



LBS Breakfast Session

# *The Clouds Gather and the Uncertainty Increases*

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CEO, Financial Derivatives Company Ltd.

July 3, 2019

# Outline

Highlights

Stock Market  
Review



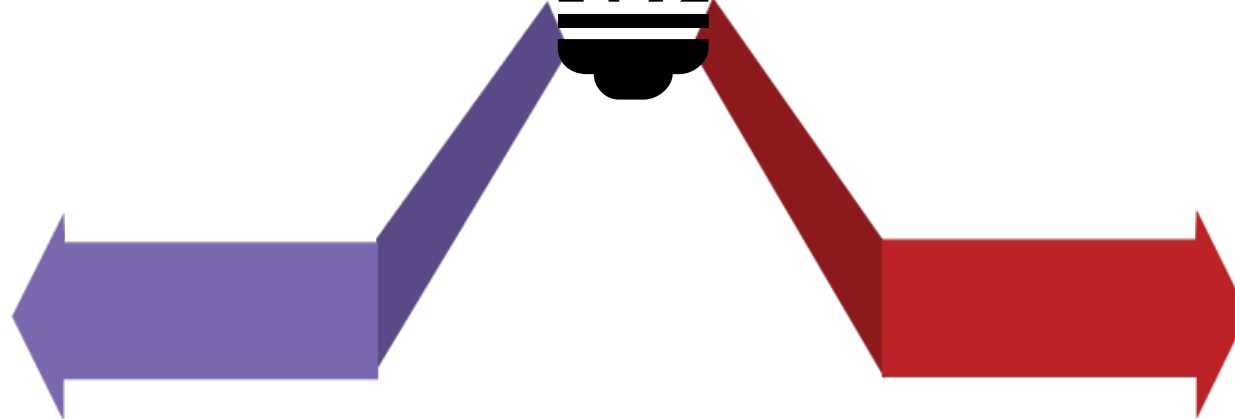
Domestic Economic  
Performance

Political Update



Global  
Developments

July Outlook





# *June Highlights*

# June Highlights – Output & Markets

- OPEC extends output ceiling till March 2020
- After a 24-month production freeze
- Only the cartel is facing declining influence and price leadership
- Nigerian oil production fell 5.5% to 1.73mbpd in June
- Rig count was also flat at 14
- No significant force majeure in the month
- Average price of Brent was \$63.03pb
- Economic activity in June slowed sharply in the Lagos Metroplex



# June Highlights – Output & Markets

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- Due to higher than usual rainfall and flooding
- Taking a massive toll on Supermarket and mall traffic
- “Fill the potholes” Lagos project succumbs to floods & poor drainage
- June PMI contracted to 49.9 – lowest point in 11 months
- Good news is that output indicator actually increased
- Pointing towards a slide in Q2 GDP
- Average power output from grid falls to 3,697MWh/hour
- Average diesel price stayed flat at N230-N240/litre



# June Highlights – Output & Markets

- The naira traded flat between N360/\$-N362/\$ (parallel market)<sup>6</sup>
- CBN intervention in forex market jumped 27.37% to \$1.21bn
- Terms of trade declined to 27.1 down from 28.5
- External reserves slid to \$45.05bn
- After many months of reserves accretion
- Nigerian customs uses N326/\$ for duty computation
  - Down from N305/\$
- To impact prices of imported goods by 8%



# June Highlights – Output & Markets

- Money supply growth was up 2.81% annualized at 6.74%<sup>7</sup> in May
- Average interbank interest rates swing between 4%p.a & 12.71%p.a
- Inflation inched up to 11.40% in the month of May
- FAAC allocation increased by 10% to N679.9bn on higher oil revenues
- Tomato prices spiked to N20,000 (a 12-month high)
- Nigerian stock market loses 3.55% in June
- As Airtel shares to be listed this week on the NSE



# June Highlights – Output & Markets

- Airtel share price fell 16% on the London Stock Exchange
- Market sentiment is mainly negative
- Investors are bottom fishing with market P/E at 7.26x
- CBN governor outlines a 5-year Blueprint
- Confirming that there will be new minimum capital requirements
- More likely to lead to further industry consolidation





