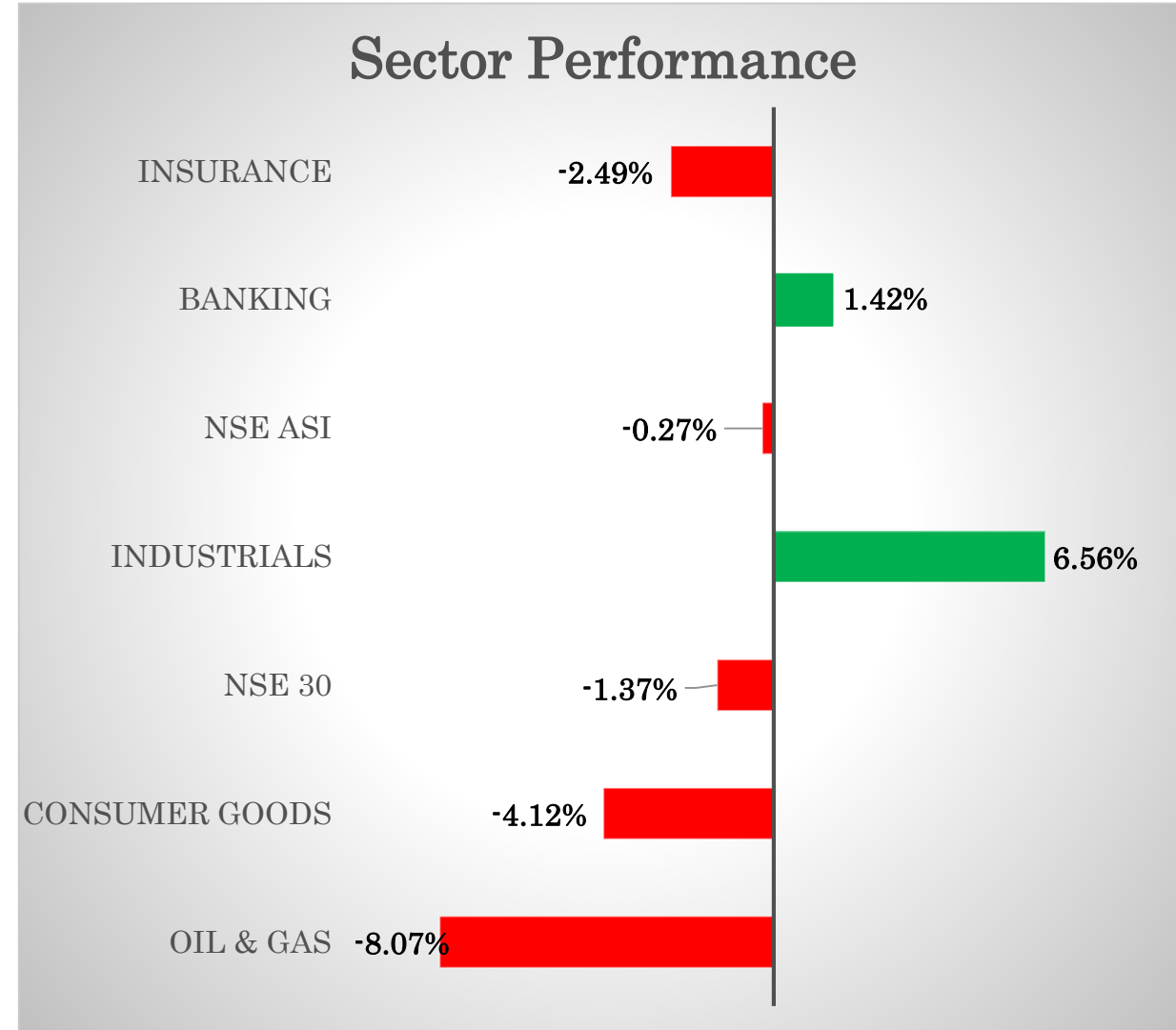


- Average volume traded ↓ 32% to 278mn units
- Average value of transaction ↓ 18.8% to N2.69bn
- Negative market breadth of 0.74x
  - 40 stocks gained
  - 74 stocks remained neutral
  - 54 stocks lost

