

*LBS Executive Breakfast at Dinnertime Session*

2019 Review

&

2020 Outlook



*Presented by Bismarck Rewane  
CEO, Financial Derivatives Company Ltd.*

*December 4<sup>th</sup>, 2019*

# Outline



*2019 Review- 4  
Quarters in Hindsight*



*The Review of the  
World in 2019 &  
Preview of 2020*



*The Nigerian Economy in 2020*



*Nigerian Policy in 2020*



*Stock Market Review*



*Sectors to Watch*



*The Risk Footprints in 2020*



*The Political Roadmap in 2020*





# 2019 Review

# Year End Summary



	Q1	Q2	Q3	Q4
<b>Political</b>	<ul style="list-style-type: none"> <li>• Presidential election was held</li> <li>• Victory for APC in presidential election</li> <li>• APC states: 20</li> <li>• PDP: 15</li> <li>• APGA: 1</li> </ul>	Handover/transition	Cabinet nomination and inauguration	<ul style="list-style-type: none"> <li>• EMT disbanded</li> <li>• EAC of independent minded economists inaugurated</li> </ul>
<b>Growth</b>	<ul style="list-style-type: none"> <li>• <b>2.01%</b> - Fastest first quarter growth since 2015</li> </ul>	<ul style="list-style-type: none"> <li>• <b>2.12%</b> - Contracting sectors were mainly labor intensive and interest rate sensitive</li> </ul>	<ul style="list-style-type: none"> <li>• <b>2.28%</b> - Oil was the 'white knight'</li> <li>• Marginal improvement in interest rate-sensitive and job elastic sectors</li> </ul>	<ul style="list-style-type: none"> <li>• <b>2.3%</b> - Driven by increased consumer demand</li> </ul>
<b>Average growth in 2018: 1.9%</b>				<b>Average growth in 2019: 2.2%</b>
<b>Monetary policy guideline</b>	MPC cut interest rate by 50 basis points to 13.5% per annum	<ul style="list-style-type: none"> <li>• CBN governor re-appointed</li> </ul>	<ul style="list-style-type: none"> <li>• CBN raises LDR to 60%</li> </ul>	<ul style="list-style-type: none"> <li>• LDR reviewed upwards to 65% effective December 31</li> </ul>

# Year End Summary

	Q1	Q2	Q3	Q4
<b>Reserves</b>	<ul style="list-style-type: none"> <li>Gained 3.04% to close at \$44.43 billion</li> </ul>	<ul style="list-style-type: none"> <li>Upward trend persisted</li> <li>Closed the quarter at \$45.07 billion</li> </ul>	<ul style="list-style-type: none"> <li>Downward trend commenced</li> <li>Fell below the \$45 billion threshold</li> </ul>	<ul style="list-style-type: none"> <li>Could end the year at \$38 billion</li> <li>The persistent decline likely to spook investors</li> </ul>
<b>Forex market</b>	<ul style="list-style-type: none"> <li>Naira remained stable at the parallel market (N360-N364/\$)</li> <li>Despite projections of heightened speculative demand during the election</li> </ul>	<ul style="list-style-type: none"> <li>Import duty rate reviewed to N326/\$ from N305/\$</li> </ul>	<ul style="list-style-type: none"> <li>Policy reforms become more restrictive</li> <li>Forex restrictions on milk and food imports</li> </ul>	<ul style="list-style-type: none"> <li>Anticipated increase in forex demand</li> <li>Owing to the persistent decline in external reserves forcing investors to exit the market</li> </ul>
<b>N/\$ (Parallel market; avg)</b>	<ul style="list-style-type: none"> <li><b>361</b></li> </ul>	<ul style="list-style-type: none"> <li><b>361</b></li> </ul>	<ul style="list-style-type: none"> <li><b>360</b></li> </ul>	<ul style="list-style-type: none"> <li><b>359</b></li> </ul>



# Year End Summary

	Q1	Q2	Q3	Q4
<b>Stock market</b>	<ul style="list-style-type: none"> <li>Investors were wary of taking positions due to political tensions</li> </ul>	<ul style="list-style-type: none"> <li>MTN listed on the NSE</li> </ul>	<ul style="list-style-type: none"> <li>Airtel listed on the Nigerian Bourse</li> </ul>	<ul style="list-style-type: none"> <li>Q3 earnings were weak and dragged the market down</li> </ul>
<b>Year to Date Return (%)</b>	<ul style="list-style-type: none"> <li><b>-1.24</b></li> </ul>	<ul style="list-style-type: none"> <li><b>-3.46</b></li> </ul>	<ul style="list-style-type: none"> <li><b>-12.1</b></li> </ul>	<ul style="list-style-type: none"> <li><b>-14.04</b></li> </ul>
<b>Average Daily Turnover (N'bn)</b>	<ul style="list-style-type: none"> <li><b>3.19</b></li> </ul>	<ul style="list-style-type: none"> <li><b>5.6</b></li> </ul>	<ul style="list-style-type: none"> <li><b>2.92</b></li> </ul>	<ul style="list-style-type: none"> <li><b>3.91</b></li> </ul>
<b>Policy thrust</b>	<ul style="list-style-type: none"> <li>Senate approved N30,000 as new minimum wage</li> </ul>	<ul style="list-style-type: none"> <li>New minimum wage bill signed into law</li> </ul>	<ul style="list-style-type: none"> <li>Closure of Nigeria's land borders</li> <li>Proposed VAT hike from 5% to 7.5%</li> <li>Nigeria signed AfCFTA</li> </ul>	<ul style="list-style-type: none"> <li>2020 budget submitted to NASS</li> <li>Buhari assents to Deep Offshore Act</li> </ul>



# 2018 & 2019

## Structural changes??

- Nigeria remained an oil dependent nation
- Growth in real GDP (2%) underperformed potential GDP
- Subsidies remained a leakage in the system (PMS, electricity & exchange rate)
- Over 40% of Nigerians live below the poverty line

## Transitory changes

- New guidelines on OMO activities
- Closure of Nigeria's land borders
- Trade protectionism – more forex restrictions



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# The Review of the World in 2019 & Preview of 2020

# 2019 – A Tumultuous Year

- Theresa May resigned as UK prime minister on no Brexit
- Boris Johnson stepped in, vying to win majority in parliament
- US, Germany dodged a recession bullet
- Donald Trump will be 3<sup>rd</sup> president in history to be impeached
- The Fed independence was tested
- Trade tensions between the US and China continued endlessly
- The superpowers agreed to a truce which led to negotiations for a phase one trade agreement



# Global Trends and Nigeria

## Falling interest rates

- Money market rates in emerging markets such as Turkey, India, Brazil are declining
- This is similar to Nigeria
- 91-day T/bill rate has crashed from 9.74% in July to 6.5%
- Resulting from CBN's unorthodox OMO restrictions

## Bigger pay packets

- Germany reviewed its minimum wage upwards by 3.94% in 2019
  - Same with Australia, France, Canada, Britain
- Nigeria has also signed its new minimum wage bill into law



# Trading Partners Facing Higher Inflation & Slow Growth

Source: Trading Economics

	Growth (%)	Inflation (%)	Interest rate (%)
China	6.0 ↓	3.8 ↑	4.15
India	4.5 ↑	4.62 ↑	5.15
US	2.1 ↑	1.8 ↑	1.5-1.75
Netherlands	1.9 ↑	2.7 ↑	0.00
Spain	2.0 ↔	0.4 ↑	0.00

- Rising growth and rising inflation for most of Nigeria's major trading partners
- Two key partners, the US and China, are currently embroiled in a trade war
- Any currency weakness resulting from the tensions will reduce demand for Nigeria's commodities



# The World in 2020 – Fastest Growing Economies in 2020 (Africa & Asia Dominate)

- 10 fastest growing economies in the world in 2020
- All in Africa or Asia except for Guyana (South America)
- Three African countries featured on the list
  - Ethiopia, Rwanda and Ivory Coast
  - All are post conflict economies
  - Mostly open-door and free market economies
  - Non-resource intensive and high labor productivity
- Compared to two African countries in 2019

Country	GDP Growth Rate (%)
Guyana	35
Syria	8.9
Bangladesh	7.7
Rwanda	7.5
Ethiopia	7.4
Bhutan	7.3
Myanmar	7.0
Nepal	6.9
Ivory Coast	6.8
India	6.7

Source: The Economist



# Business Trends in 2020 – E-commerce & Fintech will Continue to Disrupt

1

Likely interest rate cut by the US Fed to ward off an economic slowdown

3

Growth of e-commerce will force more brick and mortar stores to shut down

5

Oil prices to be pulled higher by political crises and pushed lower by slow demand

4

Fintech companies swaddled in red tape but flourish in certain countries

2

US elections and trade wars could spook businesses



# The World in 2020



*Elections in the US and Israel*



*US will flirt with recession*



*Negative interest rates by central banks  
across the world – Europe, Japan*



*Chinese moderate prosperity and  
increasing influence*



# The World in 2020



*Tokyo Olympics to draw huge global audience*



*A flying tech world – flying taxis, electric supercars*



*Instagram, Facebook, etc to get into the crosshairs of the US election;*

*African economies will draw closer but very slowly*







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# Africa in 2020

# Africa in 2020 – Events to Watch



- ECOWAS treaty and common external tariff will be put to test
- AfCFTA will be more talk and less action
- Open Skies agreement will gain traction
- More national carriers, but South African Airways (SAA) and Kenya Airways will almost go bust



# Africa in 2020 – Events to Watch



- Further consolidation in Nigerian aviation
- Emphasis on airline infrastructure, airport concessioning & Maintenance, Repair and Operations (MRO) investment
- Elections in Ethiopia, Tanzania, Ghana, Ivory Coast, Guinea and Burkina Faso
- The days of political dynasties will come to an end
- Possibility of coups as US & Britain are distracted



# Africa in 2020 – Country Focus



Kenya



South Africa



Ivory Coast



● Kenya will revoke the cap on interest rates

- South Africa will grudgingly accept reform policies
- Transnet, Eskom and telco reforms

- Election scheduled for October, 2020
- Ivory Coast will make progress/no third term but likely age limit
- Allowing a new generation of leaders





Shifts & Trends to Watch in 2020



# 2019 Vs 2020

2019

A Year of Political Trepidation & Growing Uncertainties

2020

A Year of Economic Imponderables



# Economics of Border Closure

## Pros

- Naira appreciation to N359/\$ before falling back to N360/\$
- Reduced demand for dollars as smugglers have no need for now
- 30% decline in PMS utilization (approx. 18million litres a day)
- Subsidy amount reduced by approx. N135billion
- Supposed increase in custom duty

