

LBS Breakfast Session



Buhari 2019

Continuity or Change???

Outline

- *Highlights*

- *Global Developments*

- *Domestic Economic Performance*

- *Stock Market Review*

- *Policy and Politics*

- *June Outlook*





Highlights

April Highlights



- Easter in April, first time in 5 years
- PMI was flat but sliding to 56.8 points
- Output and employment down and new orders up
- Average power output down 4.09% to 4,008MWh/hour
- Investors and manufacturers are in a post election expansion mode
- Average inventory levels in the supermarket declined from 8 to 6 weeks
- Supermarket traffic jumped to 10% due to Easter effect
- Q1'19 GDP data to be released on May 20

April Highlights



- 2019 budget approved but increased to N8.92 trillion
- Nigeria Inter-bank Settlement System (NIBSS) transfers up by 21% in value to N10.88 trillion
- Velocity of circulation money reduced to 4.84x in March
- Average opening position of banks rose to N139.71 billion
- Surprisingly the Federal Account allocation shared slid 0.37% to N617 billion
- National minimum wage bill signed into law
- N160 billion provided in federal budget for the minimum wage
- Effective date for the new excise duty on beverages and alcohol now June 4

April Highlights

- FGN contemplates a review of auto policy import tariffs
- State by state unemployment data for 2018 released
- Worst performers are mostly oil producing states: Rivers 36.4%, Bayelsa 32.6%, Delta 25.4%
- Average oil price in April was \$71.62 a barrel
- Production was 1.73mbpd, 2.7% above the OPEC quota
- Naira traded flat at N360/\$ but slid to N361/\$ this week
- Total forex intervention sharply higher to \$1.13 billion



April Highlights



- Emefiele reappointed for second term of 5 years
- External reserves rise to a high of \$44.8 billion
- Jumia becomes first African company to IPO in New York
- MTN appoints Emir Sanusi to global board in Johannesburg
- Company to list by introduction on the NSE
- Market capitalisation of the NSE could reach N14 trillion in 2019
- Olam purchases Dangote Flour for N130 billion
 - Combined entity to control 38% market share of flour
- Nigerian Breweries raises N15 billion on the commercial paper market
 - Stop rate of 13.01% per annum a role model for other FMCGs
 - Showing the threat of financial disintermediation to traditional banking

April Highlights



- The cut in the monetary policy rate had no impact on investment, output and savings
- There is a possibility of another 25 basis point cut
- Credit to the private sector shrank again in April

Global Developments



Global Highlights

- Chinese currency hits a 4-month low of (CNY 6.77/\$)
- China's PMI down 0.79% to 50.1 pts in April
- Bank of Japan to keep low interest rates for 12 months
- European Central Bank is looking for a recovery post global slowdown
- BREXIT extends to October 31

US/China Trade War- All Talk No War

- Trump threatens higher tariffs on Chinese goods
 - From 10% to 25% on \$200 billion worth of imports
 - Fresh tariffs on \$325 billion worth of goods
- Two days before China's Vice Premier's scheduled visit to Washington
- Negotiations could be truncated with Trump's new antics



Global Highlights – Fed Keeps Rates Unchanged

- Trump dumps anti-Powell nominees
 - Herman Cain withdraws from the Fed's board
 - Steve Moore also dropped
- US Fed keeps rates unchanged: 2.25% - 2.5% pa
- Inflation below Fed's 2% target : 1.6% in March



Global Highlights – US Growth Surpasses Expectations

- US economic growth defies analysts' expectation
 - GDP growth expanded to 3.2% in Q1 '19 from 2.2% in Q4' 18
- US private employers added 275,000 workers in April
 - Compared to 180k expected
 - Biggest monthly increase since July 2018
- Consumer confidence index rose to 129.2 from 124.2 in March

Impact on Nigeria

- The US is Nigeria's major trading partner
- Protectionism may threaten increased trade
- US self sufficiency in oil makes Nigeria vulnerable
- Sustained expansion of the US economy is good for the Nigerian oil and gas industry
- Any increase in US interest rates later in the year could hurt Nigeria and other emerging markets

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*Sub-Saharan
Africa*

Sub-Saharan Africa: The Regional Update

- The IMF in its regional outlook projects:
- Duality in economic performance – average growth of 3.5%
- The big 3 lagging others (Nigeria, South Africa and Angola)
 - Average growth of the big 3 is 0.33%
 - As against the next 10 with 5.43%
- The IMF sees average inflation rate decline to 8.1%
 - Better governance by African Governments
- Fiscal deficit to GDP ratios to fall to 3.2%
- African countries facing revenue challenges to seek conventional debt financing

Sub-Saharan Africa: The Regional Update

- Debt vulnerabilities remain elevated in most African countries
- Banking systems in African countries are suffering from high non-performing loan books
- Big difference between resource intensive economies and others
- Non commodity dependent economies to average growth of 6.3%
- Expected External Reserves buffers to deplete
- Ideological and mineral related conflicts could hinder growth

SSA Growth and Regional Opportunity

- Corporates from the laggard economies will exploit the opportunities of regional integration
- The African continental free trade agreement is a game changer
- Sectors that will benefit most from bigger markets are
 - Telecommunications
 - Cement manufacturing
 - Banking & finance
 - Aviation
 - Informal trade
 - Hospitality and hotels
 - Automobile
 - Food & beverage

SSA Growth and Regional Opportunity

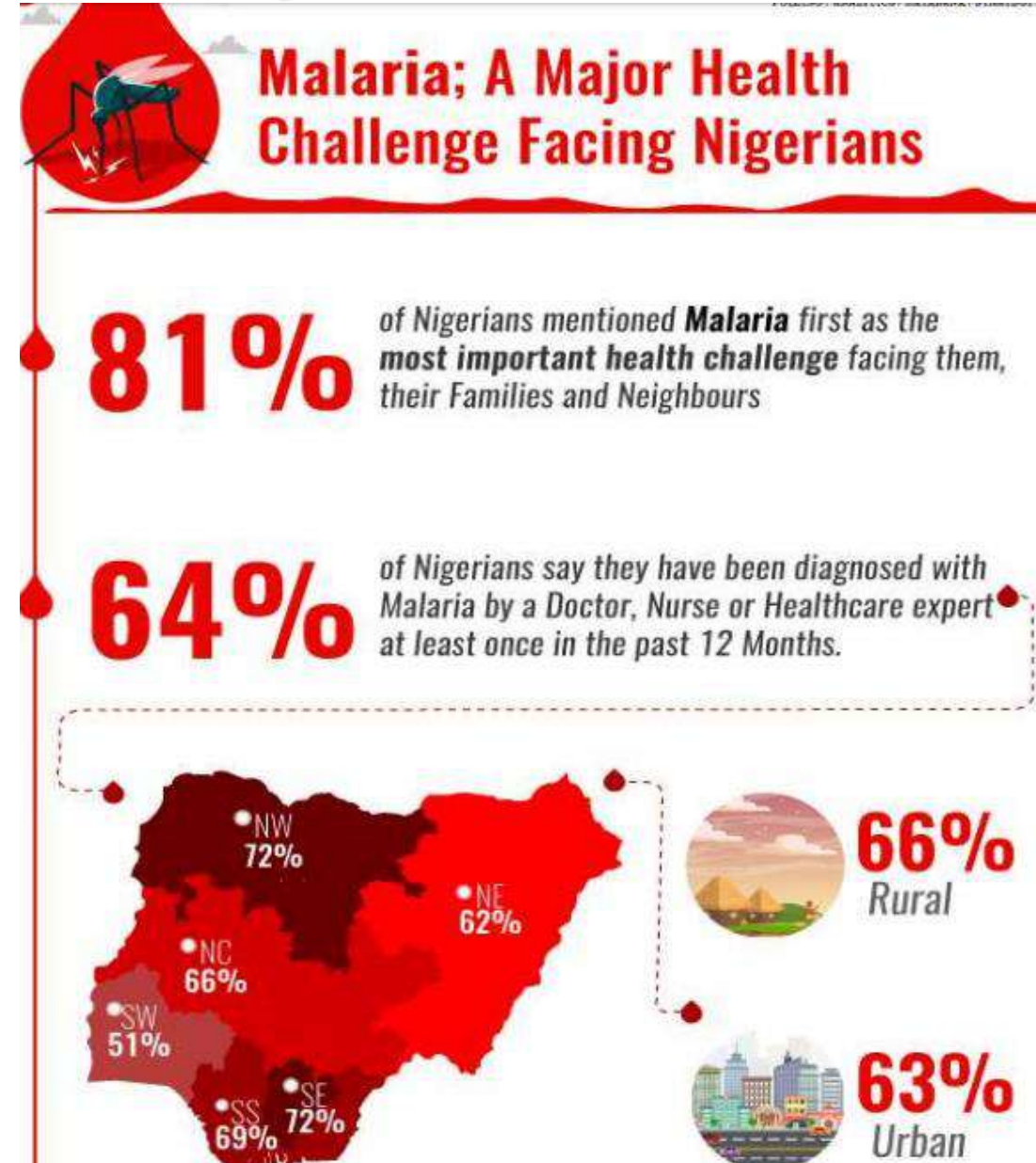
- Nigerian Banks especially UBA, ETI, Access and GT have huge continental footprints
- UBA is in 22 countries, Access in 7 countries, ETI in over 35 countries
- Flights between Lagos and Accra are now over 50 a week
- Africa World Airlines (AWA) operates 4 flights every day
- Asky, ET and Kenya Airways are dominating regional aviation