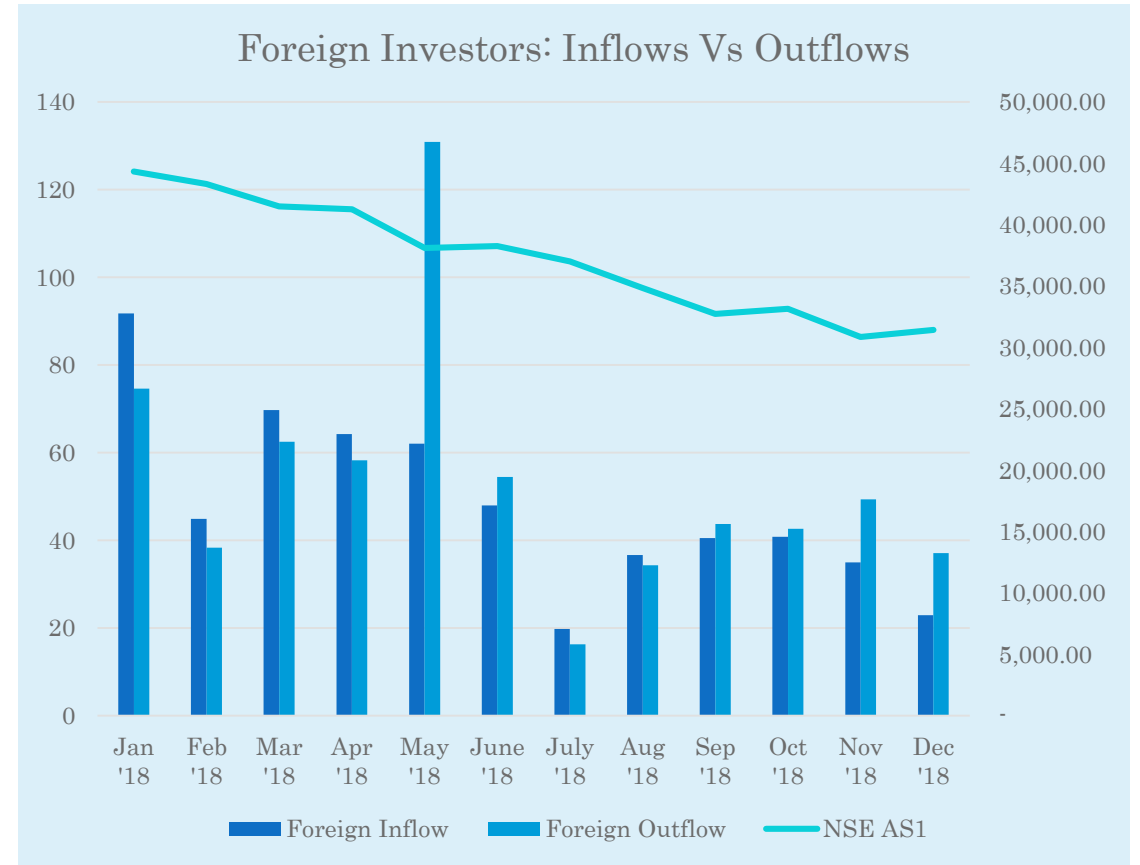
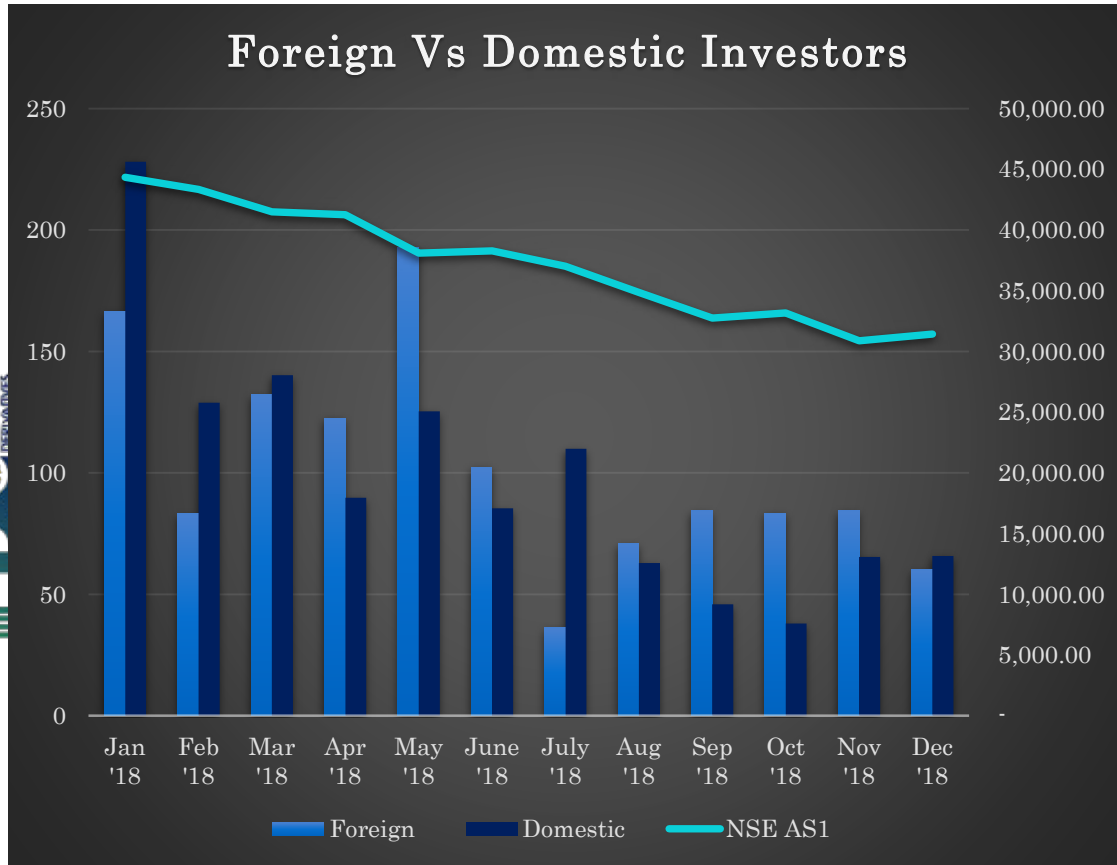