# Global & Regional

- The current US economic growth cycle is the longest in history
- More than 120 months at an average of 2.3%
- Whilst GDP per head is growing at 1.5% with wages stagnating
- The US now has an inverted yield curve
  - A precursor to a recession
- Recessions are hard to predict
- That is what makes them so unpredictable
- The Fed announced that every US listed major bank passed its annual stress test

# *Global & Regional*

- There was no requirement for them to revise their plans to return capital to shareholders
- The Fed demanded credit Swiss fix weaknesses in its capital plan
- BMW to have 25 new fully electric cars on the market by 2023
- 2 years earlier than expected
- Cleaner vehicles are a major threat to the oil industry
- AB Inbev maker of Budweiser and parent of SABMiller to raise \$9.8bn from listing in Asia

# *Global & Regional*

- It will be the world's largest IPO this year
- The second largest IPO in the world is that of Uber Technologies
- Lee Iacocca who ran Chrysler in the 1970s died at 94
- His advert that "if you find a better car buy it" was Ford Mustang's trademark back in the day



# *Domestic Economic Performance*

# Leading Economic Indicators



Leading Economic Indicators	May	June	% Change	July*
GDP growth (%)	2.01 (Q1'19)	*1.9 (Q2'19)	-0.11	2.00 (Q3'19)
Oil Price (\$pb; avg)	70.22	63.03	-10.24	66-67
Oil Production (mbpd)	1.82(Apr)	1.73(May)	-4.95	1.70 (June)
Natural Gas (\$/MMBtu; end)	2.59	2.33	-10.04	2.40
Power (MW;avg)	3,754	3,697	-1.52	4,000-4,100
Inflation (%)	11.37(June)	11.40(May)	0.03	11.41 (June)
PMI	FBN:50.9 CBN:57.8	FBN:49.9 CBN:57.4	FBN:-1.96 CBN: -0.69	FBN: 50 CBN: 57
FAAC (N'bn)	616.19	679.69	10.31	680-700

\*: FDC's Forecast

# Leading Economic Indicators

Leading Economic Indicators	May	June	% Change	July*
Average NIBOR (%) (O/N, OBB)	8.61	7.79	-0.82	7-8
Average Opening Position(N'bn)	289.48	321.08	10.92	320-350
Money Supply (N'trn)	27.57 (April)	27.83 (May)	0.94	28
External Reserves - \$'bn (end)	45.12	45.07	-0.11	45
Exchange rate (N/\$; month-end)	Parallel: 361 IFEM:306.95 IEFX:360.74	Parallel: 361 IFEM: 306.90 IEFX: 360.88	- 0.02 -0.04	Parallel: 363 IFEM: 307 IEFX: 361
Stock Market Cap (N'trn)	13.68	13.21	-3.44	12.95