Ghana: Central Bank maintains MPR at 16%

- Ghana to become the fastest growing economy in SSA as IMF sees growth at 8.8% in 2019
- Bank of Ghana left monetary policy rate unchanged at 16% pa
- Threats to growth and inflation outlook have been partly contained
- The Bank estimated growth at 7.6% in 2019
- Inflation still within the target bound of 6-10% - stood at 9.3% in February
- Inflationary pressures could trigger a shift in monetary policy stance
- Rate of currency depreciation slowed to 5.2% by end-March from 8% on March 19
- Positive oil production outlook as exploration begins at Aker oil fields

Malaria Vaccine Pilot Commences in Africa

- Pilot programme to be launched in Malawi, Ghana, Kenya
- Malaria mortality rate in Africa: approx. 405,000 per year
- In Nigeria:
 - Leading cause of death
 - More than 300,000 deaths per year from the disease
 - 69% of the population have been diagnosed with malaria at least once in the past 12 months



Source: NOI Polls

Malaria & Productivity

Malaria eradication



Healthy and productive citizens



Increased output



*Domestic
Economic
Performance*



Snapshot: Reducing External Imbalance



	March'19	April'19		May'19*
Oil production (mbpd)	1.72 (Feb)	1.73 (Mar)	↑	1.72
Oil Price (\$'pb;avg)	67.01	71.56	↑	72-75
External reserves (\$'bn; end)	44.43	44.79	↑	44-45
Exchange rate (N/\$; end-period)	Parallel: 360 IEFX: 360.68 IFEM: 306.95	Parallel: 360 IEFX: 360.79 IFEM: 306.95	↑	360-361

Snapshot: Money Supply & Inflation

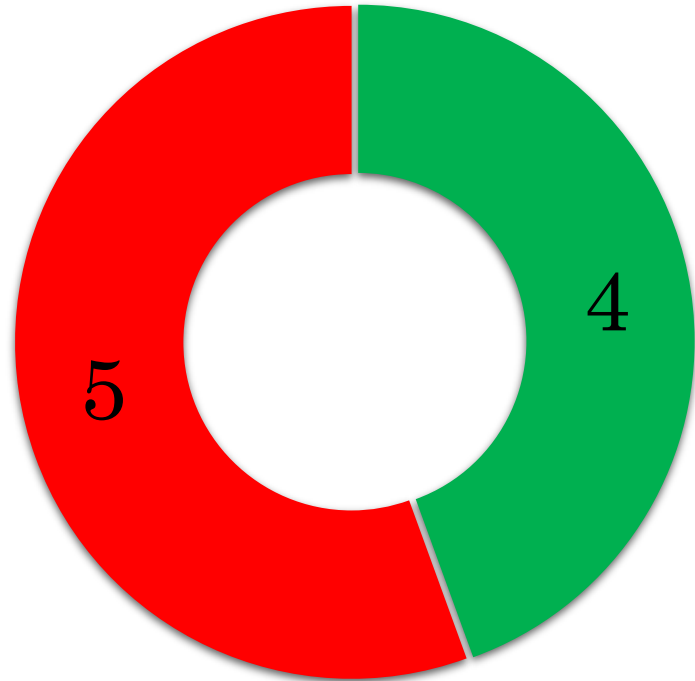


	Mar'19	April'19	May'19*
Average Opening Position (N'bn)	201.98	139.71 ↓	200-250
Average NIBOR (%) (OBB, O/N)	12.60	16.46 ↑	9-10
Inflation (%)	11.25	11.27* ↑	11.30
Stock Market Cap (N'trn)	11.67	10.96 ↓	10.5-10.9
Power (MW;avg)	4,172	4,021 ↓	4,000-4,200

*: FDC's April's forecast

How did the Leading Economic Indicators Perform?

27



■ Positive ■ Negative

- Commencement of planting season weighs on domestic prices of commodities
- Resulting in reversal of downward trend in inflation
- Oil prices at 19% above the budget benchmark of \$60pb
- Naira stable at N360/\$ - parallel market

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Key Data & Meetings to Watch




Remainder of Q2

- Q1 '19 GDP report – May 20
- April inflation – May 20
- Monetary Policy Committee meeting – May 20/21
- Foreign trade statistics Q1 '19 report – May 23
- Unemployment data – June 25
- OPEC meeting – June 26



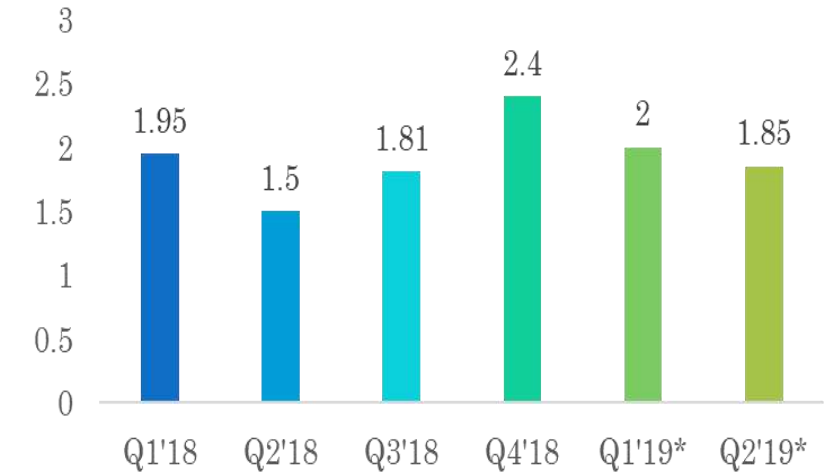
Q1'19 GDP on May 20th : Did Elections Affect Output?

- Performance of output indicators in Q1'19:

Indicator	Q4'18	Q1'19
Average power output (MWh/hour)	3,960	4,089 
PMI	60.2	56.9 
Average oil production (mbpd)	1.75	1.73 

Our projection: 1.8%-2.0%

GDP Growth rate (%)





Source: NBS, FDC Think Tank



Price Inflation to Inflect

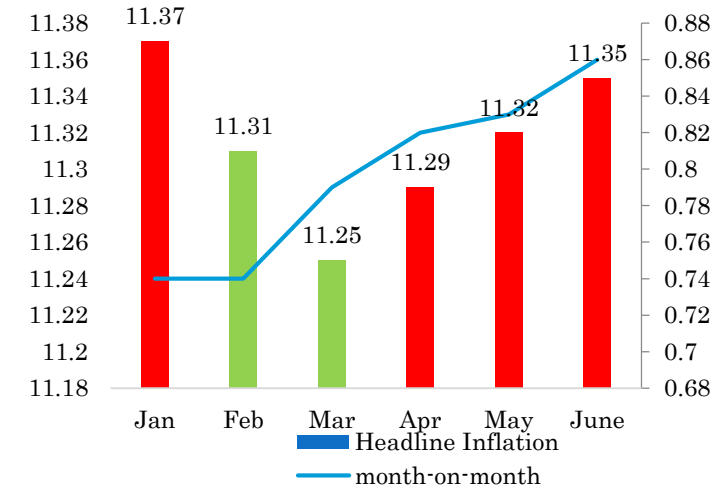
• **Projection:**

	March	April
Headline	11.25%	11.27% 
Month-on-Month	0.79% (9.84% annualized)	0.85% 

Drivers:

- **Securitization of contractor debt – N2.3 trillion**
- **Money supply growth due to**
 - 2019 Budget disbursements : **Capex: N2.94 trillion**
 - Minimum wage implementation
 - Wage increase and consequential costs : **3.7% of M2**
- **Seasonal factors:**
 - Planting season
 - Ramadan fast

Headline Vs Month-on-Month Inflation (%)



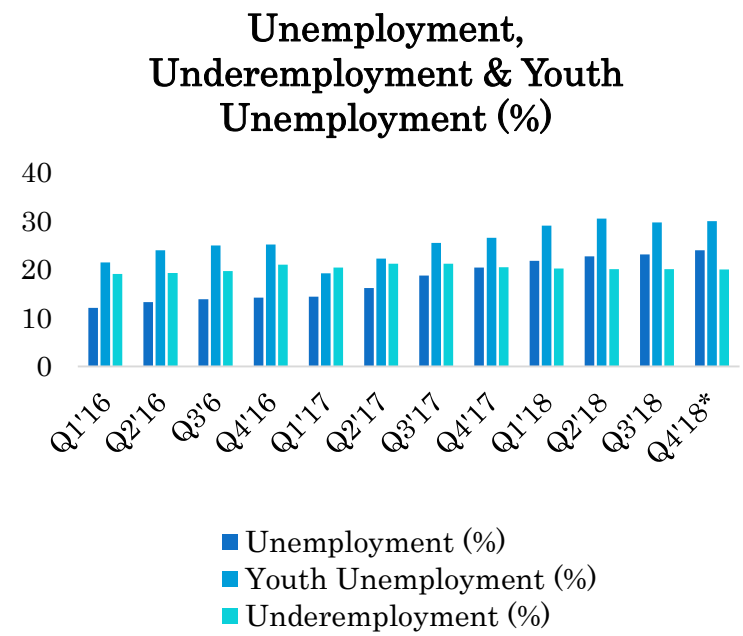
Source: NBS, FDC Think Tank



Unemployment Report on June 25th



- Unemployment has trended upwards since 2015
 - Projected to increase further in Q4'18
- Youth unemployment has mirrored this trend
- Reduction in discretionary income dampens consumer spending
- Urban unemployment declined to 21.2% in Q4'18 while rural unemployment increased to 23.9%
- Rationalization of banking sector head count
- Displacement effect of IDPs