# Sectoral Indices

- All sectors closed negative except industrial
- Industrial performance driven by 2.27% gain in the most capitalized stock (Dangote Cement)
- Banking stocks recorded the highest volume traded
  - 65% of total volume traded



# Foreign Vs Domestic Investors



- Market dominated by foreign investors
- Outflow increased relatively to inflows from May, 2018

# Market in the Last Election Year (2015)

- Major withdrawal was in Jan '15
- Gradual increase from Feb '15 through election in March '15
  - Driven by bargain hunters
- Post election rally in April '15 as depicted by the steep slope

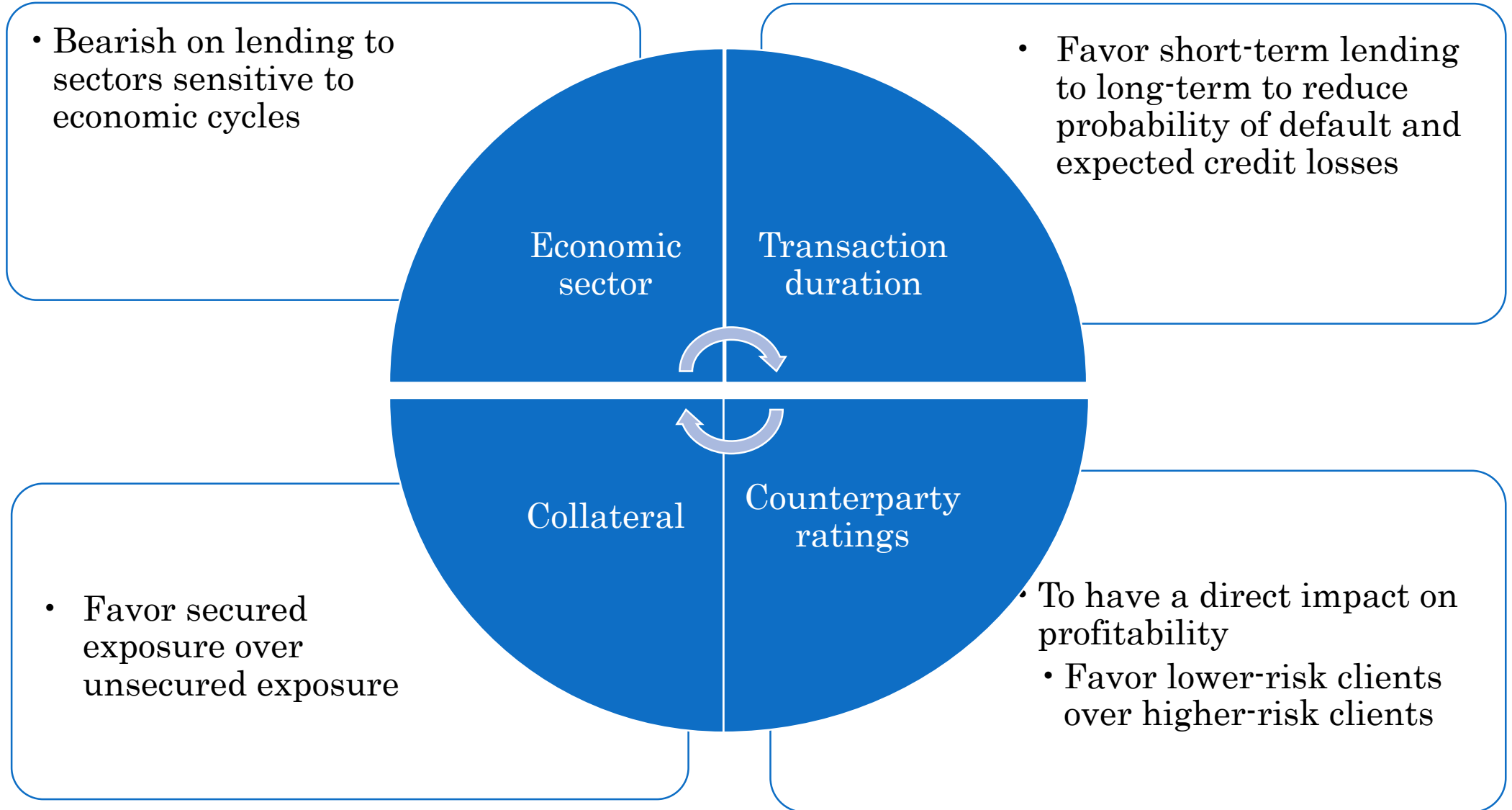


# IFRS 9 – Implication for Banks

- Provision level to significantly increase
- Further equity issuance may be needed
  - Resulting from estimating and booking an upfront, forward-looking expected loss over the life of the financial facility
- Need to reclassify assets and reconcile with IAS
  - Cash flow and business model test
  - Identify products to be considered out of scope
- Stricter scrutiny on AML rules and PEPs
  - monitor for ongoing credit-quality deterioration



# Bank Portfolio Strategy



# Market Drivers

- New Listings
  - Drive interest and activity in the local bourse
  - Right issues – more than the 3 (May & Baker, Lafarge and Mutual Benefits) listed in 2018
  - IPO – more than 1 (Skyway Aviation Handling Company Plc) in 2018
- Corporate Earnings
  - Strong investor reaction to positive corporate earnings
- Post-election Stability
  - Increase foreign investors participation in the local bourse
- Sustained improvement in macroeconomic indicators

# MTN Resolves Conflict with CBN

- Resolution likely result in listing on the local bourse
- Launch of mobile payment system
- Increase market capitalization by approximately N2.trn
  - Significant change in market structure
    - Improve wider sector diversity
      - Currently 4 sectors (banking, consumer goods, industrial and oil & gas) 80% of market cap
    - Making MTN the 2nd most capitalized stock at 13% after Dangote Cement
    - Reducing Dangote Cement market capitalization to 26% from 30%

# Stock Performance from Mid Dec to Date



Top 5 Gainers			
Company	Price	Price @ 13 - Dec '18	% Change
C & I Leasing Plc	9.04	1.78	407.9%
Diamond Bank Plc	2.29	0.87	163.2%
Cement Cc. of North.Nig. Plc	24.00	15.70	52.9%