## Cons

- Disruption in economic activities in border communities - trading sector contracted by 1.45% in Q3
- Reputational damage for Nigeria as a member of World Trade Organization (WTO) & giant of ECOWAS
- 123,000 bags of rice seized in a month





# Border Closure – Impact on Sectors

## Positive - Agric

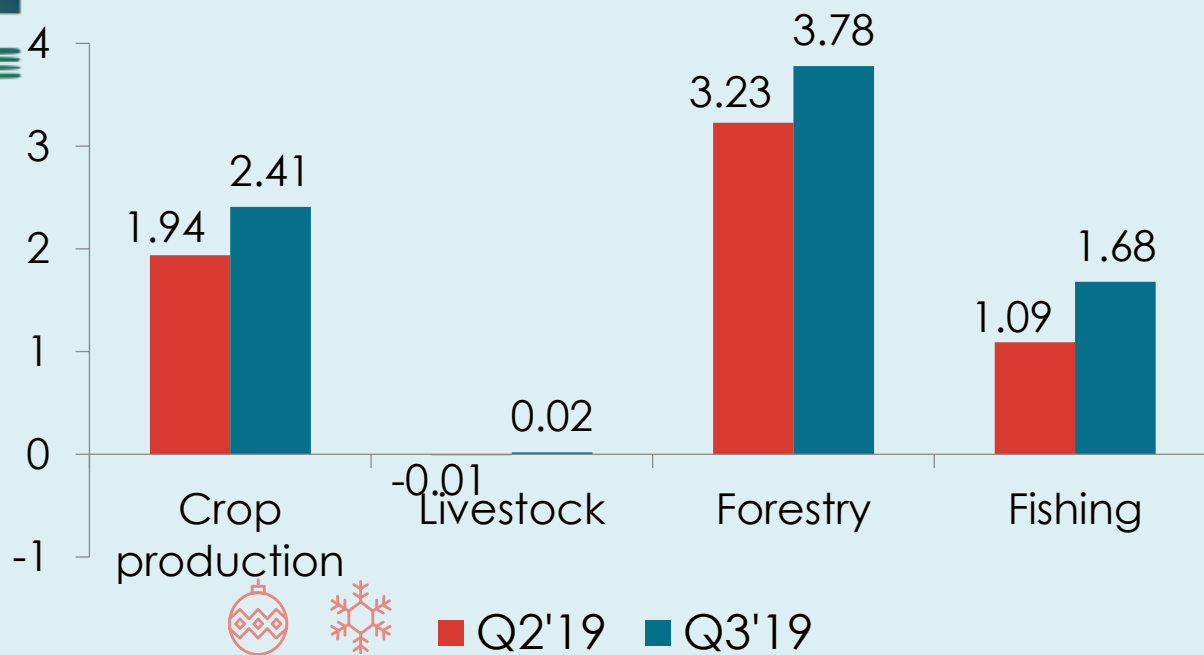
- One of the fastest growing sectors in Q3
- Increased to 2.28% from 1.79% in Q2
- Driven largely by higher crop production

## Negative – Wholesale & retail trade

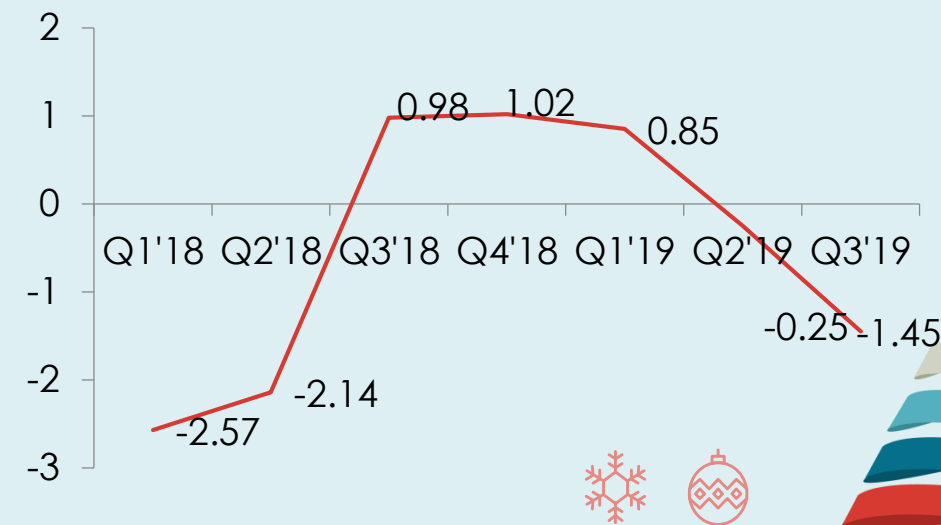
- Sector contracted further to -1.45% in Q3 from -0.25% in Q2
- After three consecutive quarters of growth



### Agric Sector Growth (%)



### Trade Sector Growth (%)



# Lagos-Ibadan Railway

- FGN has commenced free train rides on the Lagos-Ibadan railway
- Free rides expected to last for four months (until March 2020)

## Implications

- Commerce moves towards right of way
- Relocation of industrial sites to allow for close proximity to railway service
  - Leading to an appreciation in residential and commercial property values
- Expected to ease the horrific traffic situation in Lagos
- Improved labor productivity and output



# Cost-reflective Electricity Tariffs

- Full cost-reflective electricity tariffs proposed for July 2020
- Based on the Magodo positive experience
- Rents and property value appreciation
- Cost reflective tariffs are still 50% below alternative energy cost
- Higher tariffs to incentivize investment within the power value chain





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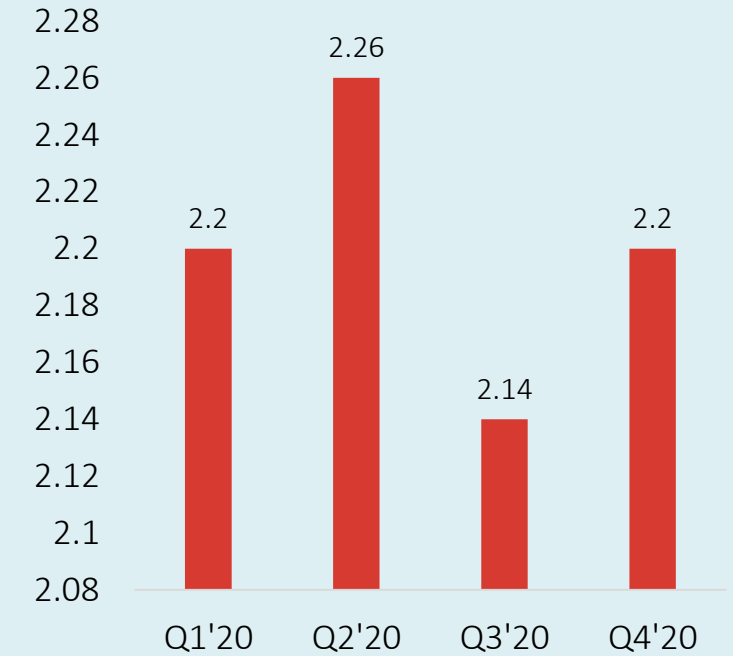
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# The Economy in 2020

# Growth Outlook (2.0%)

- Growth will remain unchanged from 2019 at 2%
- Well below potential GDP growth of 3.1%
- Trade protectionism will constrain growth in the services sector
- Improved credit conditions expected to boost manufacturing sector growth



Source: FDC Think Tank



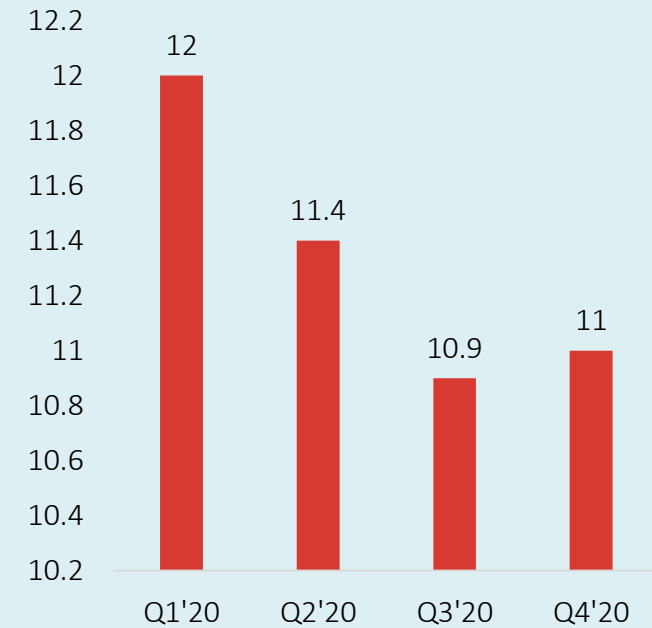
# Inflation Outlook (avg: 11.3%)

## Cost push drivers:

- Supply bottlenecks – border closure, infrastructure deficit, forex restrictions
- Regulatory measures – VAT increase from 5% to 7.5%

## Demand pull factors:

- Payment of new minimum wage and its arrears



Source: FDC Think Tank





# Markets in 2020



# Forex Market – Will the Naira Fall in 2020??

Source: EIU, FDC Think Tank

	2018	2019	2020	% change (2020/2019)
Terms of trade (2010=100)	28.6	26.8	26.0	-2.99
Balance of Trade (\$bn)	22.3	17.1	23.0	34.5
External reserves (\$bn)	43.12	39.62	38.0	-4.09
Share of world exports (%)	0.33	0.34	0.33	-0.01
Interest rate/inflation differential (%)	-0.17	-5.11	-6.00	11.11

Purchasing Power Parity			
	Dec-19		
	=N=	US \$	PPP (=N=/US\$)
Bottle of Pepsi (50cl)	100	2.65	37.74
Beer (60cl)	260	2.91	89.35
Hamburger (Johnny Rock)	3,800	4.59	827.89
Indomie	2,100	3.65	575.34
Toyota Corolla	21,000,000	21,980	955.41
Bottled Water (150cl)	120	1.31	91.60
Big Loaf Bread	400	2.39	167.36
Irish Spring Soap (1 cake)	250	0.86	290.70
Chicken Drumsticks (1 ki)	1,800	4.15	433.73
Eggs (Big Size)	1,000	4.47	223.71
Average PPP			369.28
Naira Price at IEFX			362.71
PPP (%)			
Decision: Naira is		overvalued	1.81%
Spot Rate (Parallel)			360
Outcome: Compared to IFEX rate of N362.71/\$1, the Naira is overvalued by 1.81%			