Source: NBS, FDC Think Tank

Impact on Consumers, Corporates & Economy

Impact on Corporates

- Increased minimum wage \longrightarrow Higher sales \uparrow
- Pension funds \uparrow

Impact on consumers

- Increase in minimum wage \longrightarrow Consumer disposable income \uparrow
- Increase in inflation \longrightarrow Consumers' purchasing power \downarrow

Impact on the Economy

- Boost in aggregate demand
- Pressure on the exchange rate

OPEC Meeting on June 25/26

Front burner issues

- US sanctions on Iran and Venezuela
- Economic and political unrest in Libya
- US decision to end Iran sanction waivers
- Rising US shale production

Likely outcomes

**Maintain
output cut**

Rationale: to maintain market equilibrium

Impact: prices would rise marginally

**Increase
production**

Rationale: to compensate for Iran's output shortfall & curb shale output

Impact: decline in global prices

Impact on the Economy

Maintain output cut

- Oil prices jump to \$72-\$75pb
- Higher oil price is positive for:
 - FAAC disbursements
 - State government investment
 - External reserves accretion
 - Exchange rate stability

Increase production

- Oil price slides to \$65-\$67pb
- Lower oil revenues push reserves below \$40pb
- Affects CBN's ability to defend the naira





Policy Update

2019 Budget Passed, Awaiting President's Signature

- Passed budget of N8.92 trillion is 1.02% higher than proposed budget
- To cater for:
 - Security challenges in the country
 - Packages for lawmakers and
 - Support for Zamfara State
- Widening the fiscal deficit by 2.15% to N1.9 trillion
- Key assumptions left unchanged

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	↓



FGN 2019 Budget – Expenditure Estimates

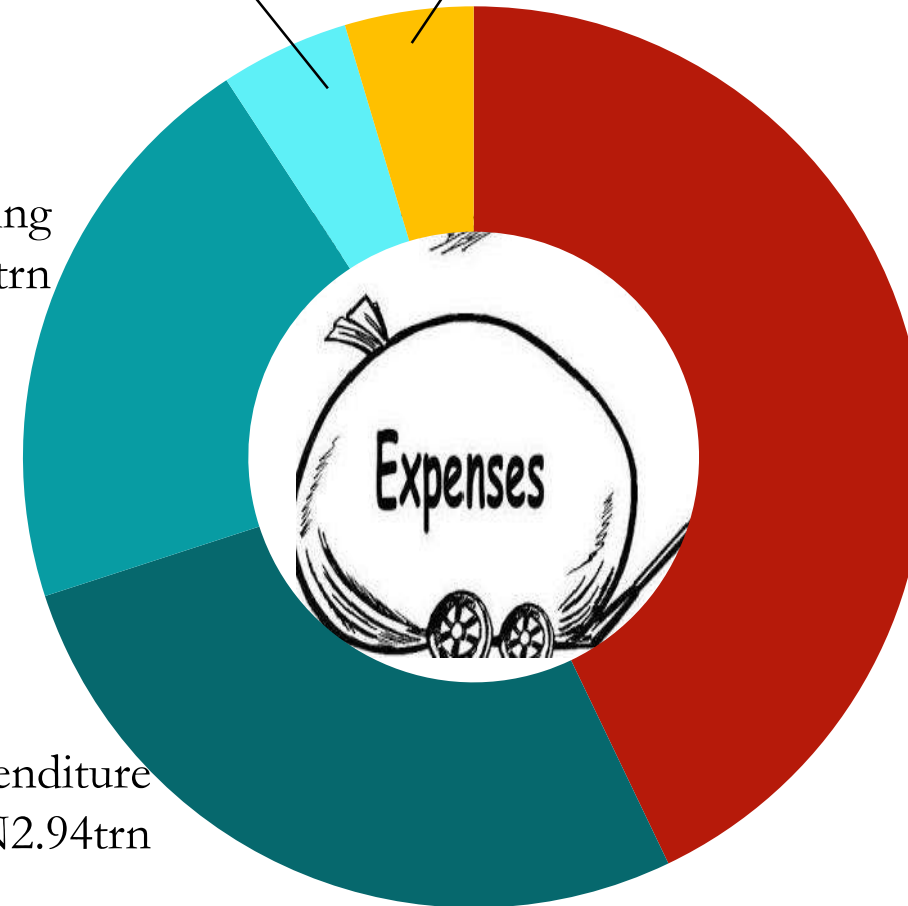
Statutory Transfers
N502.58bn

Special Intervention
N500bn

Debt Servicing
N2.25trn

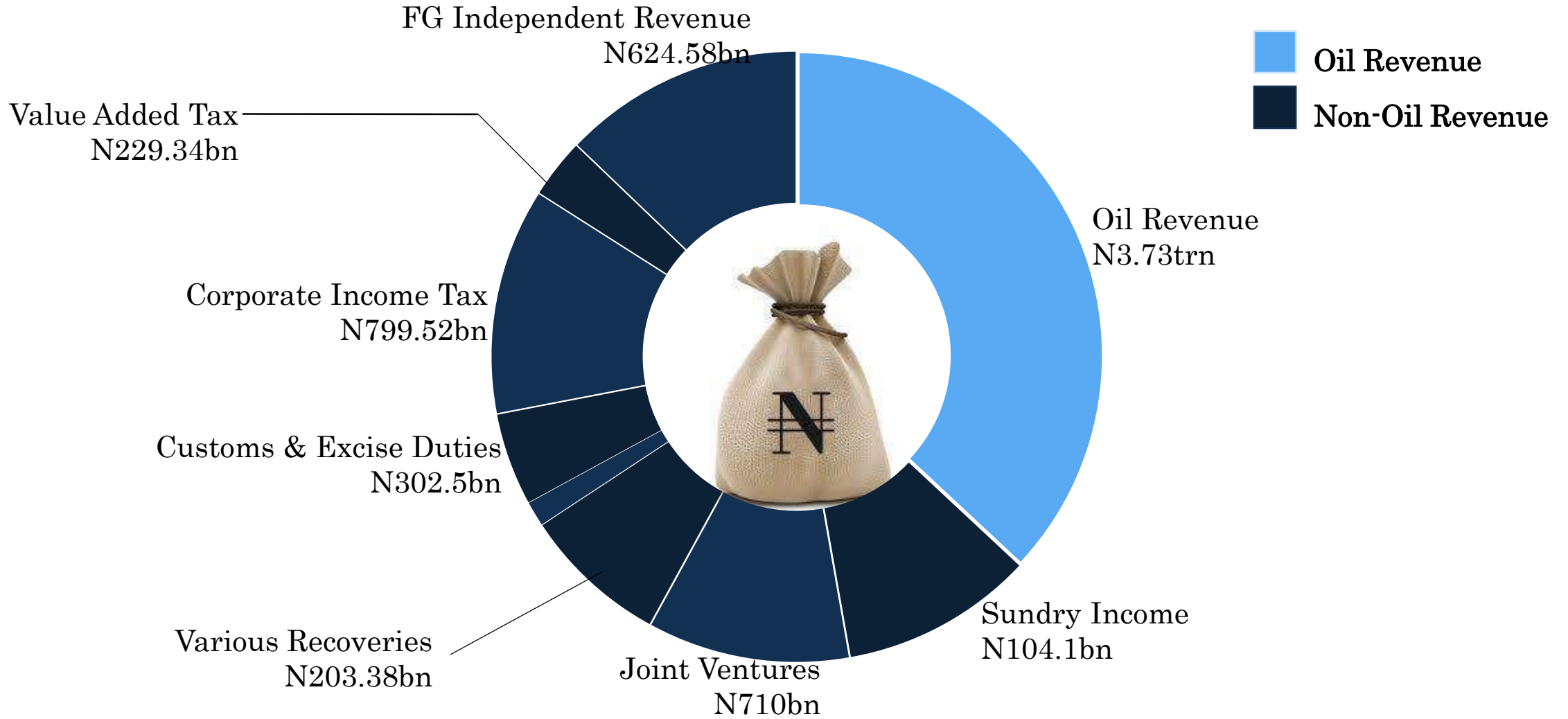
Recurrent Expenditure
N4.65trn

Capital Expenditure
N2.94trn



Total Expenditure : N8.92 trillion

FGN 2019 Budget – Revenue Estimates



Total Revenue : N6.97trillion

Budget Analysis

- 2019 budget is countercyclical
- In an economy in dire need of a boost
- Revenue estimate \uparrow 4.45% to N6.97 trillion
- Expenditure \downarrow 2.19% to N8.92 trillion
- 40% shortfall in provision for subsidies (under recoveries) points to possible price increases
- Deficit (Expenditure – Revenue) = N1.95 trillion
- Supplementary budget cannot be avoided
- Expenditures much higher than sustainable revenues
- Oil revenues are projected to decline due to impact of OPEC quota on Nigeria's oil output level
- Discussions to start almost immediately after Q3'19

Fuel Subsidy payments

- Fuel subsidies are a huge drain on the government's revenue
- Total subsidy bill in 2018 was N731 billion – World Bank
- A gradual reduction in subsidy payments anticipated
- Only N305 billion set aside for under recovery in 2019 budget
- Expect an increase in the pump price of fuel
- Impact is high inflationary pressure

Increase Tax Rate or Widen Tax Base?