Royal Exchange Plc	0.27	0.20	35.0%
Unity Bank Plc	0.93	0.69	34.8%

Top 5 Decliners			
Company	Price	Price @ 13 - Dec '18	% Change
Resort Savings & Loans Plc	0.20	0.50	-60.0%
McNichols Plc	0.33	0.47	-29.8%
UPDC Real Estate Investment Trust	5.95	8.10	-26.5%
Glaxo Smithkline Consumer Nig. Plc	11.75	14.50	-19.0%
Access Bank Plc	6.05	7.45	-18.8%

# Top 5 Stock Picks



GTB

- Healthy financials
- Strong fundamentals
- Customer centric strategy
- Strong management
- Considerable upside due to increase in NII

Flour Mills

- Product diversification
- Import substitution
- Backward integration
- Improving economies of scale
- Strong fundamentals

Nigerian Breweries

- Market leadership
- Strong financials
- Attractive fundamentals
- Cost saving approach to business execution
- Market leadership

Fidson Nigeria

- Strong fundamentals
- New product line
- WHO approved ultra modern plant
- Acquired capacity to double profitability

Okomu Oil

- Obtain value from out-grower scheme
- Strong financials
- To benefit from government policy on importation

# Least Favourite Stocks

## Lafarge

- Low operating efficiency
- Weak fundamentals
- Stiff Competition

## Medview

- Not well positioned to take advantage of the open sky agreement
- Low up side potential
- Difficult operating environment

## Conoil

- Difficult operating environment
- Weak fundamentals

# Next 10 Days

- Bearish sentiment to continue till post election stability is established
- Investors to be meticulous in taking positions
  - Identify perceived undervalued stocks with sound fundamentals
- Corporate earnings release

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APPLICATIONS







# *Corporate Earnings*

# FMCG - Performance



	Flour Mills of Nigeria	Honeywell
<b>Revenue</b>	6% to N401bn	1% to N55.07bn
<b>PBT</b>	42% to N11.28bn	95% to N173mn
<b>Free Cashflow</b>	37% to N35.28bn	94% to N242mn
<b>EPS</b>	N2.02	N0.23
<b>PE</b>	9.2x	5.54x
<b>DY</b>	5.39%	4.8%

- Competitive operating environment
- Waning consumer demand
  - Increase in unemployment and underemployment
  - Declining purchasing power

# Brewery Industry

- The largest segment of the food & beverage industry
- 2nd largest beer market in Africa
- Evolved from a duopoly to an oligopolistic market structure with a strong multinational presence
- Competitive operating environment