## Likely Outcomes in 2020:

- Naira could depreciate to N375/\$ at the I&E window
- Multiple exchange rate systems to persist
- CBN will remain committed to defending the naira



# Money Markets



- Investors will accept lower returns or seek alternatives
- Yields have declined by approximately 400bps
- Equities and the forex market are likely alternatives





# Business Proxies in 2020

# Business Proxies Outlook – Payments & Settlements

- New N50 charge could reduce POS transactions (volume and value)
- Cheques will become obsolescent as a medium of exchange
- Convenience will drive demand from millennials

Value (N'bn)			
	Aug'19	Sept'19	Oct'19
Cheques	345.51	351.38	375.24
POS	294.04	283.35	287.75
NIPS	8,730.24	8,482.31	9,331.22

Source: NIBSS



# Business Proxies Outlook - Ships Awaiting Berth

- Completion of Lagos-Ibadan railway to ease port congestion
- Railway could become a more efficient mode of cargo movement

	Aug'19	Sept'19	Oct'19
Ships awaiting berth	20	18	22

Source: NPA





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APPLICATIONS





# The Consumer in 2020

# Poverty & the Nigerian Consumer

Source: EIU

	Nigeria	African Average
Milk consumption (liters per person)	8.0	43.6
Meat consumption (kilogram per person)	9.0	30.4
Health care spending (US\$ per head)	81	358
Infant mortality rate (per 1,000 live birth)	68.4	43.0

## Poverty

States showing % living in absolute poverty



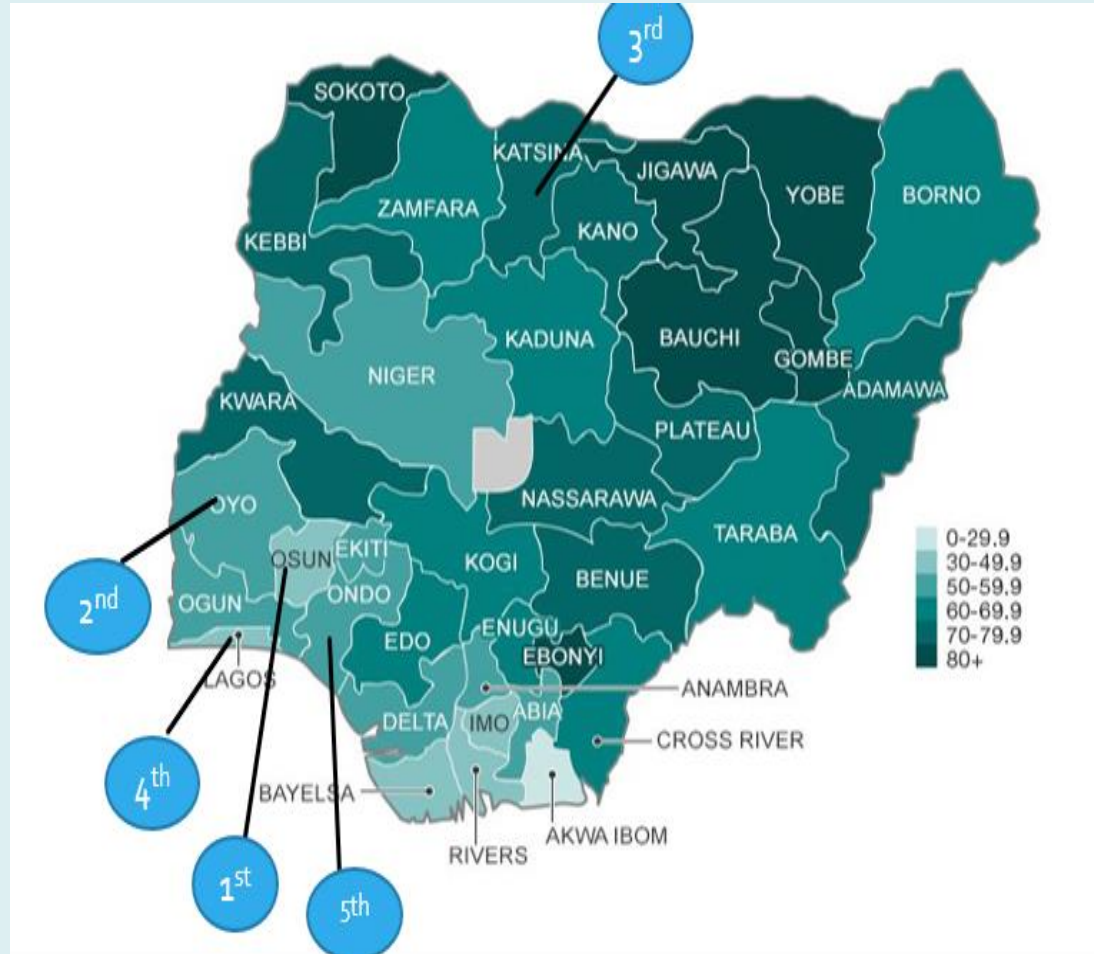
Source: Nigeria National Bureau of Statistics





# Poverty & the Nigerian Consumer – The Resource Curse

## Lowest Misery Index



Source: NBS

States	Unemployment (%)	Inflation (%)	Misery Index	Rank
<u>Osun</u>	10.07	12.00	22.07	1 <sup>st</sup>
Oyo	10.34	12.28	22.62	2 <sup>nd</sup>
<u>Katsina</u>	14.33	9.29	23.61	3 <sup>rd</sup>
Lagos	14.55	12.87	27.43	4 <sup>th</sup>
<u>Ondo</u>	14.24	13.74	27.98	5 <sup>th</sup>

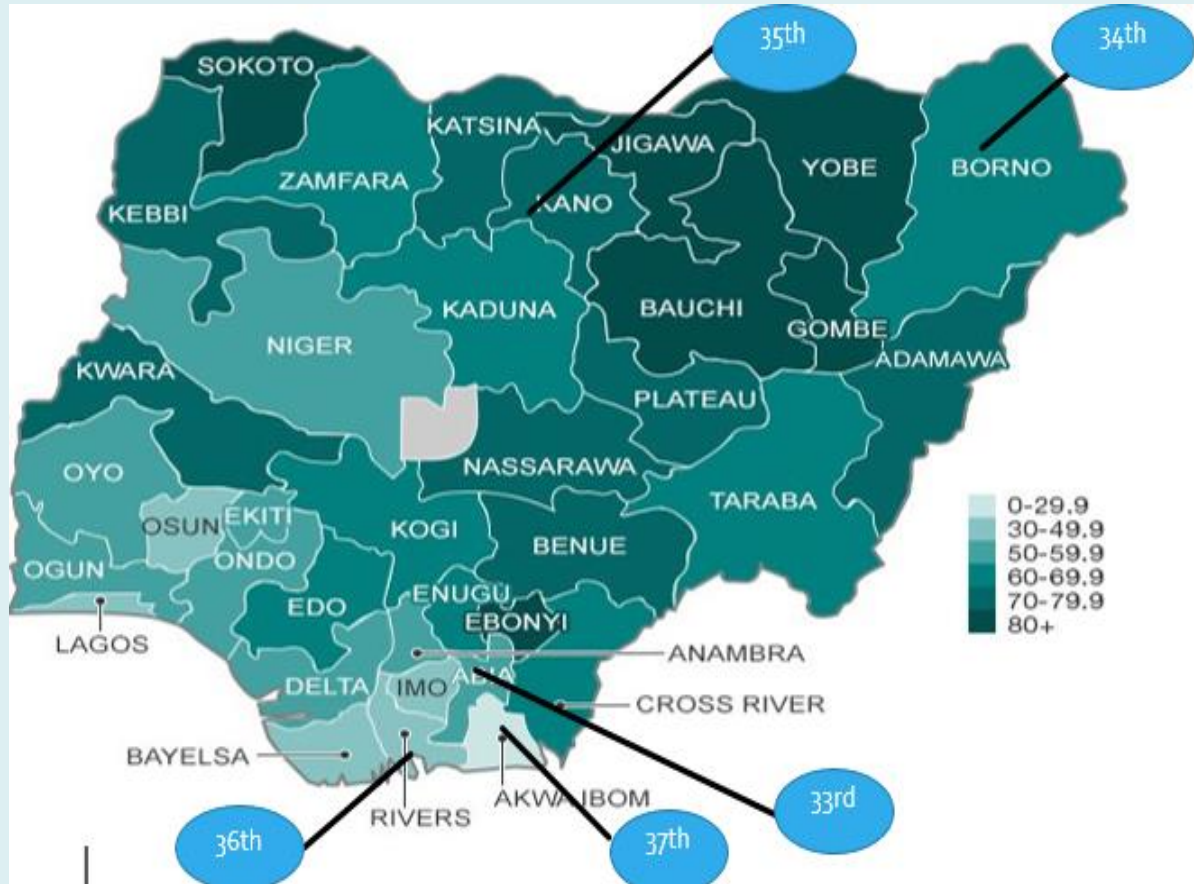
- 📍 Mainly in the South-West
- 📍 Non-resource rich states
- 📍 Share boundaries with Republic of Benin



# Poverty & the Nigerian Consumer – The Resource Curse

Source: NBS

## Highest Misery Index



States	Unemployment (%)	Inflation (%)	Misery Index	Rank
<u>Akwa Ibom</u>	37.72	11.54	49.26	37 <sup>th</sup>
Rivers	36.38	11.77	48.15	36 <sup>th</sup>
Kano	31.25	12.43	43.68	35 <sup>th</sup>
<u>Borno</u>	31.39	11.31	42.70	34 <sup>th</sup>
<u>Abia</u>	31.61	10.88	42.49	33 <sup>rd</sup>

⬆️ Why the paradox?

- ⬆️ Fiscal abuse
- ⬆️ Internal conflict
- ⬆️ Complacency
- ⬆️ Governance breaches
- ⬆️ False sense of entitlement



# Corporate Humour



There is enough in the world for  
everyone's need, but not enough  
for everyone's greed  
– *Frank Buchman*

The roots of education are bitter,  
but the fruit is sweet  
– *Aristotle*



# Corporate Humour



Education is what survives when  
what has been learned has been  
forgotten  
- *B. F. Skinner*

A committee is a group of men  
who individually can do nothing  
but as a group decide that  
nothing can be done.  
- *Fred Allen*





# Corporate Humour

Wives are young men's  
mistresses, companions for  
middle age and nurses for old  
men  
- Francis Bacon



A statesman is a politician who  
places himself at the service of  
the nation. A politician is a  
statesman who places the  
nation at his service  
- *Georges Pompidou*



# Corporate Humour



You cannot strengthen the weak  
by weakening the strong  
- *William Boetcker*

Crime isn't a disease, it's a symptom.  
Cops are like a doctor that gives you  
aspirin for a brain tumour  
- *Raymond Chandler*



# Corporate Humour



The old believe everything, the middle-aged suspect everything and the young know everything.