- Nigeria has one of the lowest tax to GDP ratios : 5.3%
- Fuel subsidies are a huge drain on the government's revenue
- Total subsidy bill in 2018 was N731 billion – World Bank
- Policy Response
 - Emphasize indirect and benefit taxes
 - Simplify the tax administration and widen the tax net

New Minimum Wage Funding & Consequential Impact on States

- States civil service account for about 1.9 million workers
- States get 85% of VAT, as well as other statutory allocations
 - In addition to internally generated revenue
- Personnel expenses of most states exceed IGR
- So, there is either –



An expense problem Or A revenue problem

- For social reasons, head count rationalization may be farfetched
- But labour optimization will help boost productivity



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Bridging the Funding Gap

- IGR remains key to the funding of the new minimum wage
- Funding through the statutory allocation (FAAC) is unsustainable
 - An increase in VAT may provide temporary succour
 - Complemented by improved tax administration
- Other measures include:
 - Privatization - Partially sell equity across SOEs
 - Liberalization – Private sector-led projects
 - Commercialization - Rental income from idle assets
 - Concessions - Fees from long term leasing of assets



What Will the MPC Do On May 20/21?

Likely Outcome (A) – **Maintain status quo**

MPR – 13.5%pa

CRR – 22.5% pa

Liquidity ratio – 30% pa



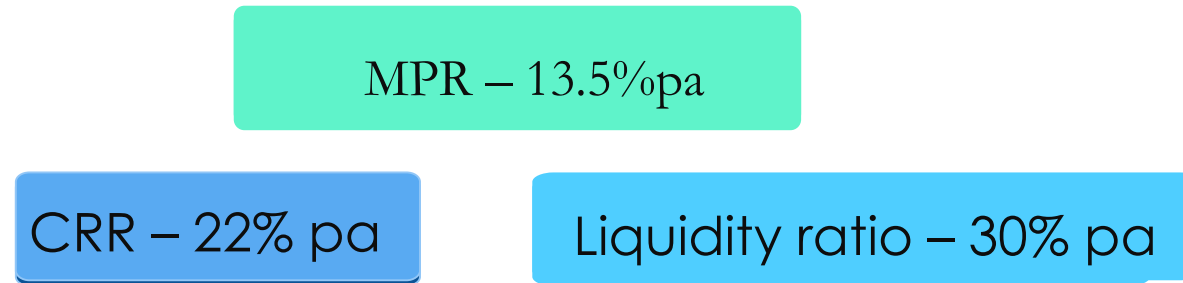
Rationale:

- To observe response of economic fundamentals to interest rate cut
- Inflation risks remain elevated



What Will MPC Do On May 20/21?

Likely Outcome (B) – Maintain MPR at 13.5% pa, Cut CRR to 22% pa



Rationale:

- To boost banks ability to lend
- To encourage investment-led growth



*State Economic
Management, Resource
Allocation & Prosperity*



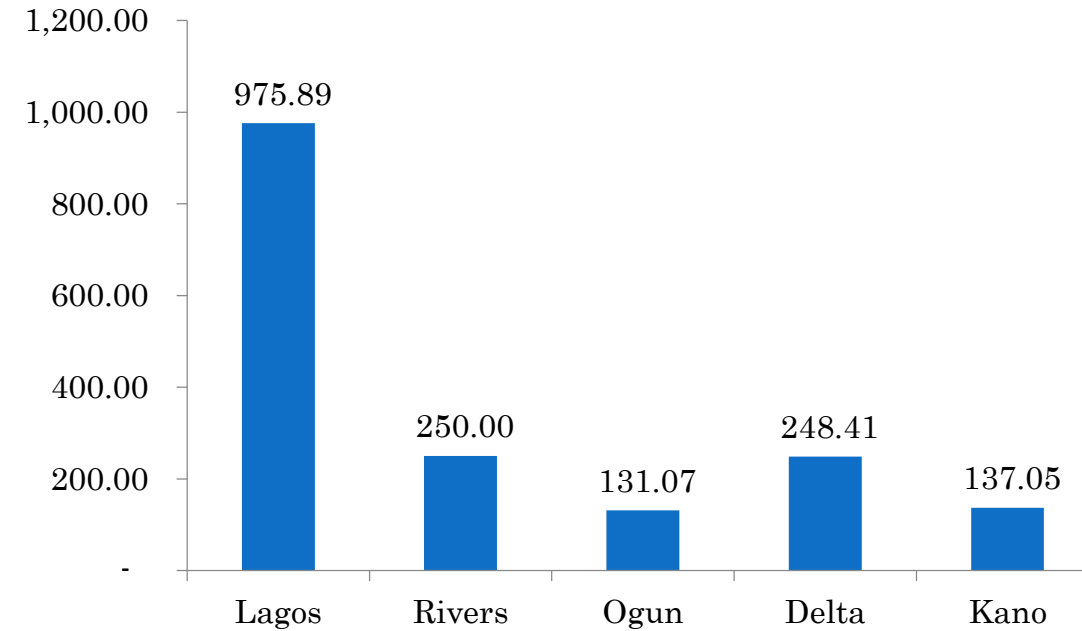
Resource Rich States Afflicted

- Almost all high revenue receiving states afflicted by resource curse
- Unemployment higher than national unemployment rate of 23.1% (Q3'18)
- Positive correlation between state unemployment and opportunities might dispel this
- Lagos State remains an outlier – due to resource optimization

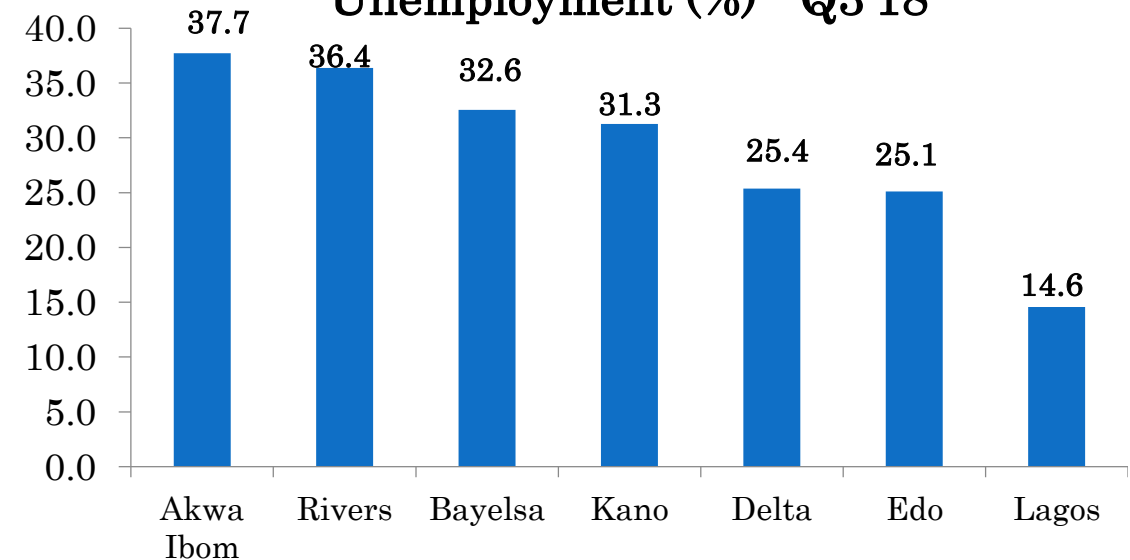


IGR (N'bn)

51



Unemployment (%) - Q3'18



Efficient Fiscal Management as a State Differentiator

- Profligacy vs. Prudence
- Share of expenditure items in budget shows individual states' priorities
- Expenditures on education and health (capital items) yet to translate to better living standards



Expense Item to Total Budget*			
State	Wage Bill (%)	Overheads (%)**	Capital Expenditure (%)
Lagos	10.7	22.4	66.8
Akwa-Ibom	8.2	25.1	66.7
Bayelsa	15.1	35.3	49.5
Kano	24	9.8	66.2
Edo	21.2	23.8	55
Delta	23.2	24.5	52.3