# Corporate Earnings – Guinness H1 2019 Result



- Represents 1.3% of total market cap
- Leading player controls about 27% of market share
- Decline in revenue driven by underperformance of lager
  - Offsetting the 5% and 9% increase in Guinness and IPS brands respectively
- Increase in PBT driven by reduction in interest cost and forex loss
  - Due to repayment of USD denominated loan from right issue proceeds

	GUINNESS	
Revenue	↓	3.91% N67.79bn
Gross profit	↓	14.59% N20.49bn
Profit before Tax	↑	7.06% N3.79bn
Dividend Yield		20.70
P/E Ratio		2.59





*Aviation Update*  
*Nigerians not Fleeing in 2019*

# Election Patterns in Passenger Traffic: 2015 Vs 2019 <sup>78</sup>

- Semi-strong booking in Feb'19 compared to Feb'15
- Rotational expatriate traffic is much lower in 2019
  - Supported by a decline in rig count: Dec'14=18 vs Dec'18=11
- Investor traffic has also slowed in tandem with FPI flows

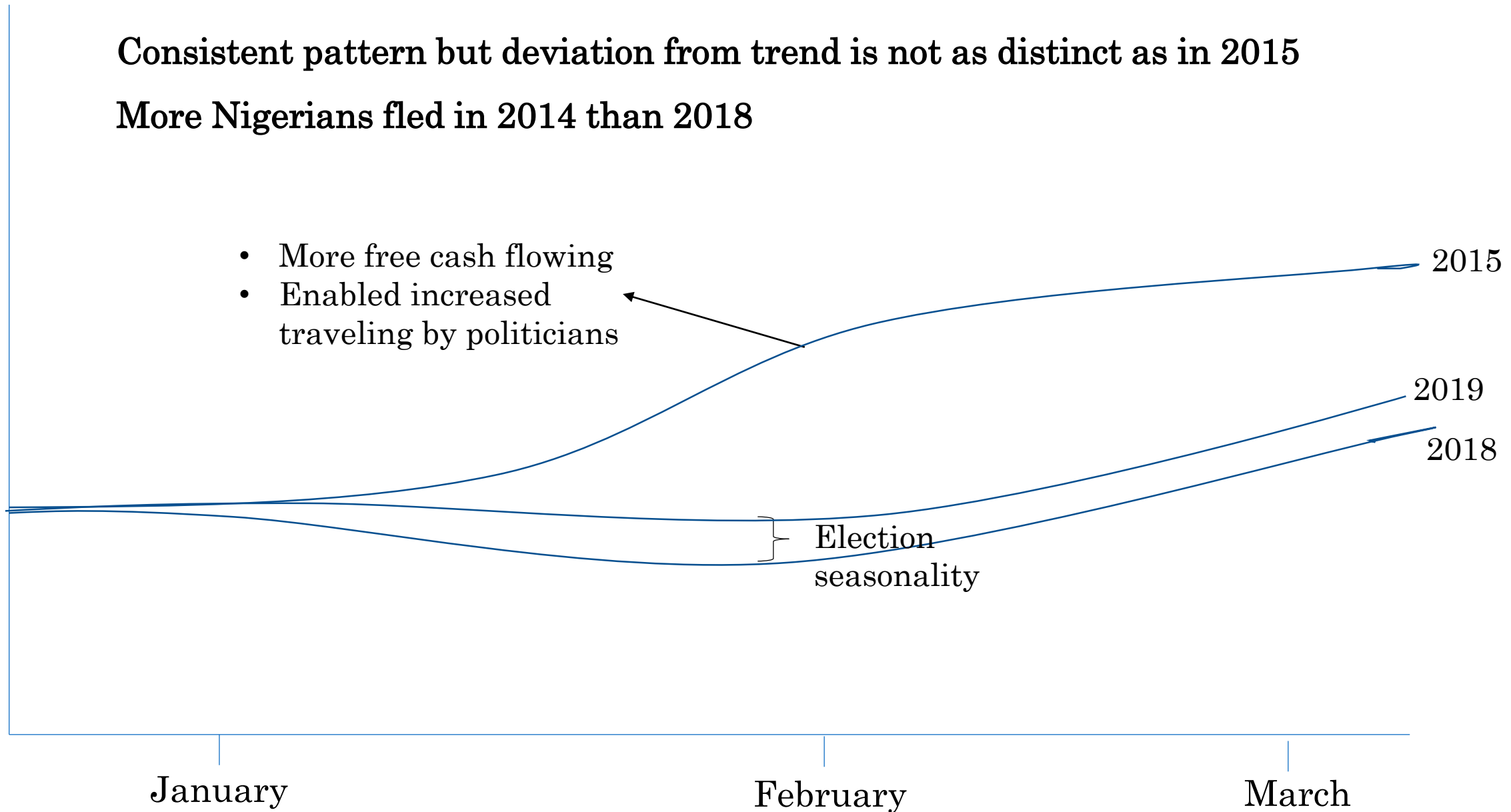


# Election Patterns in Passenger Traffic: 2015 Vs 2019 <sup>79</sup>

Consistent pattern but deviation from trend is not as distinct as in 2015

More Nigerians fled in 2014 than 2018

- More free cash flowing
- Enabled increased traveling by politicians



# Aviation Update- IATA

- Increased squeeze on airline profit margins
  - Owing to higher input costs
- Global airline share prices declined by 20% in 2018
  - Reflecting investor concerns about airline financial performance