- *Oscar Wilde*

Genius is only a greater aptitude for patience

- *Comte de Buffon*





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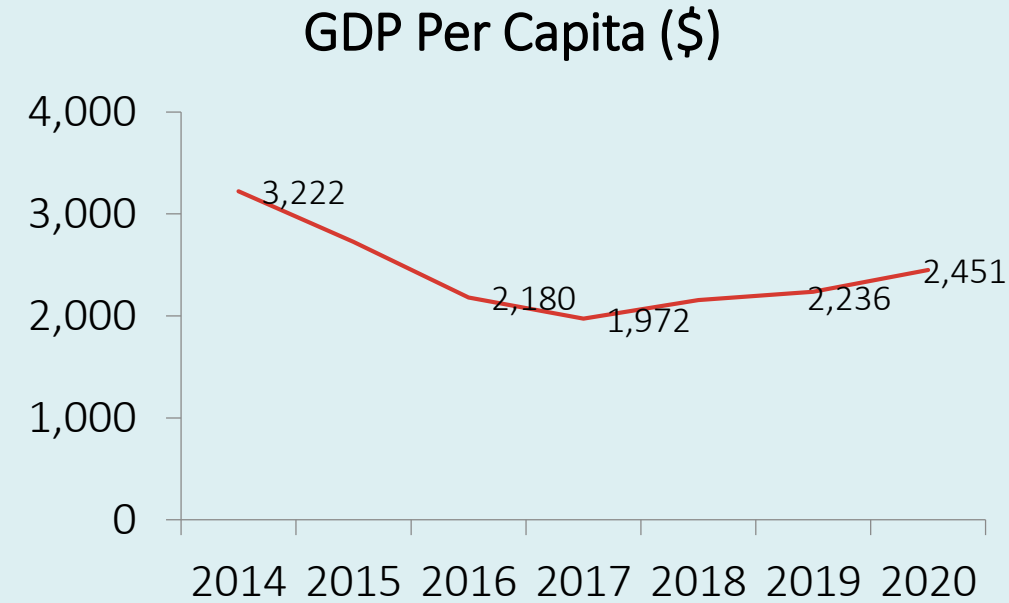
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# The Nigerian Consumer in 2020

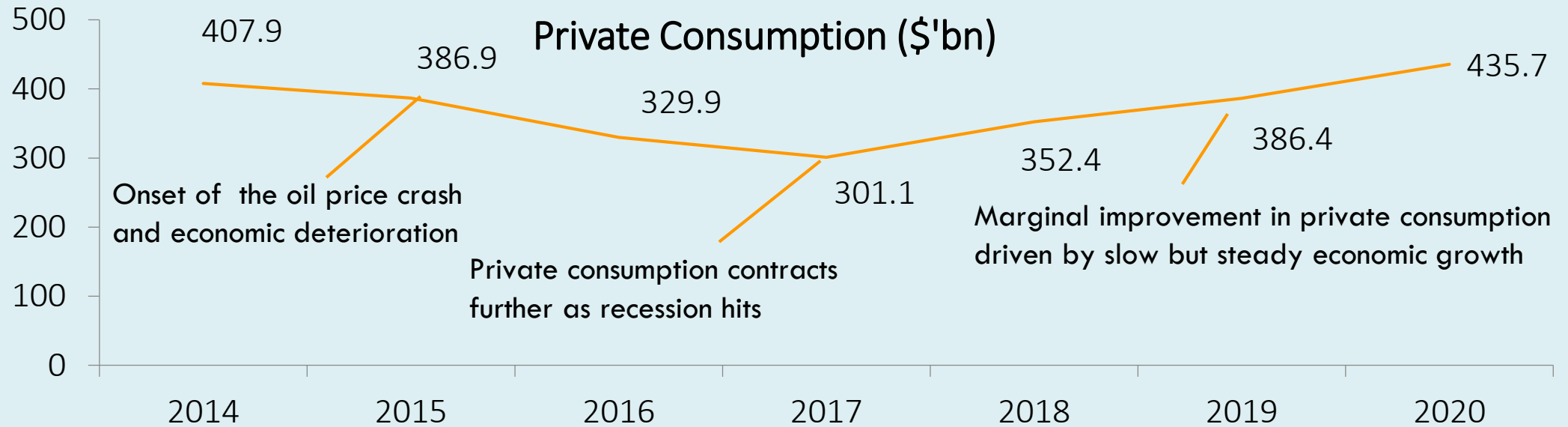
- Disposable income will be squeezed and strapped
  - VAT hike to 7.5% leading to higher commodity prices
  - New electricity tariff
- Other challenges will include:
  - Dwindling income per capita (currently at \$2,236) but on the increase
  - High income inequality
  - Rising poverty rate



Source: EIU



# Private Consumption in 2020



Source: EIU

- Aggregate consumption is \$386 billion, 85.97% of GDP
- Consumption projected to increase by 12.76% in 2020
- Driven by:
  - Slow but steady growth (estimated at 2% in 2020)
  - Higher disposable income (new minimum wage effect)



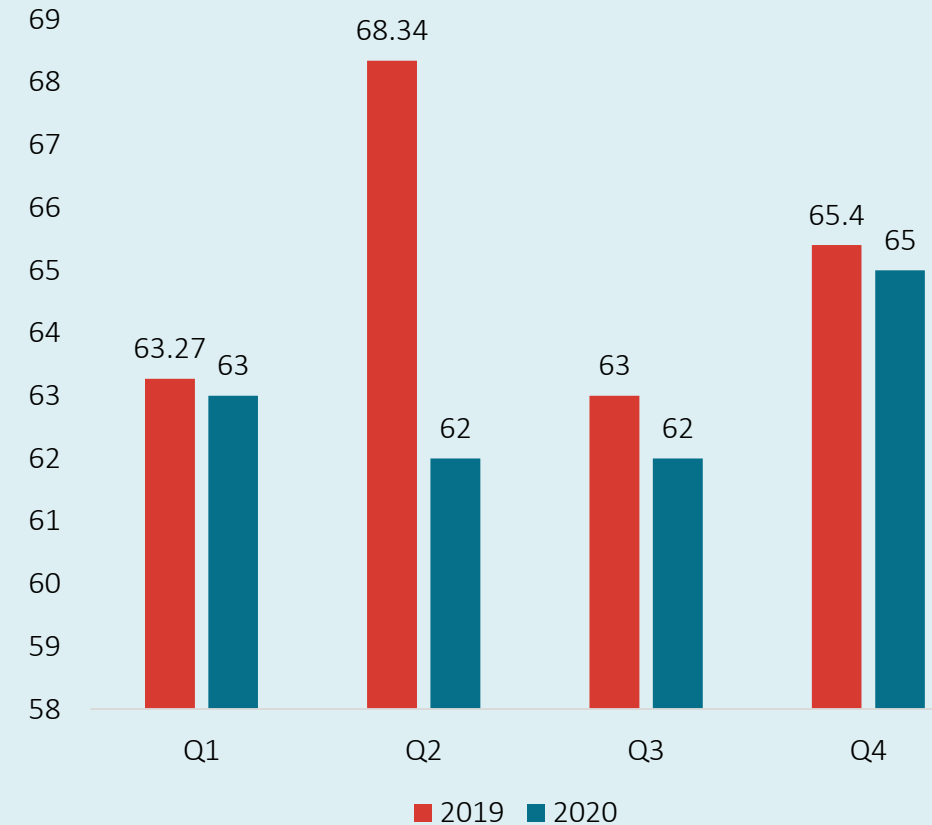


# Commodities World in 2020

# Oil Market in 2020

- Trade protectionism is the primary risk to oil demand and prices in 2020
- Chinese oil consumption growth will moderate marginally (estimated average 2.3%)
- US crude output expected to contract by 1% driven by weaker oil demand
- OPEC production constraints and supply disruptions in countries will also affect global supply

Brent Price (\$'pb)



Source: EIU



# Commodities World in 2020

## Exports

### LNG

- Average price estimated to fall 17.09% to \$8.25/MMBTU;

### Cocoa

- Output projected to decline in the top two producing countries – Ivory Coast and Ghana
  - Resulting in a 2.2% rise in global cocoa price (average \$2,363/tonne)
- Nigeria's production target will prove overambitious

## Imports

### Wheat

- Wheat price estimated to decline by 2.3% to average \$213/tonne
  - Driven by increased output from the EU region, Russia, Ukraine and the US

### Sugar

- Price to rise by 2.8% to 13.2 US cents/pound driven by a prolonged global surplus and growing health consciousness
- Consumption in African countries including Nigeria expected to increase
- Driven by population growth and urbanization





# Nigerian Policy in 2020



# Monetary Policy

- Framework: Explicit inflation targeting (6-9%)
- Thrust: Tightened monetary stance
  - Due to rising inflation expectations and exchange rate pressures
  - Measures to boost GDP growth by stimulating lending to the real sector



# Monetary Policy

## Tools:

- Monetary Policy Rate (MPR): 13.5%
- Asymmetric corridor: +200/-500 basis points around the MPR
- Cash Reserve Ratio (CRR): 22.5%
- Liquidity Ratio: 30%
- Loan-to-Deposit Ratio of 65%
- Open Market Operations (Domestic investors restricted)
- Aggressive intervention in the forex market
- Import restriction on 44 items – to manage forex demand





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# Monetary Policy – CBN 5-year Policy Thrust

- Achieve double-digit GDP growth in the next five years
- Bring down inflation to single-digits
- Improve the payment systems infrastructure and driving financial inclusion to 95% by 2024
- Maintain the existing exchange-rate policy regime of a managed float
- Recapitalize the banking industry



# Monetary Policy Outlook

- Rising inflation and depleting external reserves will compel the CBN to maintain status quo on the MPR
- CBN to only consider interest rate cut when inflation enters a sustained downward trend and falls below the targeted upper limit of 9%
- Will continue to employ unorthodox measures to stimulate lending as economic growth becomes a stronger consideration
- Will continue in its aggressive intervention at the forex market at the expense of external reserves
- Likely to impose more forex restrictions than devalue the naira in the face of growing external imbalances