* - 2018 Budget Estimates

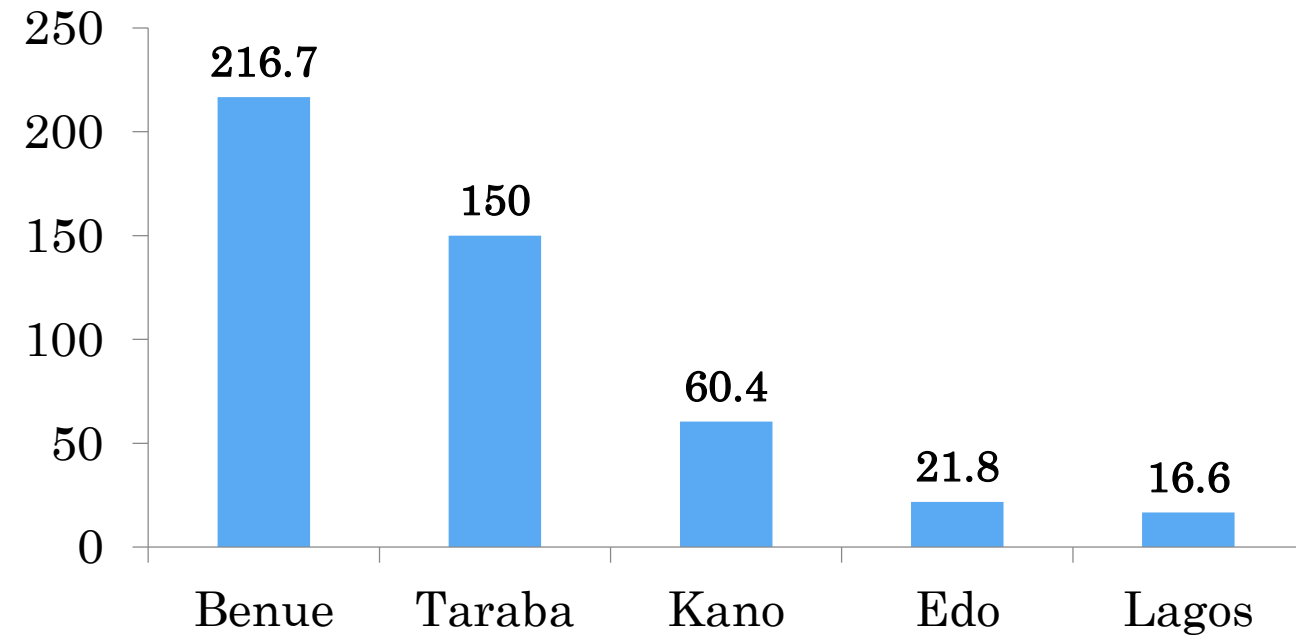
** - Including debt service costs

Fiscal Deficit to Total Revenue

- Widening fiscal deficit continues to weigh on capital expenditure
- Due to debt burden



Fiscal Deficit-to-Total Revenue (%)

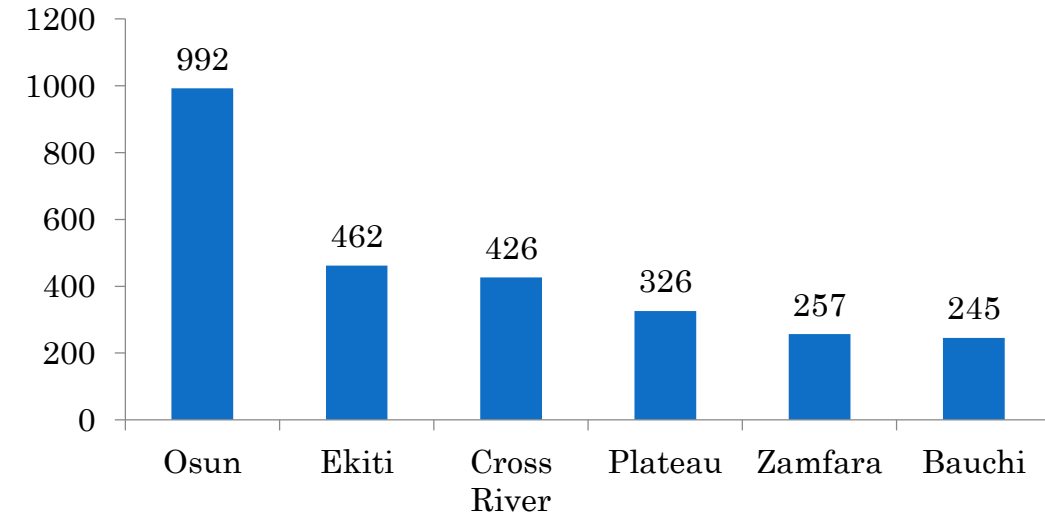


State Debt to Total Revenue

- States with the highest debt to total revenue ratio recorded relatively high rate of unemployment
- Osun State was an outlier



State Debt-to-Total Revenue (%)



	States	Unemployment (%)
1 st	Osun	10.1
2 nd	Ekiti	20.2
3 rd	Cross River	30.6
4 th	Plateau	29.8
5 th	Zamfara	18

Resilience to Shocks Remain Weak

- Very few states can withstand the impact of internal and external volatilities
- Internal shocks:
 - Dip in oil production
 - Insecurity from insurgence or communal clashes
- External shocks:
 - Plunge in commodity prices (oil, gas, agric. commodities)
 - Global protectionism and policy tightening
- Emphasizes the need to diversify revenue sources



Most Resilient States

Top 3 States



Lagos



Kano



Enugu

- **What is common to these states?**
- IGR-to-Total Revenue > **25%** - Less reliant on FAAC
- Capex-to-Budget > **40%** - investment in infrastructure
- Revenue can adequately cover states recurrent expenditure
- More resilient to an oil price shock

Lower MPR – Lower Debt Costs?

- States with the highest outstanding debt stock

States	Domestic Debt Stock (N'bn)
Lagos	530.24
Rivers	225.59
Ogun	98.72
Delta	228.81
Kano	117.08

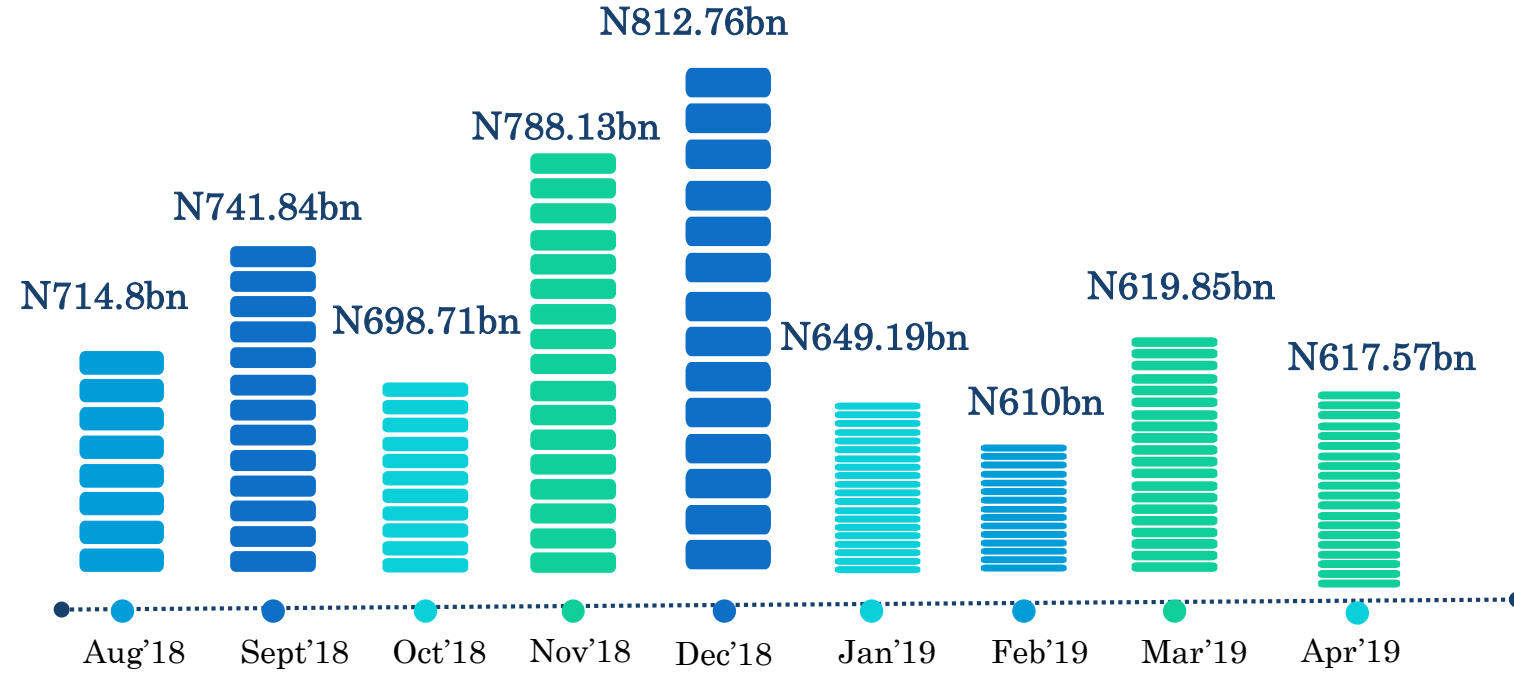
- A reduction of 50 basis points will reduce debt service by approximately N7.5mn