- Premium class passengers accounted for 5.1% of total O-D traffic between Jan-Oct
- Yields in less price-sensitive premium cabins trended upwards



# Aviation Update- International

- Air France to stop PH-LOS-Paris route from March 31<sup>st</sup>
- Will now operate LOS-Paris route 7 days a week
- Lufthansa load factor is full despite commencement of 'low season' on Jan 15<sup>th</sup>
- Promo fares are now available across different airlines
- Many airlines enjoying spillover from returnee students and pre-election outflow

# Aviation Update- Regional

- Open Skies Agreement signed by many African countries but implementation remains staggered & fluid
- Beneficiaries of the agreement
  - Asky
  - Air Cote d'ivoire
  - Ethiopian Airlines
  - Africa World Airlines

# Aviation Update- Domestic

- Kaduna out- ET
- Port Harcourt out- Air France
- **Who's next?**
- Bristow reduces daily flights to Abuja
- Boasts of impressive on-time performance



*Real Estate Update*

# Real Estate Performance in Q4'18

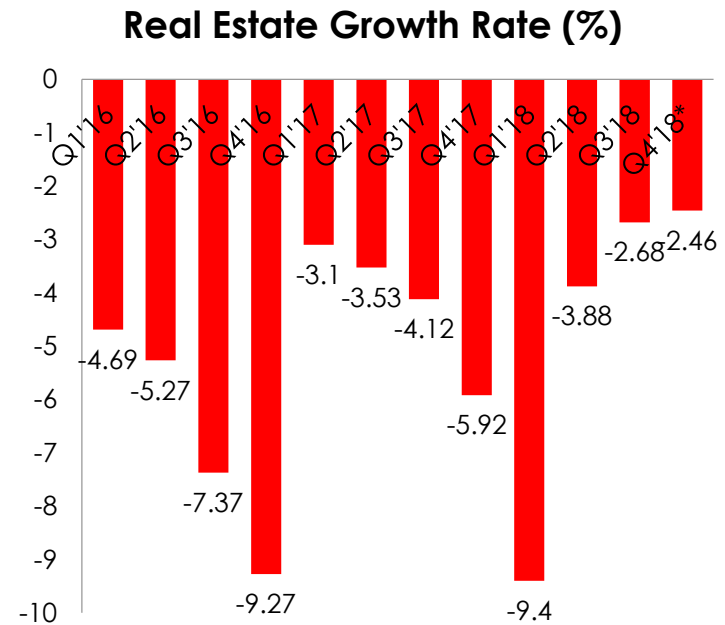
## Outlook

- Sector performance improved marginally in 2018
  - From -9.4% in Q1 to -2.68% in Q3
- Projected to improve further in Q4'18 as sector catches up with economic growth trajectory



## Trends

- Expatriate demand for housing units have fallen sharply owing to drop in rig count
- Exchange rate volatility weighing on demand for luxurious properties