# Fiscal Policy

## 📌 Framework:

- 📌 Medium Term Expenditure Framework

## 📌 Thrust:

- 📌 Tied to the objectives of the ERGP – rests on the tripod of growth restoration, investment in people
- 📌 Through various social investment programs and building a globally competitive economy by focusing on critical infrastructure

## 📌 Tools:

- 📌 Tax
- 📌 Debt
- 📌 Subsidies





# Fiscal Policy Outlook

- Efforts at collecting overdue taxes will intensify
- Hike in VAT to 7.5% will be implemented – still among the lowest globally
- Lower oil prices and more tightly enforced OPEC quotas will limit oil revenues
- Subsidies will continue (gas and power)
- The official exchange rate will be kept at N306/\$ - as it is critical for maintaining gas subsidies
- Upward adjustments will trigger inflationary pressures and severe political backlash













# Stock Market Review

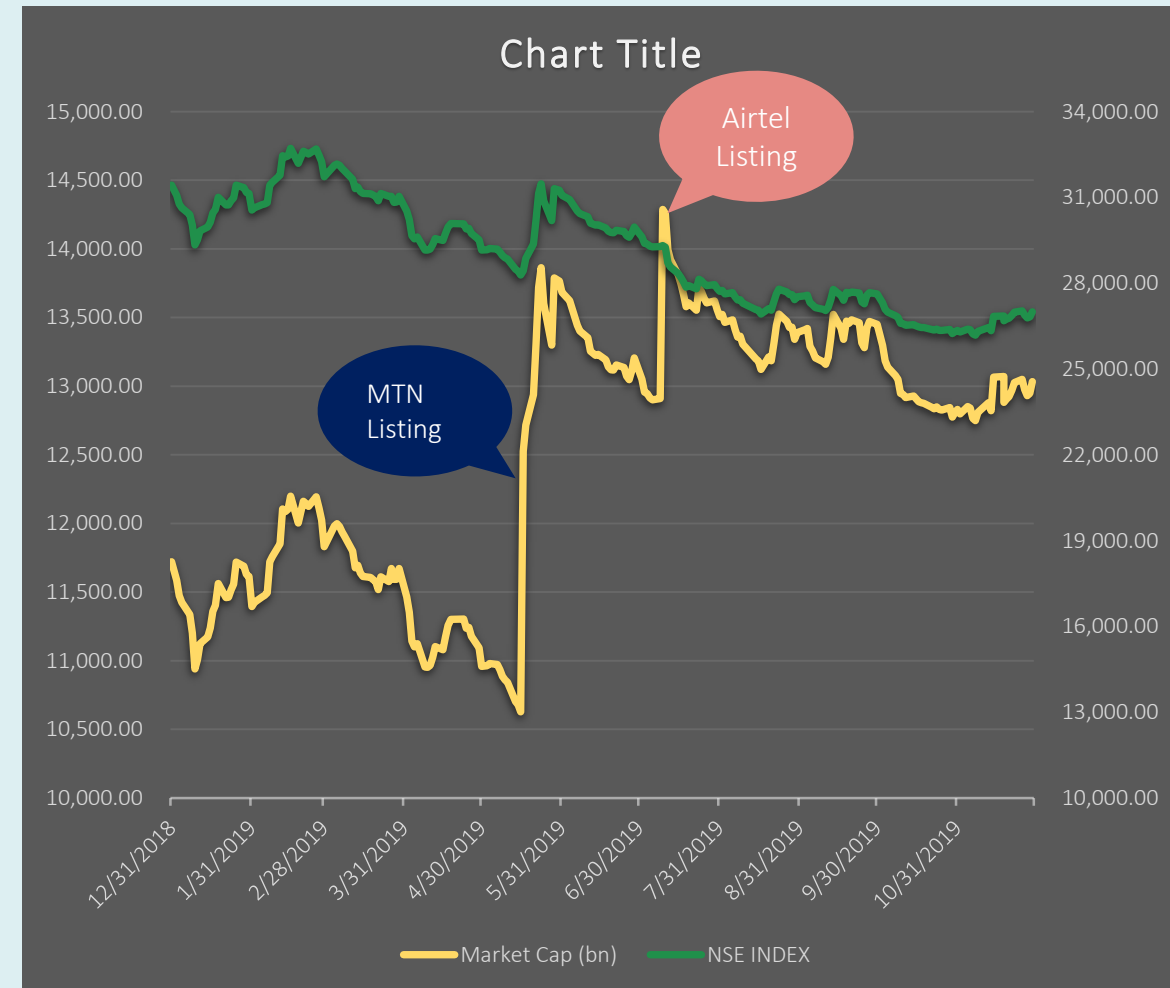
# Global Stock Market Review (2019) – Mostly Positive

Exchange	YTD Return	Driver
<b>NYSE composite</b>	 18.23%	<ul style="list-style-type: none"> <li>• Declining yields on fixed income instrument</li> <li>• Strong consumer spending</li> <li>• Expected positive developments in US-China trade relations</li> </ul>
<b>FTSE 100</b>	 8.2%	<ul style="list-style-type: none"> <li>• Declining yields on fixed income instrument</li> </ul>
<b>SSE</b>	 15.67%	<ul style="list-style-type: none"> <li>• Eased trade war tension</li> <li>• MSCI's decision to raise the share of Chinese stocks to be included in its flagship Emerging Markets benchmark</li> </ul>
<b>NSE ASI</b>	 14.04%	<ul style="list-style-type: none"> <li>• Negative investor sentiment</li> <li>• Underwhelming earnings result across sectors</li> <li>• Slow economic growth</li> </ul>
<b>JSE ASI</b>	 4.95%	<ul style="list-style-type: none"> <li>• Bargain hunting</li> <li>• Strength in global tech investor (Naspers) and mining stocks</li> <li>• Listing of Multichoice</li> </ul>
<b>GSE</b>	 16.88%	<ul style="list-style-type: none"> <li>• Negative sentiment driven by extended financial sector clean-up</li> <li>• Concerns about political risk as election year approaches</li> </ul>

# Nigerian Stock Market Review (2019)

- Bearish run dominant in 2019
  - Despite listing of 2 telecom giants
- Performance driven by negative market sentiment
  - Underwhelming earnings release
  - Perceived vulnerability
  - Inconsistencies in policy making
  - Increasing uncertainties on implementation of structural reforms
  - Unfulfilled economic potential

• NSE ASI  14.09% to 27,002.15

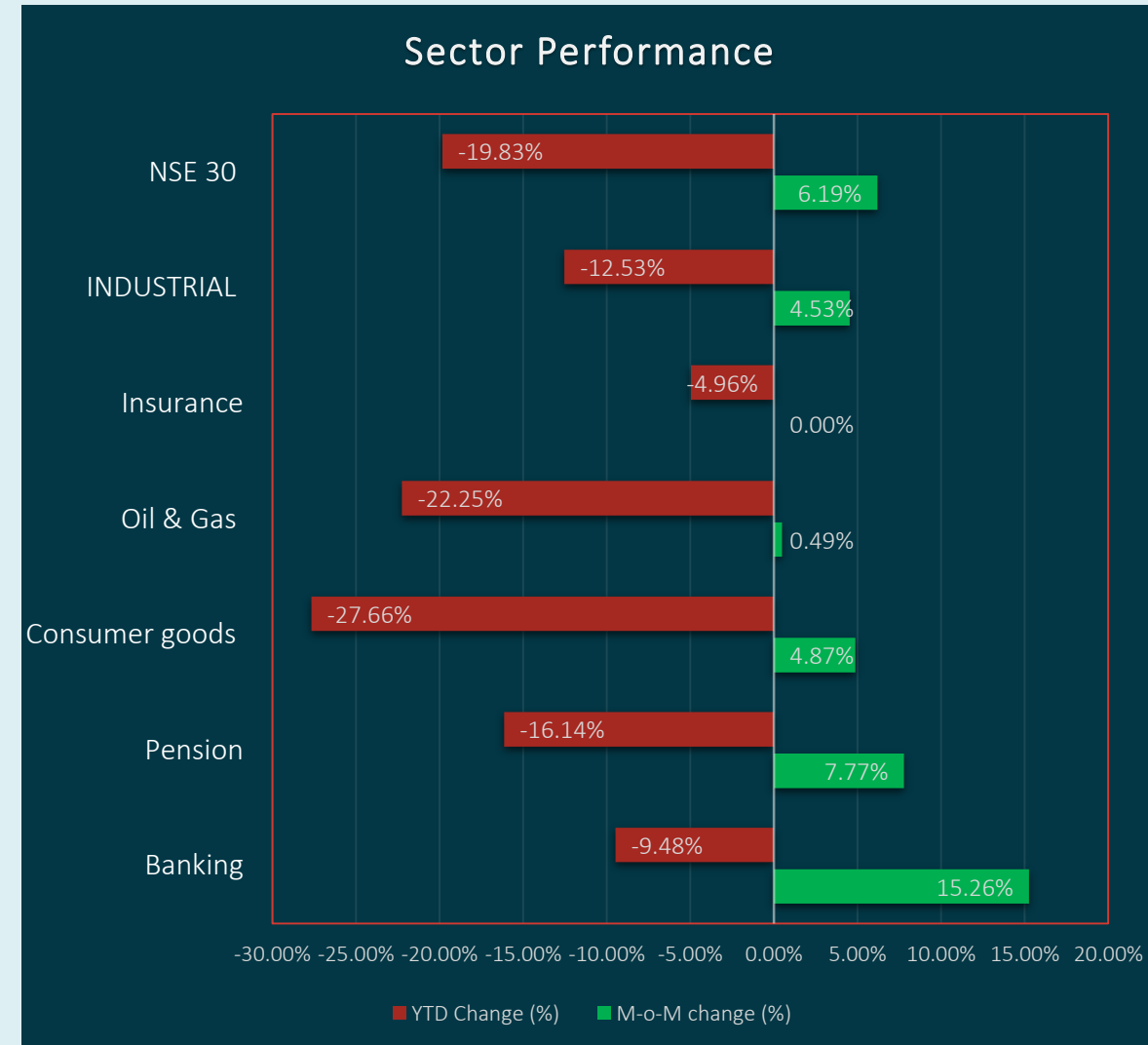


Source: NSE



# Sector Performance

- All sectors closed in green month-on-month
  - But in red YTD
- Banking recorded the highest gain in November
  - Due to its high sensitivity to liquidity
- Consumer goods recorded worst performance YTD
  - Due to investors' reaction to unimpressive earnings
  - Especially by the breweries



Source: NSE



# Stock Performance in 2019

## Top 5 Gainers

Name	Change
CORNERSTONE INSURANCE COMPANY PLC.	295.00%
C & I LEASING PLC.	234.27%
CHAMS PLC	75.00%
THOMAS WYATT NIG. PLC.	65.22%
B.O.C. GASES PLC.	45.37%

## Top 5 Losers

Name	Change
INTERNATIONAL BREWERIES PLC.	-69.18%
GOLDLINK INSURANCE PLC	-62.26%
RESORT SAVINGS & LOANS PLC	-60.00%
GUINNESS NIG PLC	-56.94%
GLAXO SMITHKLINE CONSUMER NIG. PLC.	-56.90%



- Gainers dominated by service providers
- Gains recorded by C & I leasing boosted by the capital reconstruction concluded in January 2019
- Breweries significantly affected by excise duty

# Stock Picks – What We Like and Why

## Access Bank

- In the process of expanding its footprint across Africa
- Strong brand name
- Successfully integrated an acquired bank in 9 months
- Strong IT Platform

## GTB

- Strong brand name
- Expected customer growth from improved retail profile
- Strong operating efficiency to keep bank more profitable than its peers

## MTN

- Extensive spread across Africa
- Strong brand name
- Largest mobile operator in Nigeria
- Largest fiber network in Nigeria
- Wide economic moat

## Lafarge

- Positioned for faster growth
- Controls the second largest market share (30%)
- To benefit from government commitment to bridge infrastructure deficit

## Nestle

- Strong brand name
- Strong distribution network
- Diversified product portfolio





# Leo

## on WhatsApp

Chat on +234-903-000-2455

Check Account Balance?