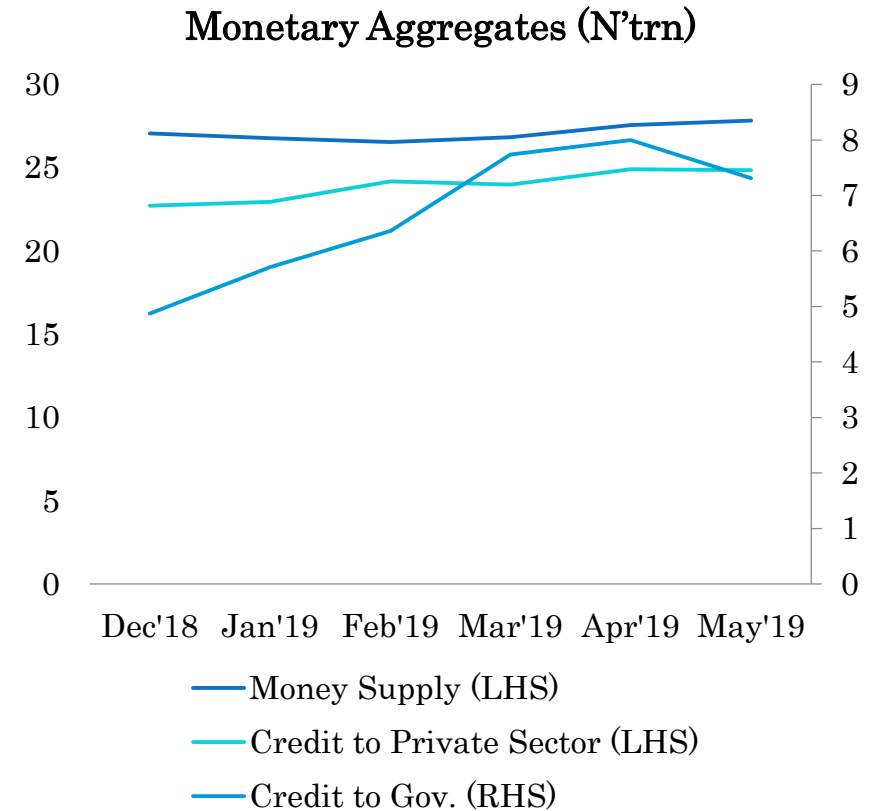


# *Leading Economic Indicators*

- Mixed movement in leading economic indicators in May
  - Two green, one amber & four red
- Headline inflation inches up to 11.40%
- Power supply still below the 4,000MW/h
- PMI (FBN) contracted first time in 10 months (49.9pts)
- Naira remains stable within a 1% band of N360/\$ (N362/\$)
- External reserves slides to \$45.07bn
- NSE lost 4.65% in June, recorded 4 positive days and 13 negative days

# Monetary Aggregates

- Money Supply (M2) grew by 2.81% (annualized at 6.74%) to N27.83 trillion in May
- Net Domestic Credit up 16.72% to N32.18 trillion
- Private sector credit (up 9.47% to N24.86 trillion)
- Government credit (up 50.10% to N7.31 trillion)







# *Global Developments*

# Big link Between Global Politics and Economics



- Seeks to be re-elected in 2020
  - US-China trade truce
  - Interest rate cut
  - Lower oil prices

- Boris Johnson jostles for the position of a prime minister

- Angela Merkel wants to anoint her successor

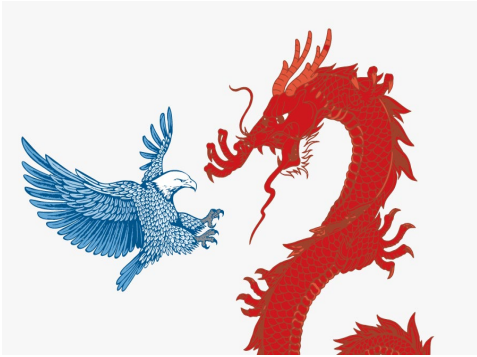


- Putin to tighten its grip on OPEC
  - Saudi Arabia and Russia control the oil markets

- China to dominate the 5G and technology world & African markets

# Global Events to Watch in the Next 4 Weeks

## Events



US-China trade war



Oil price



Creating One African Market

AfCFTA



Brexit



US Fed



US-Iran tension



ECOWAS single currency

# US-China Trade War: Impact on Trade Balance

## Global Impact

- Trade imbalance to narrow
- Net tax effects in favour of US
- China –US trade imbalance fell by 5.52% to \$419bn in 2018
- World trade growth to fall to 3.3% in 2019, down from 4.4%

## Regional Impact

- Trade surplus to decline
- Africa-US trade surplus down 14.1% to \$9.75bn

## Domestic Impact

- Trade Balance: Neutral
- Imports from the US: 8.6%
- Exports to the US: 7.6%

# US-China Trade War: Impact on Bilateral Trade

- Trade relations between the US and China skewed in favour of China

## Global Impact

- Chinese to buy more from the US
- Use Huawei as a hostage
- Put pressure on China to compel Korea to negotiate
- Changing the dynamics
- Good for red states in 2020 election