Source: NBS, FDC Think Tank

# Real Estate in 2019

## Residential

- Developers to shift focus to studio apartments

Increased development in the student accommodation sub-sector

## Retail

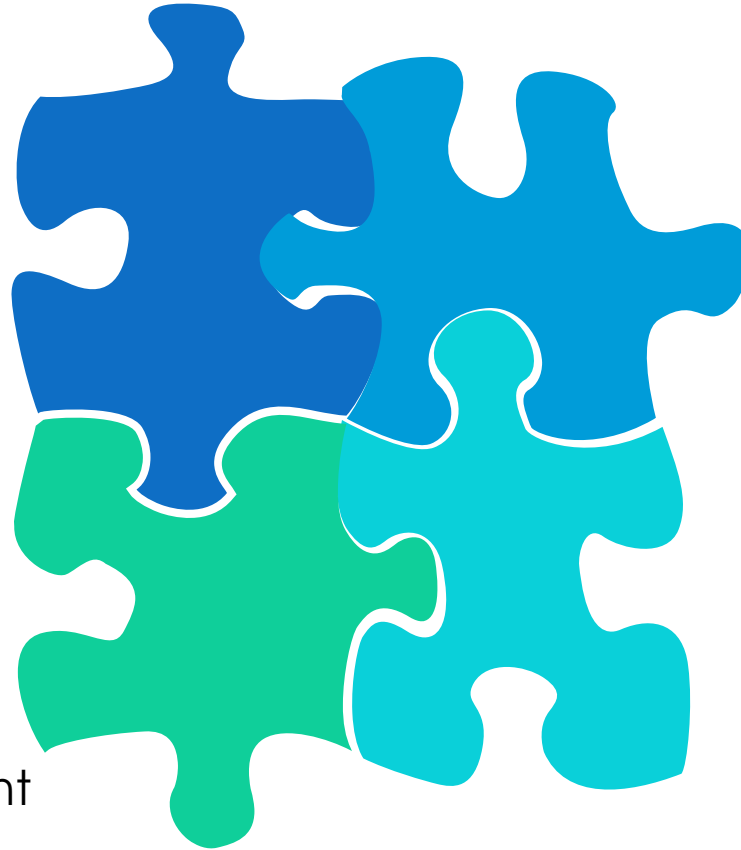
- Critical success factors:
  - Accessibility
  - Parking & entertainment facilities
- E-commerce would remain significant in the retail sub-sector

## Commercial

- Increased saturation of office spaces
- High vacancy factors expected for Grade A offices

## Infrastructure

- Infrastructure dearth would increase cost of development



# Developments to Watch



Development	Location	Completion Date
Twins Lake Mall	Lekki, Lagos	2019
Bildiamo Mall	Sangotedo, Lagos	Q1'19
Sogenal Tower	Ikoyi, Lagos	Q1'19
Atlantic Resort	Oniru, Lagos	2019



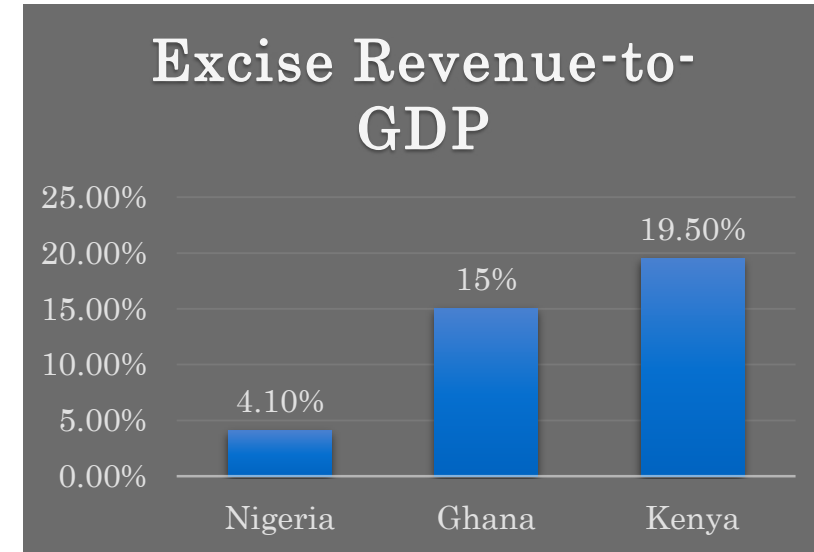


*Policy Update*



# FGN Revenue Initiatives

- The revenue initiatives targeted at
  - Improving tax base and collection
    - Possible increase in VAT on selective items
    - Possible reduction in vehicle import duties – to reduce potential duty income lost to smugglers
- Ensuring there is big data to work with
- Deploy a single trade platform
  - 1.5mn VAT registered tax payers only 77,000 active tax payers
  - 1.03mn CIT registered tax payers but only 56,329 active tax payers



	Nigeria	ECOWAS
VAT Revenue-to-GDP	0.80%	3.40%

# 2019 Proposed Budget Assumptions



Indicators	2018	2019	Direction
GDP growth (%)	3.5	3.01	↓
Oil price (\$pb)	51	60	↑
Oil production (mbpd)	2.3	2.3	↔
Exchange rate (N/\$)	305	305	↔
Inflation (%)	12.4	9.98	↓





# 2019 Budget – Fiscal Consolidation Continues

91

- 2019 budget tied to objectives of the EGRP – inclusive growth, economic diversification & sustainable development
- 2019 budget is countercyclical



- In an economy in dire need of a boost
- Revenue estimate  4.45% to N6.97trn
- Expenditure  3.18% to N8.83trn
- In dollar terms expenditure budget of N8.83trn (\$28.9bn) still lower than 2014 budget of \$30.26bn
- The greatest concern remains the level of implementation that will be achieved

# Supplementary Budget is Inevitable

- Due in Q4'19 – N1.63trn

## **Justification for supplementary budget**

- Minimum wage review – N450bn
- To cover shortfall in under-recovery – N582bn
- Revenue shortfall from lower oil prices and production – N600bn