Top up your airtime?

Bank Transfers?

Bills Payment?

 <https://m.me/ubachatbanking>  [Leo@ubagroup.com](mailto:Leo@ubagroup.com)  CFC (+234-1-2807400)

■ Africa

• New York

• London

• Paris



# Outlook for 2020 – Brighter Days Ahead

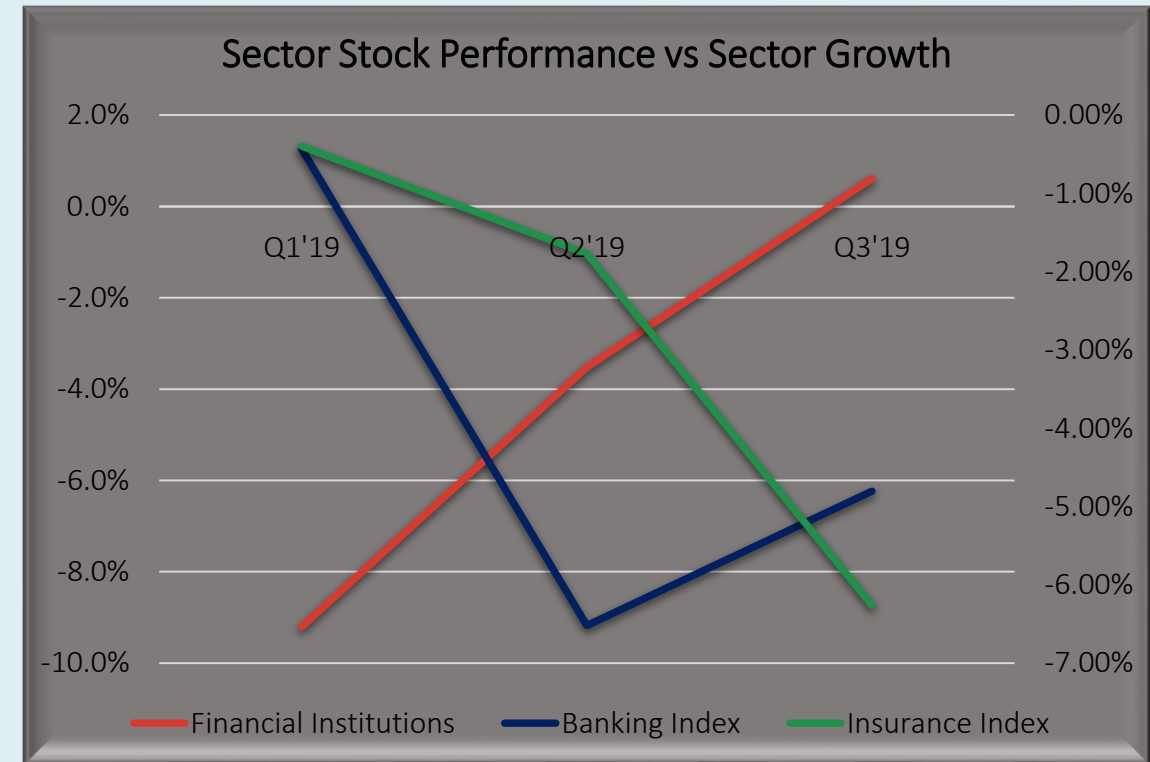
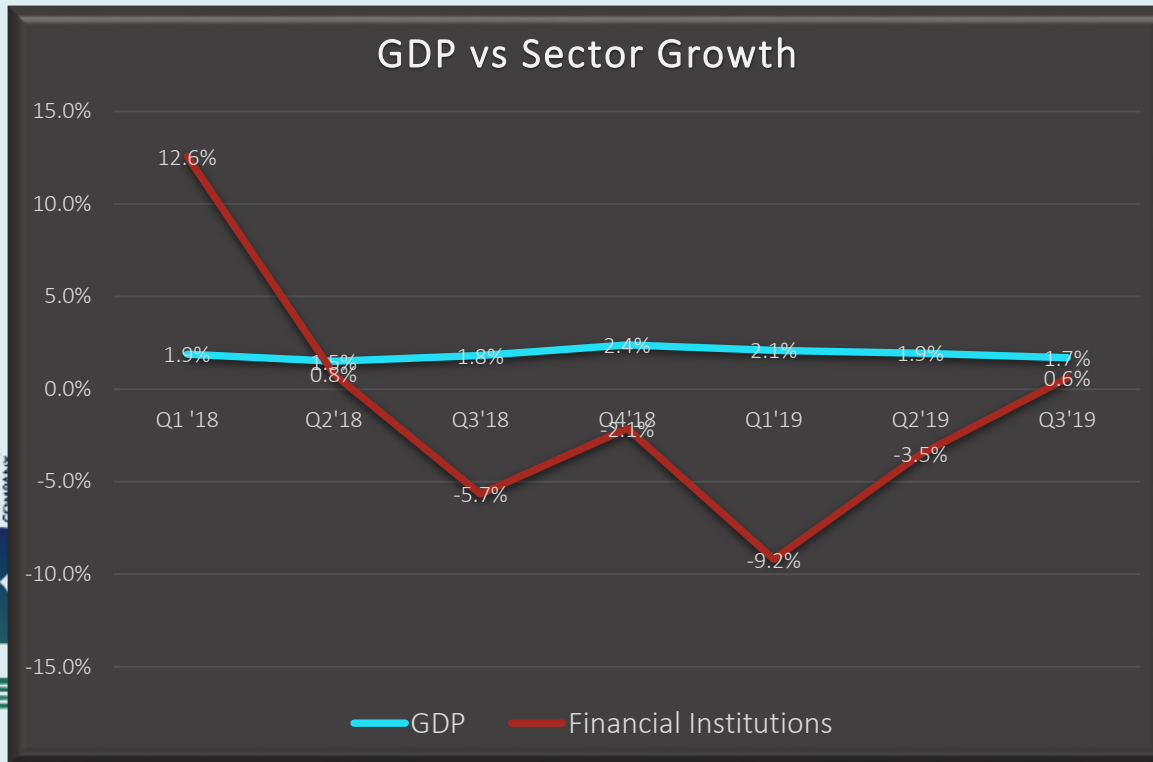
- Likely to be better than 2019
  - Gradual improvement in investor confidence
  - Increase in market activities
    - Declining yield on fixed income instruments
    - Excess liquidity resulting from regulatory restrictions
    - Expected listing by Interswitch group on the local bourse
- Bargain hunting in the insurance space as industry consolidates





Sectors in View

# Financial Services



- A drag on the economy as it has consistently underperformed in the last six quarters
  - Due to multiple regulations
  - Likely consolidation in the sector due to pressure
- Banking and insurance sectors' stock performance shows inverse relationship with industry growth
  - Average earnings of top three banks (excluding Access Bank) increased by 9% in 9M'19
  - Q3'19 performance driven by increase in institutional investors' exposure to the sector



# Financial Service Outlook – Global EIU

- Bank balance sheets and lending will expand by 6.5% in 2020
- Asia and Australia will be the fastest growing regions in both regards
  - With balance sheets rising by 7.6% and economy growing by 4.3%
  - Both measures will expand by 3.5% on average in North America
- Prevailing headwinds for financial firms will endure in 2020
- Stricter financial rules both on an internal and national basis
- Financial firms in emerging markets will have a relatively straightforward task in 2020
  - Take advantage of growth in number of customers
  - Greatly expand access to services to build businesses and earn

profit



# Banking Industry Outlook

- Fundamental shift in market dynamics
  - Shift from product to experience
  - Assets to data
  - Ownership to shared data
  - Building/buying to partnership
- New ecosystem to feature the emergence of roles that challenge traditional banking assumptions
  - Assuming a position that aligns with core capabilities and external environment key to success
- Increasing financial disintermediation to put pressure on earnings
  - Over N193 billion raised in CPs so far in 2019
- Need for malleable strategy due to increasing regulatory risk



# Other Financial Institutions Outlook

## • Insurance

- Improved regulatory environment
- Increasing interest by foreign players as seen in recent times
- Consolidation due to mandatory recapitalization
  - Insurers with large capital base at an advantage