## Regional Impact

- **Impact:** Neutral
- No trade agreement in place

Top Economies	% of total exports
South Africa	31.2
Nigeria	28.1
Angola	21.0

## Domestic Impact

- Trump likely to get Nigeria to buy more wheat or helicopters

Imports	Exports
Wheat	Oil
Used vehicles	Cashew nuts
Military hardware	Frozen shrimps & prawn
Spare parts & machineries	Light vessels & fire floats

# Interest Rates Down



## Global Impact

- Mortgage cost ↓
- Stock Market ↑
- Debt ↑
- Good for 2020 campaign

## Regional Impact

- Reversal of flows stemmed
- Cost of borrowing ↓
- Dollar weakens ↑
- Domestic currency ↓
- Oil price ↑

## Domestic Impact

- External Debt service ↓
- Oil price ↑
- Oil revenues ↑


# Oil Price Down





## Global Impact

- Inflation 
- Average US inflation down to 2.2%

## Regional Impact

- Inflation 
- Average inflation to remain at 9.5%

## Domestic Impact

- Oil revenues 
- Landing costs 
- Nigeria's inflation above 11.4% - 12%

## Global Impact

- Dollar strengthens
- US Exports become more expensive
- Imports will be cheaper

## Regional Impact

**Impact:** Indirect

- Remittances
- FDI



## Domestic Impact

**Impact:** Indirect

- Remittances
- FDI





# US-Iran Trade Tension






## Global Impact

- Oil price 

## Regional Impact

- Oil price 

## Domestic Impact

- Oil price 
- Oil revenues 
- Landing costs 

# *Sub-Saharan Africa*



# Regional Integration: AfCFTA

- 1.2bn consumers in Africa
- 90% of tariffs to be eliminated
- Nigerian and South African banks will make a killing
- Committee recommends signing of AfCFTA
- President to consult with stakeholders
- Plans to negotiate favorable conditions with the African Union
- Success of AfCFTA requires not only a **'trade policy'** but also a **'manufacturing agenda'**
  - Policies aimed at promoting production in Africa
- Upon signing, market opens automatically
  - Nigeria needs to be competitive



# *AfCFTA: Opportunity & Risks*

## Opportunities

- Avail domestic industries the privilege to expand in Africa
- Reduce smuggling
- Create employment
- Promote made-in-Africa goods

## Risks

- Goods made in other continents could be disguised as made-in-Africa to qualify for duty free treatment
  - Reduction in government revenue
- Threatens the profitability and survival of infant industries

# *ECOWAS: Accelerate Introduction of a Single Currency*

- ECOWAS to speed-up introduction of a single currency by 2020
  - After delays for over 2 decades
  - To adopt 'ECO' as the new currency
- Strengthen economic integration, lower transaction costs and facilitate payments
- Achieving a single currency requires addressing constraints such as
  - Infrastructure
  - Communication
  - Finance among member countries

# *Eco Vs Euro*

- It took the European Union over 40 years to introduce the 'Euro'
- Currently used by 19 out of the 28 European countries
- Target to adopt the ECO as a single currency by 2020 is unrealistic

# *Implications for Nigeria*

- A single currency implies that member countries including Nigeria would lose monetary policy independence
- In the event of a recession, countries would lose the ability to use monetary policy as a tool
- Francophone countries have no Central bank
- No domestic money markets, currencies tied to the Euro

# *Zimbabwe: Bans the Use of Foreign Currencies*

- Zimbabwean government outlaws the use of the US dollar and other foreign currencies in local transactions
  - Declared the Zimbabwean dollar as the only legal tender
  - After abandoning it for over a decade due to hyper-inflation
- Increased overnight lending rate to 50%pa from 15%pa
  - To support local currency and reduce inflationary pressures
- Inflation jumped to a 10-year high of 97.86% in May



# *Ghana: Economy slumps in Q1'19*

- Real GDP growth down 0.1% to 6.7% in Q1'19
- Despite a shift to an expansionary monetary policy stance
  - Cut monetary policy rate by 100bps to 16%pa in January
- Moderation in growth was partly due to a fall in the growth of industrial sector to 8.4% from 8.9% in Q4'18
- Ghana closes 347 microfinance banks and pays off depositors
- The moral hazard haunts the Ghanaian market