Market Proxies



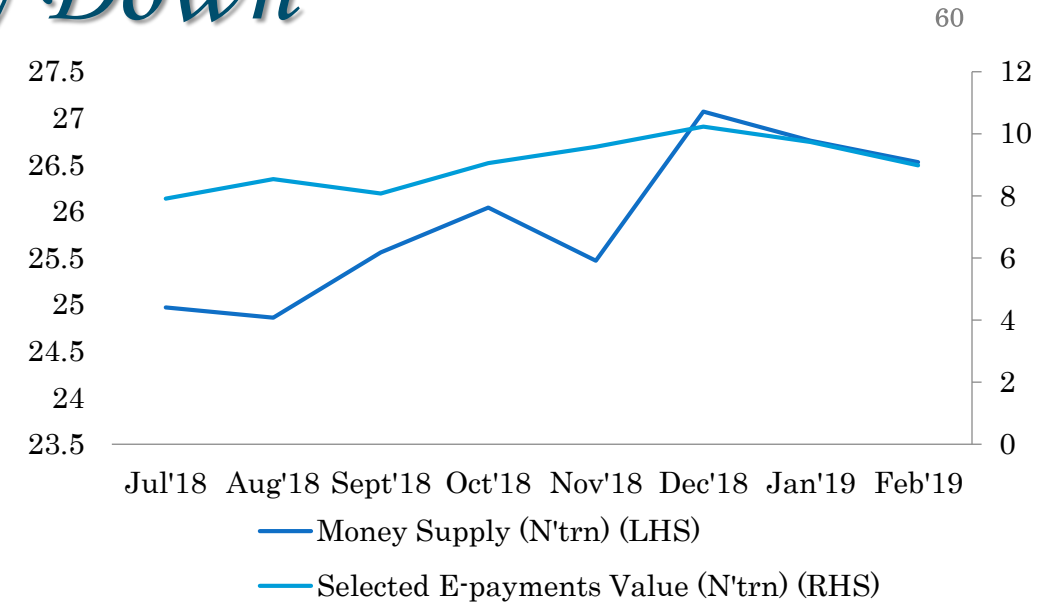
FAAC Down 0.37% in April



- FAAC disbursement down to N617.57bn in April
- Excess crude account currently at \$183 million
- No mention of inclusion of minimum wage in disbursement

E-Payments Up, Money Supply Down

	Change in Volume (%; m-o-m)		Change in Value (%; m-o-m)	
Cheques	1.96	↑	1.29	↑
POS	15.67	↑	12.43	↑
NIP	21.15	↑	14.86	↑
NEFT	17.65	↑	16.84	↑



- Value of E-payments moving in contrast with money supply
- Velocity of circulation of money fell from 4.87x to 4.84x in March

Average Power Output Down by 3.65% on Grid Collapse ⁶¹



5348MW

Peak Energy
Generated



4008MWH/

Average Energy
Generated

747.7MMSCF/D

Average Gas
Delivered to
Plants



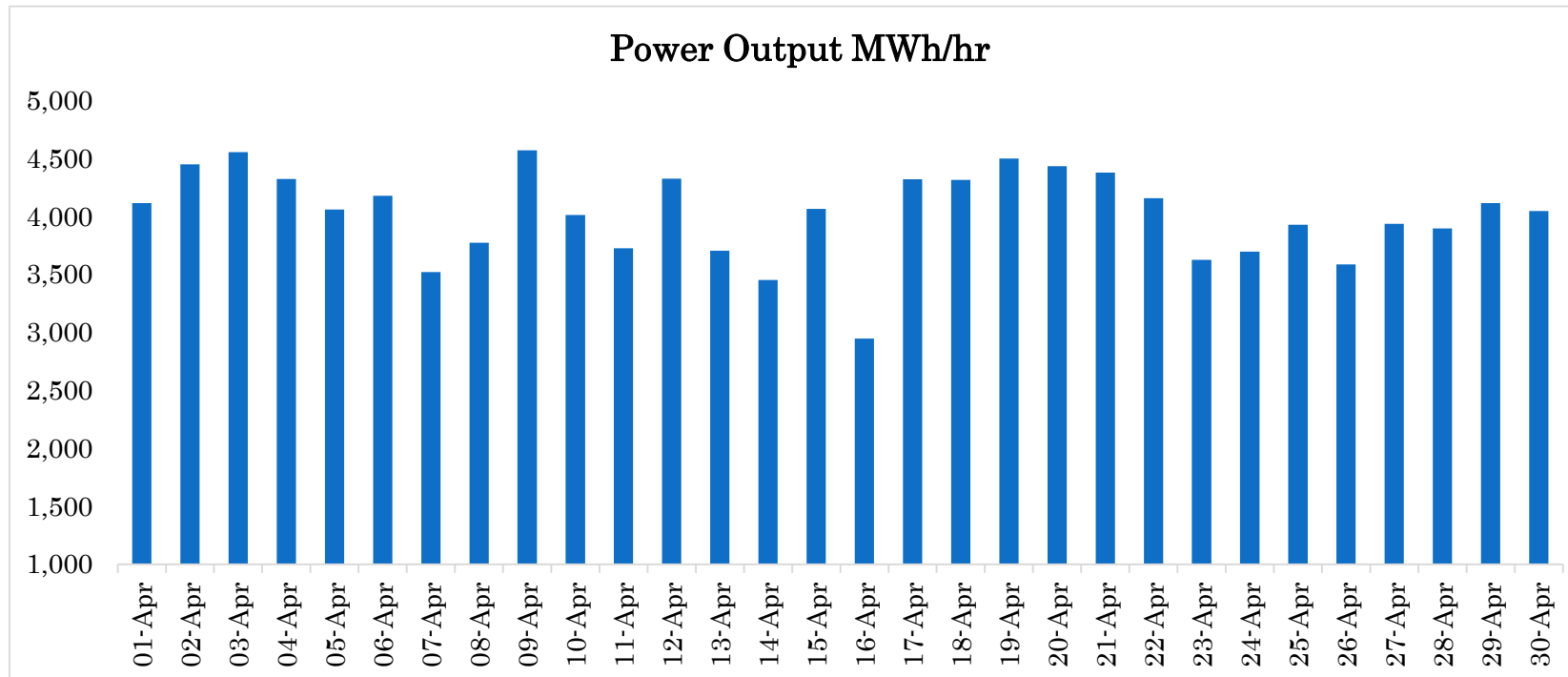
1

Total Grid
Collapses



3413MW

Average
constrained
energy



Source: Lavayo Advisors

Power Sector News

- Power generation slumps to 1,675MW after system collapse
- Oil firms waste gas worth 3,000 MW daily – FGN
- CBN N701 billion power sector stabilization fund runs out
- Generation companies opt for force majeure,
 - Decry monthly payment deficit 5 years after privatization
- Buhari woos Qatar on investments in refineries, power and economy





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Commodities

Commodities Update




Export Commodities	April	%Change (Mar-Apr)	Import Commodities	April	%Change (Mar-Apr)
Oil (\$/b)	71.18	6.19% ↑	Wheat (\$/bushel)	4.60	0.66% ↑
Liquefied Natural Gas (\$/mmbtu)	2.618	-7% ↓	Sugar (\$/pounds)	0.1278	2.49% ↑
Cocoa (\$/mt)	2,373	7.72% ↑	Rice (\$/cwt)	10.54	-3.04% ↓





*Stock Market
Review – Sell in
May and go away*

Nigerian Stock Market in April

- Market cap  6.1% to N10.96trn
- NSE ASI  6.1% to 29,159.74
- 8 days positive, 11 days negative
- P/E ratio  4.6% to 7.41x
- Negative market breadth of 0.4x
 - 27 stocks gained
 - 72 stocks remained neutral
 - 68 stocks lost