## • Pension Fund Administrators

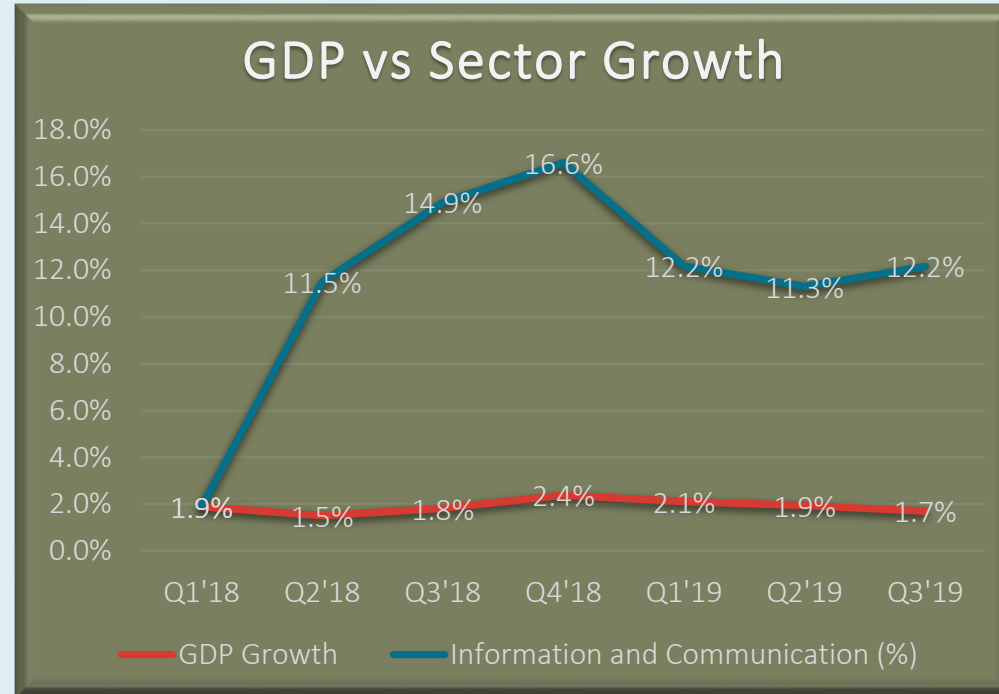
- Performance to be adversely affected by declining yields
- Propose exposure to alternative investment classes to boost performance





# Telecommunications

- One of the fastest growing sectors
- Significantly outperformed GDP growth in the last six quarters
- Listing of the two telecom giants on the local bourse increased market capitalization
  - Represents 26.9% of market capitalization
  - MTN recorded the highest return relative to peers due to;
    - Strong fundamentals (highest EBITDA margin at 53.7%)
    - Showcases 5G network capability



Name	YTD Change	Value
MTN	↑	20.20%
Airtel	↓	25.10%
NCR	↓	33.90%
Etranzact	↓	25%



# Telecommunications Outlook - Global

- Demand for telecoms to continue
  - Take-up of mobile subscription to continue
  - Rise in broadband penetration
  - Industry to be continuously reshaped by
    - Next generation
    - Pressure of digital transformation
- US-China trade war poses a major risk
  - Due to dominance of Chinese companies in the build-up of telecoms infrastructure
  - Investment in 5G and fiber fixed line services likely to be top priority
- However, return and regulatory uncertainties are potent



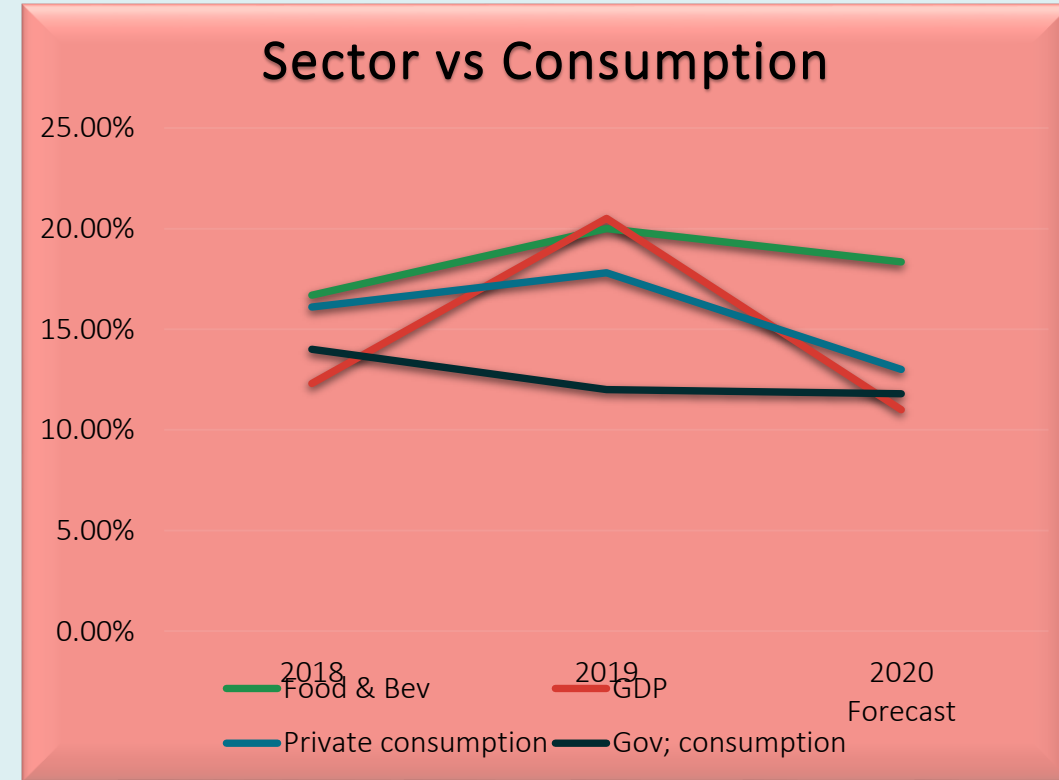
# Telecommunications Outlook - Domestic

- Sector growth to outperform economic growth
- Government commitment to drive financial inclusion
- To benefit from licensing of PSBs
  - According to the World Bank, 4% of unbanked adults in the world reside in Nigeria
  - 10% of the unbanked have access to mobile phones and internet
  - SSA is the fastest growing digital payments market in the world
  - CAGR of 35% between 2018 and 2023
- Likely collaboration between telcos and banks to drive financial inclusion



# Food & Beverage

- Positive correlation between sector growth and private consumption
- Negative correlation between government consumption and sector growth
- Slope of sector growth flatter than slope of GDP growth
- Sector adversely affected by the forex ban on food items
- Consumer goods sector ranked the worst performing index on the local bourse at -27.66%



# Food & Beverage - Outlook

- Untapped opportunities due to:
  - Growing population - Nigeria expected to be one of the most populous country by 2050
  - Demographics that support growing urbanization
- Government commitment to diversify the economy
- Border closure extension to stimulate backward integration
- Boost in earnings due to declining borrowing cost
- Weak consumer spending and rising inflation to weigh on profitability





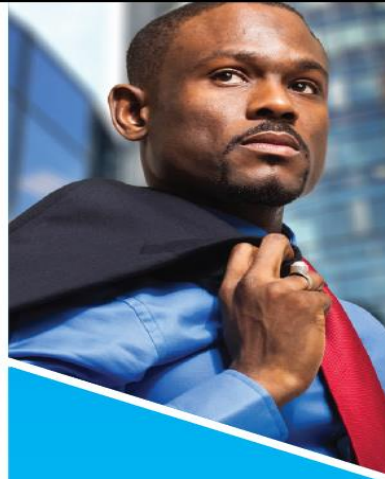
## 2020 EXECUTIVE EDUCATION OPEN SEMINARS

ACCOUNTING, FINANCE & ECONOMICS	DATE	FEE
Accounting & Finance for Non-Finance Managers	Lagos: May 11-15, PH: September 14 -19	N425,000
Budgeting, Forecasting and Control	August 5 - 7	N275,000
Economics for Decision Making	September 22 -24	N255,000
Financial Modeling	August 24 -28	N455,000
Managing Risks in Financial Institutions	June 8 - 10	N255,000
Senior Financial Analysts Programme	December 7-11	N455,000
Strategic Cost Management for Senior Managers	December 1 -3	N255,000

GENERAL MANAGEMENT	DATE	FEE
Understanding the Agribusiness Value Chain Seminar	April 21 -22	N170,000
The Effective Director	July 28 -29	N300,000
Doing Business in Africa	November 2-4	N255,000
Driving Business Success	November 16 -20	N425,000
Managing Compliance and Legal Risks	May 18 -20	N272,850
Managing partnerships and strategic alliances	September 29 -30	N170,000
Managing People for Strategic Advantage	Lagos: August 4 -6, Abuja: September 28 -30	N310,000
Problem Solving and Decision Making for Executives	September 7 -9	N285,000
Stepping up to Management	Lagos: June 23 - 24, PH: October 26 -27	N210,000

MARKETING AND SALES MANAGEMENT	DATE	FEE
Analytics for better Marketing Decisions	April 22-23	N210,000
Building Brands: Boosting Sales	August 10 -12	N255,000
Critical Tools for effective sales & marketing	July 13 -14	N185,000
Digital Marketing -Strategies for Winning in the Digital Age	November 23 -25	N255,000
FMCG Marketing Strategy	September 1-3	N255,000
Managerial Leadership in Sales & Marketing	December 1 - 3	N310,000
Outstanding Customer Relationship Management	September 7 - 8	N180,000
Personal Branding	June 30 - July 1	N170,000
Pricing Strategy and Tactics for profitability	October 27 -28	N210,000
Strategic Key Account Management	August 17 -19	N290,000
Strategic Marketing Management	September 2-4	N255,000

OPERATIONS MANAGEMENT AND MIS	DATE	FEE
Business Process Improvement Methodologies	June 23 -25	N275,000
Developing Analytical Competence for Managing Operations	July 13-17	N455,000
Driving Efficiency and Operational Performance	June 30 - July 2	N255,000
Effective Project Management	June 1-5	N455,000
Effective Service Management	September 21-23	N275,000
Logistics & Supply Chain Management	October 19-23	N275,000
Post-Award Contract Execution/Management	Lagos: November 18 -19, PH: September 29 -30	N170,000
Smart Business Decisions: the Power of Data Analysis	June 15 - 19	N455,000
Strategic Procurement / Contract Management	Lagos: June 23 -25, PH: November 23 -25	N275,000



**PROGRAMME VENUE:**  
Km 22, Lekki-Epe Expressway,  
Ajah, Lagos

**TIME:** 9.00 am - 5.00 pm

**PRIOR REGISTRATION**  
is mandatory to secure a place on  
the seminar.

**Discounts (only one category applicable)**

**10% off** For 5 more nominees from the same company  
Per nominee on Corporate Partner Programme  
For individuals who pay at least 6 weeks ahead of schedules seminar

**15% off** Financial members of LBS alumni Association

Download detailed calendar from our website [www.lbs.edu.ng](http://www.lbs.edu.ng)

### RESERVATIONS/ADDITIONAL INFORMATION

**Reservations/ Additional Information:**  
Efosa Ajorgbor: 0701 990 0758  
Vivian Akere: 0708 609 5194  
Ben Eliezer: 0808 672 6686

email: [exceedsales@lbs.edu.ng](mailto:exceedsales@lbs.edu.ng)