# *Adieu Bob Collymore*



- Safaricom CEO, Bob Collymore dies at age 61 in Nairobi
  - After a 2-year battle with cancer
- He led the multi-national telecommunications company through a period of innovative expansion
  - The company's subscriber base grew from 17 million to over 30 million
  - 6.5% of Kenya's total GDP
  - Market capitalization: \$10.96bn (49.34% of Nairobi's Exchange market cap)
- Was able to increase the level of financial inclusion in Kenya and Africa
- Helped East Africa pioneer cashless payments
- May his iconic soul rest in peace



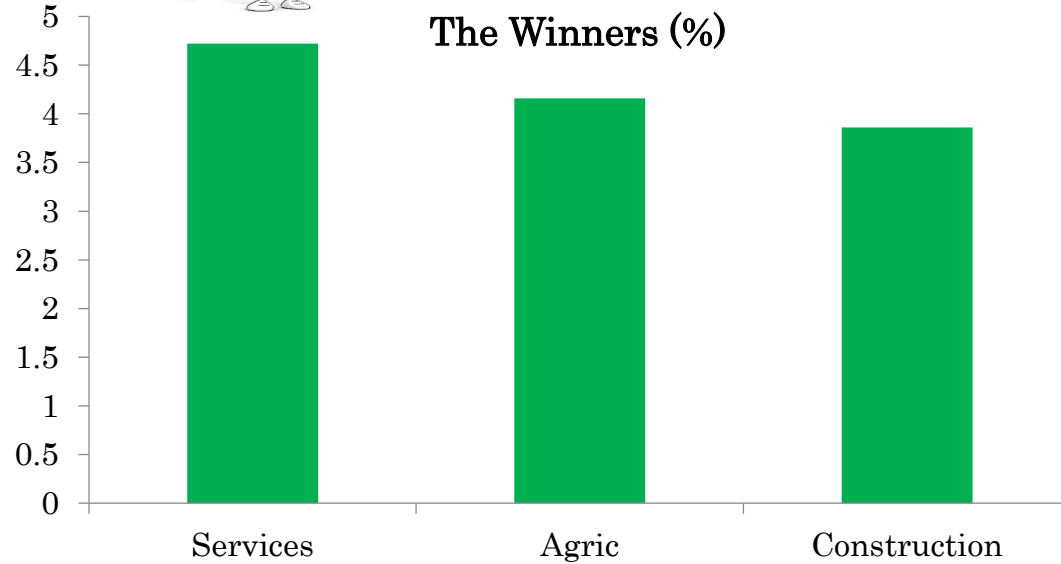
# Economic Outlook

# Q2'19 GDP Outlook

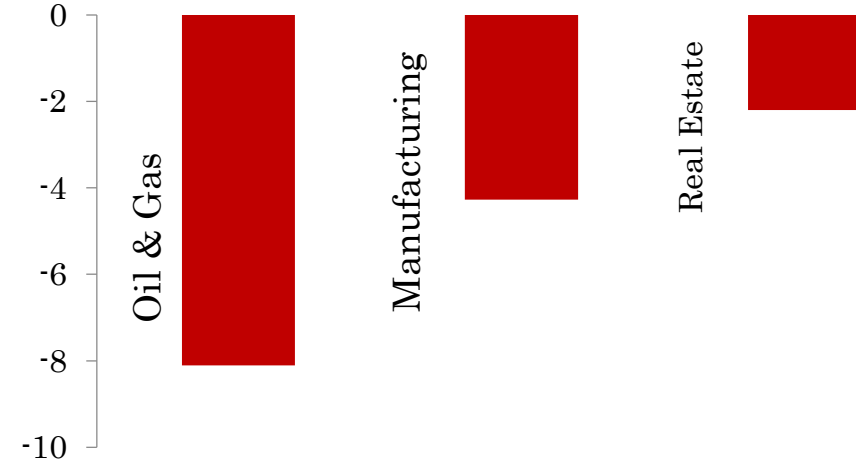
Release date: August 23



The Winners (%)