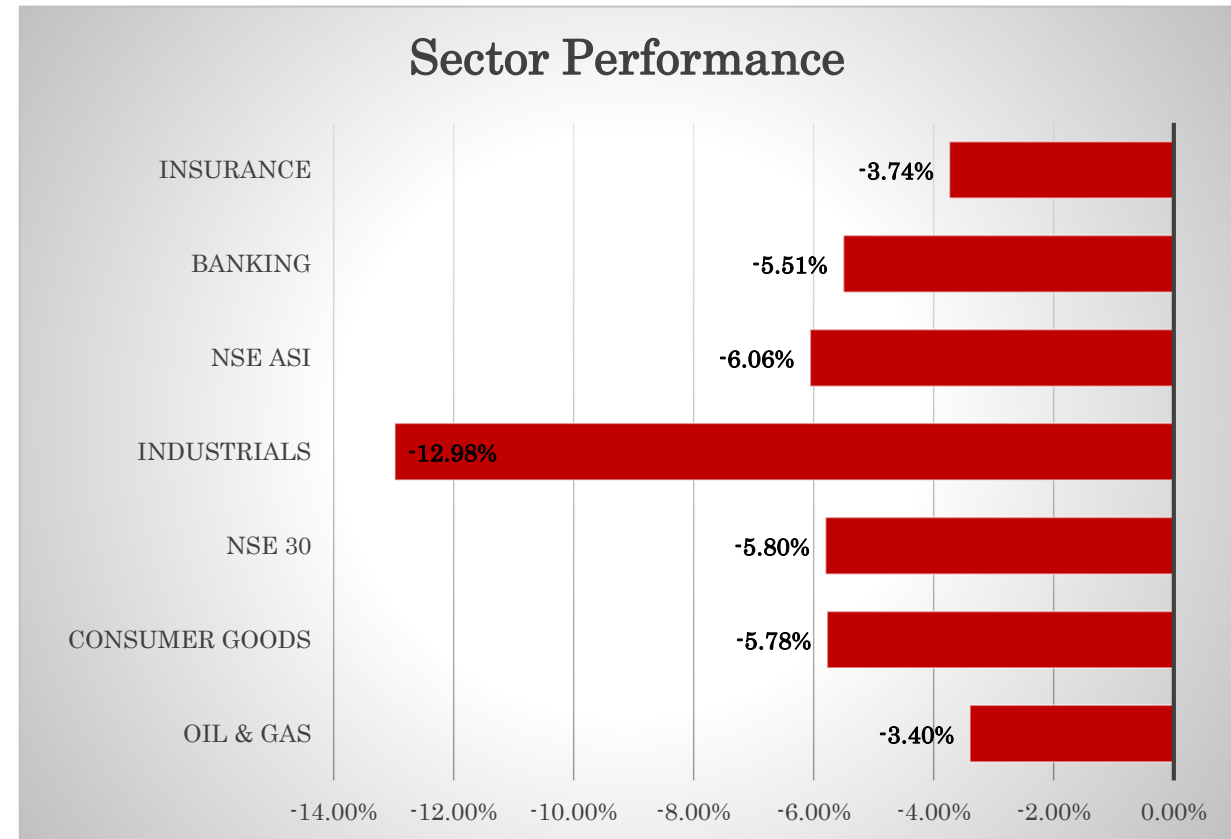
Peer Comparison

Exchange	YTD Return	Driver
NSE ASI	 6.1%	<ul style="list-style-type: none"> • Lack of investors' confidence
JSE ASI	 3.66%	<ul style="list-style-type: none"> • Strong performance by resource and industrials stocks • Rising gold and palladium prices • Improved investors' confidence
GSE ASI	 4.49%	<ul style="list-style-type: none"> • Increase in FPI outflows • Currency depreciation

Sectoral Indices - Results or Sentiments



- All sectors closed negative
- Industrial sector recorded worst performance due to unimpressive Q1 result released by Dangote Cement
- Negative market sentiment persist despite
 - Post election stability
 - Earnings season



Corporate Actions

- Q1 2019 earnings release
 - FMCG - affected by waning consumer demand
 - Insurance – delayed filling by most players
 - Banking – general increase in profit across board
- Zenith bank redemption of \$500 million Eurobond due April 22, 2019
- Olam to acquire Dangote Flour Mills
- New listing - Skyway Aviation Handling Company Plc (SAHCOL) with 1.35 billion ordinary shares via IPO
- MTN Nigeria completed conversion to a Public Limited Company (PLC)

Developments to Look-out for

- Minimum wage
 - If properly implemented – spur consumer demand and feedback into company earnings especially FMCG
 - If not properly implemented – result in illusion of money
- The National Housing Fund (NHF) Bill
 - Corporates - Erosive implication on earnings and valuation
 - Individuals - Imposes more tax on low income earners when expressed as a percentage of PAYE
 - Proposed new act might be counter productive on implementation

Changing Market Structure



Current

- Currently 169 companies listed on NSE
- 9 new listings in the last 5 years
- 31 companies delisted in the last 5 years
 - 5 voluntary
 - 23 regulatory
 - 3 mergers

Federal Competition and Consumer Protection Act

- Discourage dominant position
- Discourage collusion amongst suppliers of regulated products
- Promote fairness, transparency and competition

Market Implication

- Improve company efficiency
- Improve investors' confidence
 - Encourage new listings
- Stronger capital market
 - Increase FPI & institutional participation
- Increase financial disintermediation
- Higher bargaining power for depositors

Affected Parties

- Sectors:
 - Aviation
 - FMCGs – breweries,
 - Pharmaceuticals
 - Telecommunications
- Multinationals

Code of Corporate Governance

What it means

- Corporate Governance is a key driver of corporate accountability and business prosperity.
- The Nigerian Code of Corporate Governance 2018 seeks to institutionalise corporate governance best practices in Nigerian companies

Implication

- Improved corporate performance – positive correlation with corporate governance
- Improved investors' confidence
 - Improved market liquidity
 - Increase in market depth
 - Increased financial disintermediation
- Minimize agency problem
- Increase cost for corporates

MTN Listing

- MTN is the market leader in the Nigerian telecom industry (60.3 million subscribers at 40.7% market share)
- Will be the 2nd most capitalized company on the exchange
- Likely to significantly impact mobile payment in Nigeria
- Highest EBITDA margin amongst the most capitalized listed companies

Company	EBITDA Margin Q1'19
MTN	53.30%
Dangote Cement	46.50%
Nigerian Brew.	24.09%
Unilever	15.50%
Nestle	29.28%

- Listing to improve sector diversity on the exchange
 - Currently 4 sectors (banking, consumer goods, industrial and oil & gas) 80% of market cap
- Possible sell pressure on stocks as investors seek liquidity to invest in MTN



Outlook For May

- Equities market to regain positive momentum due to
 - Decline in yields on fixed income instruments
 - Stability of FX market
 - Rising crude oil prices
- Inflow of FPI supported by
 - External reserve accretion
 - Fed less likely to increase rates in 2019
- Investors looking at other asset classes
- Real estate still exhibit negative return

Top 5 Stock Picks – 12 months holding period

MTN

- Currently serving over 225.4 million subscribers across Africa and Middle-East
- Top 2 position in all 22 operating markets
- Wide economic moat
- Pan-African initiative
- Double digit revenue growth (13.4%)
- EBITDA margin of 44.2%

UBA

- **Target Price: N12.4**
- Growing contribution from Pan African subsidiaries
- P/E: 2.7x, DY:12.9%
- Currently trading at 79% discount to 52-week high
- Low cost of risk (0.3%)
- NPL 6.5%
- Wide product offering

Dangote Cement

- **Target Price:N245**
- ROE:21.7%, P/E 11.5x, DY:8.8%
- P/E at 14% discount relative to frontier peers
- Currently trading at 38% discount to 52-week high
- Strong operating efficiency
- Regulatory support
- Wide economic moat
- Market leadership

Custodian & Allied

- **Target Price: N7.5**
- P/E: 5.3x, DY: 6.9%
- Strong operating efficiency
- Risk management focused strategy
- Lead player in the industry
- Technology inclined strategy

Zenith

- **Target Price: N27**
- P/E:3.3x, DY:13.6%, ROE:25.2%
- Currently trading at 41% discount to 52-week high
- Low cost of risk (0.4%)
- NPL 4.8%
- Stable dividend
- Highly competitive strategy

Trust

it's not about falling
...it's about helping you fly.



In life, people are often limited by their fears; failing to soar because they are afraid to fall. At Custodian, we've got your back if the unexpected ever happens. So while others say "what if you fall"; we say "**...oh, but what if you fly.**"

✓ CUSTODIAN AND ALLIED INSURANCE LIMITED ✓ CUSTODIAN TRUSTEES
✓ CHUSADESTERLING PENSIONS LIMITED ✓ CUSTODIAN LIFE ASSURANCE LIMITED



Custodian
...exceeding expectations



Corporate Earnings

Banking Industry – Q1 2019

	GTB	Zenith	Access	UBA
Gross Earnings	↑ 1.2% to N110.3bn	↓ 6.5% to N158bn	↑ 16% to N160.1bn	↑ 10.3% to N131.7bn
Interest Income	↓ 8% to N74.5bn	↑ 5% to N122.5bn	↑ 84% to N110.8bn	↑ 9% to N98.6bn
Profit After Tax	↑ 10.4% to N49.3bn	↑ 6.7% to N50.2bn	↑ 86% to N41.2bn	↑ 21.1% to N28.7bn
Impairment	↓ 297% to N1.6bn	↓ 54% to N2.1bn	↓ 32% to N3.4bn	↑ 17.9% to N1.7bn
EPS	↑ 10% to N1.74	↑ 6.6% to N1.6	↑ 80.5% to N1.39	↑ 34% to N0.82
Dividend Yield	8.06%	13.40%	7.3%	12.40%
P/E Ratio	5.3x	3.34x	2.15x	2.8x
YTD Change	-1.02%	-9.33%	1.47%	-11.04%

- Most banks reported increase in PAT
- Cost structure a major threat to earnings sustainability
 - Tier 2 banks have higher cost-to-income ratio

FMCG – Q1 2019



- Competitive operating environment
- Growth in PBT driven by significant decrease in finance cost
- Decline in FCF driven by reduction in current liabilities

	CADBURY	NESTLE
Revenue	↑ 13% to N9.28bn	↑ 5% to N70.97bn
PBT	↑ 2201% to N723.93mn	↑ 40% to N19.12bn
Free Cash flow	↓ 62.86% to N457.36mn	↓ 35.06% to N15.21bn
PE	16.95x	28.57x
DY	2.12	3.77
YTD	18.00%	4.38%

- Growth driven by
 - Product diversity
 - Quasi-necessity nature of products
 - Increase ability to pass rising cost to consumers



Aviation Update

Regional Thrust- Players & Policies



Ethiopian Airlines



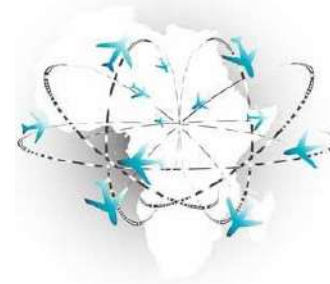
Rwandair



Asky



Kenyan Airways



Open Skies Agreement



West African Passport



African Continental Free Trade Area

Policies

The African Market – Popular Passenger Destinations 83

Rank	Countries	GDP growth rate (%; Q4'18)
1 st	Accra, Ghana	6.8
2 nd	Dakar, Senegal	6.8
3 rd	Abidjan, Ivory Coast	7.70 (Q3'18)
4 th	Lome, Togo	5.00 (Q3'18)