# Monetary Policy Outlook

- MPC likely to retain tightened stance at next meeting
- Near-term risks to inflation remain:
  - The residual impact of flooding on agricultural output
  - Insecurity in parts of the food producing belts of the country
  - Exchange rate pass-through to inflation due to weakening oil prices
- Uncertainty in the global economy – Brexit & US-China trade war
- Credit to the private sector rose 1.96% - far below its benchmark of 12.39%
- 3-year delay in IFRS9 implementation to boost lending as banks' appetite for credit rise
- Decision on CBN leadership will happen at the end of Q1'19



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# *February Outlook*

# Q1 Calendar

## February

- 12<sup>th</sup>- Q4'18 & FY'18 GDP report
- 15<sup>th</sup>- January inflation
- 27<sup>th</sup>- Foreign Trade & Capital Importation

## March

- 15<sup>th</sup>- February inflation
- 25<sup>th</sup>/26<sup>th</sup>- MPC meeting





# Outlook for February

- Inflation will inch down to 11.35%
- Oil prices to stay within \$55-65pb in February
- Compliance to OPEC cuts will keep oil production at 1.69mbpd
- External reserves to remain under increased pressure as CBN prioritizes naira stability
- To fall below the \$42bn mark

# Outlook for February

- Naira to trade between N365-N370/\$ at the parallel market
- Stock market likely to decline further
- Q4' 18 GDP growth rate will come in at 2.2%-2.4%
- MPC will maintain tight monetary stance
- Likely reduction in auto duty and levy
- Prices of cars will fall by approximately 20-25%
- Aggressive tax collection effort by FIRS and state tax authorities

# Things to Watch in Q1

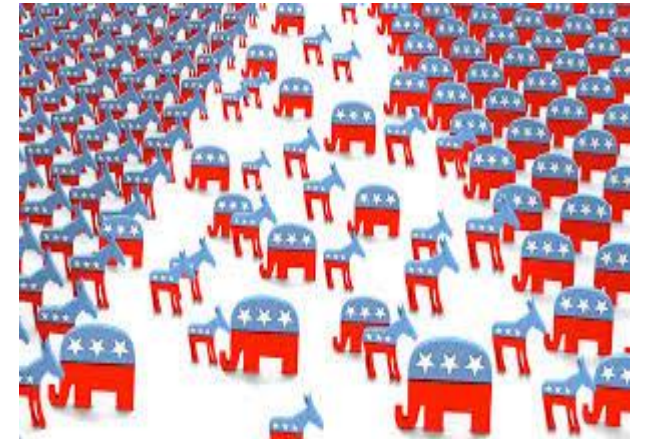
- The mobile payment revolution and the cannibalization of transaction banking
- The African experience tells us some things
- The IFRS 9- 3 year compliance transition
- The reform of tax administration in Nigeria
  - 1.5 mn VAT registered tax payers only 77,000 active tax payers
  - 1.03mn CIT registered tax payers but only 56,329 active tax payers

# Corporate Humour



Life is a short visit to a toy shop  
between birth and death  
- *Desmond Morris*

Americans of the future will  
need to know Spanish to give  
instructions and Chinese to  
take instructions  
- *Argus Hamilton*



# Corporate Humour



My motto is the same as my  
blood type B positive  
- *Cynthia Nelms*

Only a doctor can ask a  
woman to undress and then  
send a bill to her husband  
- *Jackie Mason*



# Corporate Humour



Middle age is when a narrow waist and a broad mind begin to change places  
- *Glenn Dorenbush*

You are only young once, but you can be immature forever  
- *Germaine Greer*



# Corporate Humour



The lovely thing about being forty is  
that you appreciate twenty five  
year old men more  
- *Colleen McCullough*

It is hard to be nostalgic when you  
can't remember anything  
- *Anonymous*



# Corporate Humour



If the shoe fits, it's too expensive  
- Adrienne Gusoff

Every life should have nine  
cats  
- Anonymous





# Corporate Humour



Flight attendant "In case of a drop in cabin pressure, an oxygen mask will drop down in front of you for two dollars  
- Anonymous

The difference between wandering and travelling is that we wander for distraction and we travel for fulfilment  
- Hilaire Belloc



# Corporate Humour



There was a time when a fool  
and his money were soon  
parted, but now it happens to  
everybody  
- *Adlai Stevenson*

A collage of various colored envelopes (red, blue, green, purple, white) with a central white envelope that has a note attached. The note is written in black, bold, uppercase letters. The envelopes are layered and overlapping, creating a vibrant, textured background. The central white envelope is slightly offset to the right and top, making the note the focal point.

**THANK YOU!**

Bismarck J. Rewane, M.D. / CEO

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