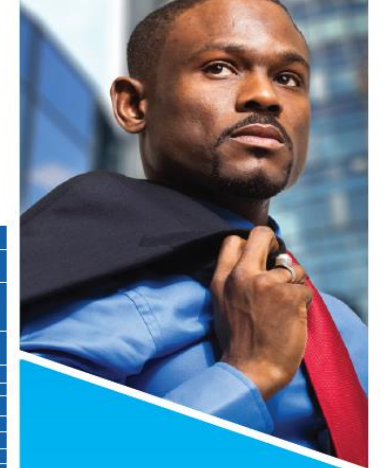
**FT** Financial Times  
Lagos Business School is ranked with the world's top business schools in open enrolment executive education ( 2007 - 2019 and custom executive education (2015 - 2019).  
Financial Times London



PERSONAL LEADERSHIP & HRM	DATE	FEE
Advanced HR Management Workshop	June 8 - 9	N210,000
Authentic Leadership	Online Phase: July 6 - August 17, Class phase: August 18 -20	N360,000
Building and Leading the 21st Century Team	Lagos: 1st run: March 24 - 26, 2nd run: September 1-3; Abuja: December 14 -16, PH: July 20-22	N290,000
Workplace Conflict Management and Resolution Skills	July 28 -29	N170,000
Employment Law and Industrial Relations	June 30 - July 2	N255,000
Executive Team leadership	November 9 - 13	N495,000
Leadership in Health and Safety Management	September 2 -4	N255,000
Mastering Human Resource Management	September 21 -25	
Refining your Interpersonal Skills	August 4 -6	N425,000
Winning Skills and Tools for Negotiation	Lagos: April 15 -17, PH: August 10 -12	N255,000
Winning with Influencing and Assertiveness Skills	April 28-30	N255,000

SECTOR SPECIFIC	DATE	FEE
Managing Governmental Relations	May 18 -20 (Abuja); October 12 -14 (Lagos)	N275,000
Mastering Infrastructure and Project Finance	November 9 - 11	N255,000
Social Impact Assessment/Sustainability Reporting Workshop	February 13th	N90,000
Women in Leadership	1st run: May 18 -20, 2nd run: October 12 -14	N255,000
Real Estate Finance and Investment	October 20 - 22	N300,000
Real Estate Development	April 28 -30	N300,000
Real Estate Marketing	February 25 -27	N300,000
Innovation and Entrepreneurial Thinking and the Real Estate Industry	December 1 - 3	N300,000
Sports Business Management	August 10 -12	N150,000
Conference: Designing Tax Governance & Strategy for Competitive Advantage	March 11 <sup>th</sup>	N90,000

STRATEGY INNOVATION GOVERNANCE	DATE	FEE
Creating strategy for competitive advantage	October 20 - 22	N255,000
Driving Strategic Innovation and Business Development	July 20 -22	N310,000
Mastering Blue Ocean Strategy - Creating uncontested market space	September 21 -23	N265,000
Turning Strategy into Action	Lagos: September 7-9, Abuja: November 17-18, PH: July 6-8	N350,000



**PROGRAMME VENUE:**  
Km 22, Lekki-Epe Expressway,  
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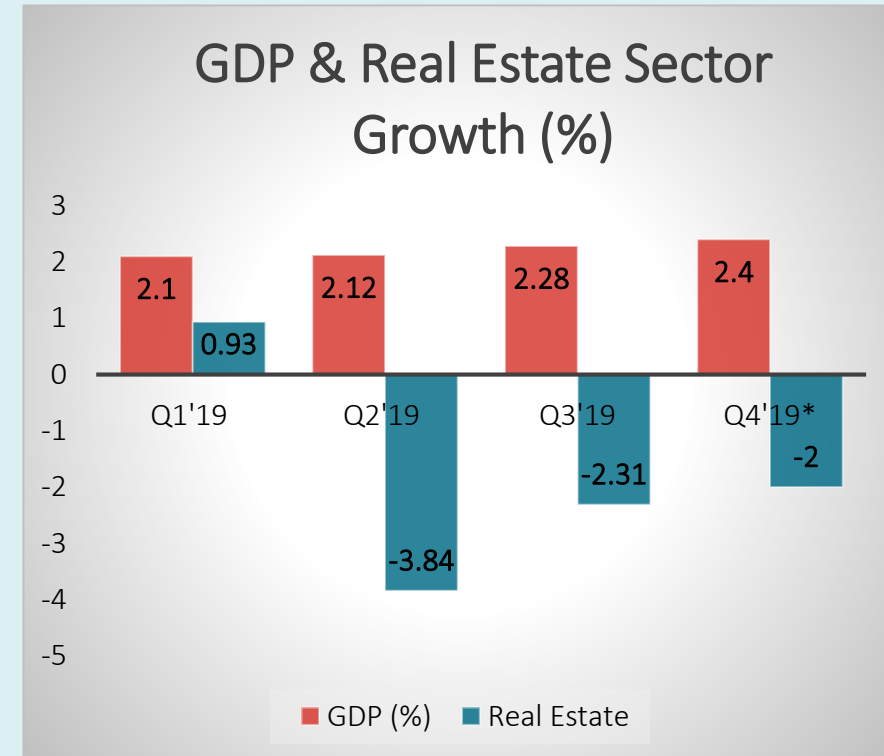






# Real Estate Sector - No Light at the End of the Tunnel

- Sector will continue to lag economic growth
- Recovery of the sector will depend on:
  - Lower borrowing costs
  - Improved security
  - Improved traffic management
- Demand for commercial spaces could weaken on slow economy
- Increasing consciousness for sustainability in commercial real estate market



Source: NBS, FDC Think Tank



# Aviation Sector Outlook – National Carriers (Back to the Future)

Countries that are considering/launched national carriers	
Ghana	Government of Ghana & private sector to hold majority stake of 51%; Ethiopian Airlines 49%
Senegal	Air Senegal launched to replace the defunct Senegal Airlines
Uganda	Uganda Airlines relaunched in 2019 after it ceased operations in 2001
Tanzania	Air Tanzania was established in 1977 as Air Tanzania Corporation
Burkina Faso	Air Burkina was established in 1967 under the name Air Volta

VS

Countries with struggling national carriers	
Air India	Loss making carrier is inviting bids from the private sector; suffering from a bloated workforce
South African Airways	SAA has not reported a profit since 2011; struggling with an unprofitable network, inefficient planes and a bloated workforce
Kenya Airways	Parliament voted to renationalize the loss making airline in July 2019

# Aviation Sector Outlook

## **International**

- Airlines will continue to offer discounts to attract more traffic
- Increased vigilance on monthly backlog and remittances
  - To enable quick responses to exchange rate vulnerabilities



# Aviation Sector Outlook



## **Domestic (Air Peace fall out and its impact)**

- International route (Sharjah):
  - Passengers already well served by Emirates, Ethiad
- Regional routes: minimal disruption
  - Players such as Asky, AWA will fill the gap
- Domestic route:
  - Negative impact
  - Greater scrutiny





Risk Footprints in 2020



# Risks

## Market Risks

- Oil price could fall below \$50 per barrel
- Resurgence in militant activities
- Forex shortages – external sector weakness

## Policy Risks

- Ideological backslide
- Reactive rather than strategic policies
- CBN fails to curtail rising inflation

## Political Risks

- Lame duck status
- Party squabbles





Political Roadmap in 2020  
2023 Race: On your Marks, Set...

# Outlook

- The 2023 Presidential race started already
- There are at least 16 candidates from the North and 27 from across the South
- Zoning of the Presidency is now very unlikely
- Some APC candidates say that it is a PDP arrangement not a National agreement
- APC victory in Bayelsa state is a major political development
- Attributed to internal squabbling between the Jonathan and Dickson camps
- APC now have a major beachhead in the Niger Delta



# Outlook

- A region that has been predominantly PDP from the start
- Buhari has foreclosed any thought of a 3<sup>rd</sup> term
- Some fanatics still believe that anything is possible
- The budget has been approved and the external debt bill for \$30bn additional foreign loans will be passed
- Edo state is a war zone but incumbent will win
- Ondo state is also in play but we call it for the incumbent as well
- Fears of Nigeria sliding into a one party state are overblown



# Outlook

- The internal squabbles within the APC makes that impossible
- There is a greater chance of political splintering than consolidation
- The conviction of Orji Kalu and arrest of Adoke is changing the complexion of the anti-corruption war
- Even APC stalwarts could be nailed
- The handling of the Sowore case will determine the Human Rights credentials of the administration
- The FGN will likely comply with the court rulings





# 2020 Outlook

Good for Government, Fair for Investors & Tough for Consumers



# 2020 Outlook – The Government (More Revenue, More Work)

- Higher tax revenue and improved tax collection
- Increased borrowing to meet revenue shortfall
- Supplementary budget expected in Q2
- Economic policy will remain interventionist
- Border closure will most likely be extended beyond January 2020
- High possibility of more forex restrictions



# 2020 Outlook – The Investor

- *Money markets*: interest will increase in Q2
- *Naira stock market*: will increase marginally
- *Real estate*: still in the dog house (vacancy rate at 24%)
- *Dollar investment*:
  - US stock market: bull run to slow (upcoming election)
  - Eurobond: declining yields as monetary authorities maintain dovish stance



# 2020 Outlook – The Consumer

- New minimum wage
- Fairly stable electricity (higher tariff)?
- Lagos-Ibadan railway
- *Challenges:*
  - VAT increase
  - Restoration of toll gates
  - Higher inflation rate (border closure extended)



# Corporate Humour



Regular naps prevent old age, especially if you take them while driving.  
- *Anonymous*

“Housewives” is a term I employ that means anybody who has ever had to clean up somebody else’s shit and not been paid for it.  
- *Roseanne Barr*



# Corporate Humour



A child's greatest period of growth is the month after you've purchased new school uniforms.  
- *Anonymous*

The problem with marriage is that it ends every night after making love, and it must be rebuilt every morning before breakfast.  
- *Gabriel Garcia Marquez*



# Corporate Humour



Don't marry the person you want to live with, marry the one you cannot live without, but whatever you do, you'll regret it later.  
- *Anonymous*

Laziness is nothing more than the habit of resting before you get tired.  
- *Anonymous*





# Corporate Humour



Marriage is give and take.  
You'd better give it to her or  
she'll take it anyway.  
- *Anonymous*

A woman's mind is cleaner  
than a man's: she changes it  
more often  
- *Oliver Herford*



# Corporate Humour



They call our language the mother tongue because the father seldom gets to speak!  
- *Anonymous*

It's funny when people discuss Love Marriage vs Arranged Marriage. It's like asking someone, if suicide is better than being murdered  
- *Anonymous*



THANK YOU



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