- Lagos to Accra have approx. 50 flights per week
- 3 of the 4 amongst fastest growing economies in Africa

Aviation Update- International

- International airlines are downgrading country head offices
 - Driven by technology and cost rationalization
- Seasonal strong load factors across most routes
 - Lufthansa: Outbound: 100%, Inbound : 80%
 - Delta: Outbound (Lag-Atl): 85%, Outbound (Lag- New York): 90%-92%
- Air Peace to commence flights to UAE
 - Competing against Emirates, Qatar, RwandAir, Ethiopian Airlines, Kenya Airways

Aviation Update- IATA

- Crude oil and jet fuel prices higher in March
 - Driven by OPEC supply cuts and US sanctions on Iran & Venezuela
- Premium class passengers account for 5.1% of total O-D traffic
 - Down from 5.3% 12 months ago
- Passenger load factor softened to 80.6% in March
- Volatile airline share prices reflective of investor uncertainty on developments in jet fuel prices

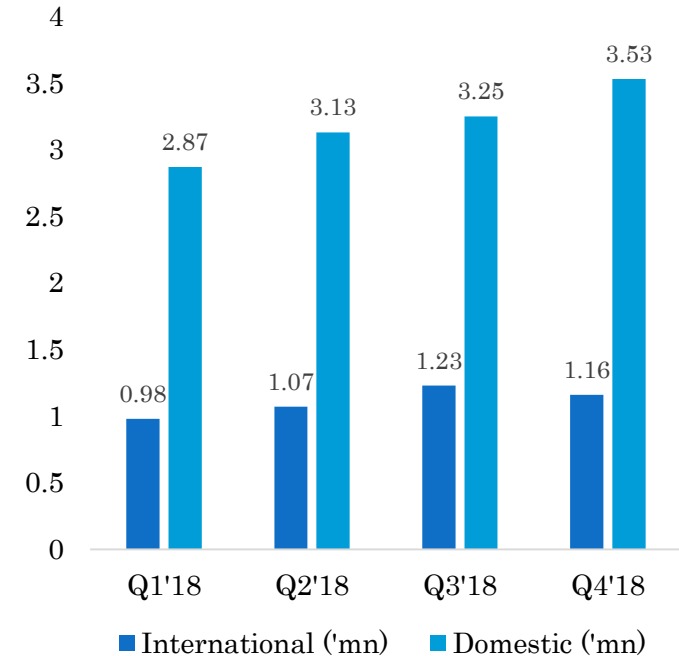


Passenger Traffic up 28.7% in 2018- NBS

- Traffic up 28.7% to 17.23million
 - International passengers: 25.8% (4.44million)
 - Domestic passengers: 74.2% (12.79million)
- Trends noticed in passenger traffic in 2018:
 - Passenger traffic was slowest in Q1 – Likely driven by the lull in economic activities
 - High passenger traffic witnessed in Q4'18 – driven by influx of visiting family and friends, political activities
 - Lagos and Abuja recorded the highest traffic on domestic and international routes



Passenger Traffic in 2018



Investment in Aviation Infrastructure

New Developments

- Airport road
- Concessions
- New terminals

Impact

- Reduction in airport traffic



14TH

ANNIVERSARY
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Real Estate Update

Traffic Congestion Killing Victoria Island Market

Property Trends in Victoria Island

Residential Properties

- High rents have slowed demand
- Customers demanding ultra modern properties
- Few new developments



Commercial Properties

- Migration of office spaces from VI to Ikoyi (Lufthansa, Capital Alliance)
 - Owing to horrendous traffic
- Would increase commercial vacancy factor in the area



Property Watch – Kingsway Towers

- Grade A commercial property
- Located on Alfred Rewane road, Ikoyi
- Entered the market in Q1'19
- 15-floor building situated on approx. 13,000 square meters



- **Competitors:**

- Heritage Place
- Wings Towers
- Alliance Place

- **Attractions:**

- Modern facilities
- Security





Political Update
Buhari's Last Term
2019-2023

The Agenda

- Buhari wants to make changes
- Facing huge pressures from conservative forces within the APC
- Cannot be all things to all men
- Suspicious of foreign and business interests
- Licking his wounds over struggle with adversarial legislature in 1st term
- Will influence the leadership struggle in the Senate and House
- Cannot use the aloof strategy
- Secret ballot means that PDP will determine the Senate President and Speaker
- Most likely Lawan and Gbajabiamila will prevail

Political Update

- Buhari will settle for a 42-person cabinet
- One from each state and one from each of the zones
- The APC party machine wants to compensate party loyalty
- President is wary of empowering supporters of 2023 candidates
- Runs a big risk of being caught in the 2023 squabble too early
- The legacy, statesman versus politician dilemma has set in
- The technocrat and political loyalist trade off
- Most ministers are lobbying to return

Political Update

- The plum jobs will go to nominees where the president got the highest votes
- Buhari got his highest votes (Presidential ballot) in the states below

State	APC	% of total APC Votes
KANO	1,464,768	9.64
KATSINA	1,232,133	8.11
KADUNA	993,445	6.54
BORNO	836,496	5.51
BAUCHI	798,428	5.26
		35.05



Political Update

- The Nigerian public will be looking out for Buhari's choice for critical positions
- The implementation of the minimum wage and the fiscal adjustments are critical
- The capacity and tenacity of the Economic Management Team will determine Buhari's success
- The Cabinet and other key appointments will be in place in June
- The post Cabinet selection squabbling will lead to splintering of the APC
- Election tribunal results will upset at least four governorship races
- Forget about zoning in 2023



June Outlook

Outlook

- Inflation will increase in May to 11.3%
- Q2 GDP growth numbers will be flat at 1.9%
- MPC may cut policy rate by another 25 basis points to 13.25%
- Naira will weaken slightly as forex demand increases to N362/363
- External reserves will decline marginally
- Unemployment data will show further weakness in Q1 up to 28%
- Stock market to drop by 3-5%

Outlook

- More rights issues as companies seek to fix their balance sheets
- New banking licenses in an already congested field
- Impact of scale economies and African market opportunities will be a differentiator
- Buhari will announce his Cabinet in early June
- Portfolio and personality changes but policy continuity
- Execution of policy and response to shocks will be the major challenge
- Like they say, sell in May and go away

Corporate Humour

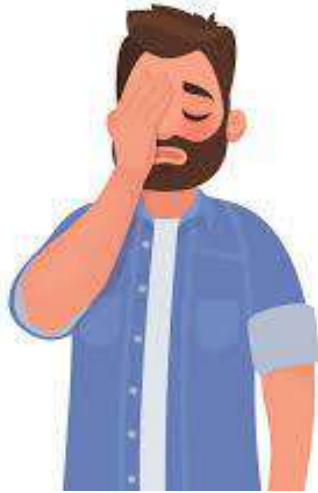


Happiness is good health and
a bad memory
- *Ingrid Bergman*

History repeats itself,
historians repeat one another
- *Rupert Brooke*



Corporate Humour



Blessed is the man that
expects nothing for he shall
never be disappointed
- *Alexander Pope*

Patience is a minor form of
despair, disguised as a virtue
– Ambrose Bierce



Corporate Humour



The most popular labour-saving device today is still a husband with money
- *Joey Adams*

The husband who wants a happy marriage should learn to keep his mouth shut and his cheque book open
- *Groucho Marx*



Corporate Humour



Everybody in the world is ignorant, but it is only on different subjects
- *Will Rogers*

A diamond is the only kind of ice that keeps a woman warm
- Elizabeth Taylor



Corporate Humour



A little inaccuracy sometimes
saves tons of explanation
- *Saki*

The living are the dead on
holiday
- Maurice Maeterlinck

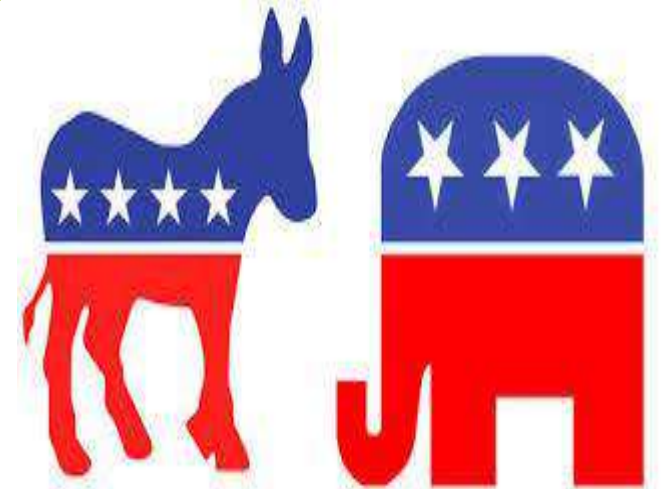


Corporate Humour



There is one thing to be said
for inviting trouble. It
generally accepts.
- Mae Maloo

There is one firm belief in
American politics i.e. God is a
Republican and Santa Claus
is a democrat
- P.J.O'Rourke . 1947





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