The Losers (%)



- Import substitution strategies of FGN to drive agriculture sector growth
- Maintenance and repair of roads ahead of the rainy season to boost growth in the construction sector

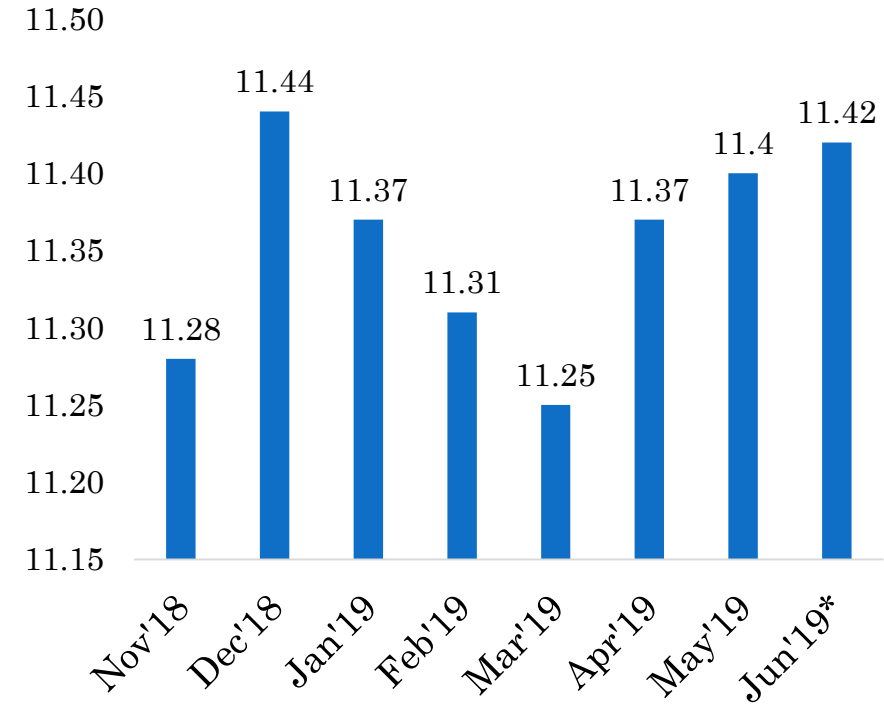
- Slowdown in PMI to negatively affect growth in the manufacturing sector

# *Inflationary Pressures to Persist (11.5% in Q3'19)*

- May inflation climbs to highest level in 2019- 11.4%
  - Up 3bps

## **Drivers of inflation in the next two months**







- Cost push factors:
  - Supply shortages (planting season effect)
- Demand pull factors:
  - Minimum wage effect
  - 2019 budget disbursements





# *Commodities*

# Commodities Update

Export Commodities	June	%Change (May-June)	Outlook (July)	Import Commodities	June	%Change (May-June)
Oil (\$/b)	62.58	-10.93% 	60-65	Wheat (\$/bushel)	5.27	14.07% 
Liquefied Natural Gas (\$/mmbtu)	2.325	-10.2% 	2.5-3.00	Sugar (\$/pounds)	12.68	7.46% 
Cocoa (\$/mt)	2,476	4.47% 	2,500	Rice (\$/cwt)	11.70	5.12% 







# Commodity Prices

Price Elastic

Price Inelastic



Commodities	2014	2016	2019	Direction (2014/2019)
Palm Oil (25L) 	N9,000	N16,500	N9,000	↔
Tomatoes (50kg) 	N4,300	N8,000	20,000	↑
Garri (50kg) (Yellow) 	N13,500	N15,000	N6,250	↓
Rice (50kg) 	N9,500	N24,000	N16,000	↑
Beans (Oloyin) (50kg) 	N14,000	N22,500	N17,000	↑

*Of the 5 commodities, 1 declined, 3 increased & 1 unchanged*



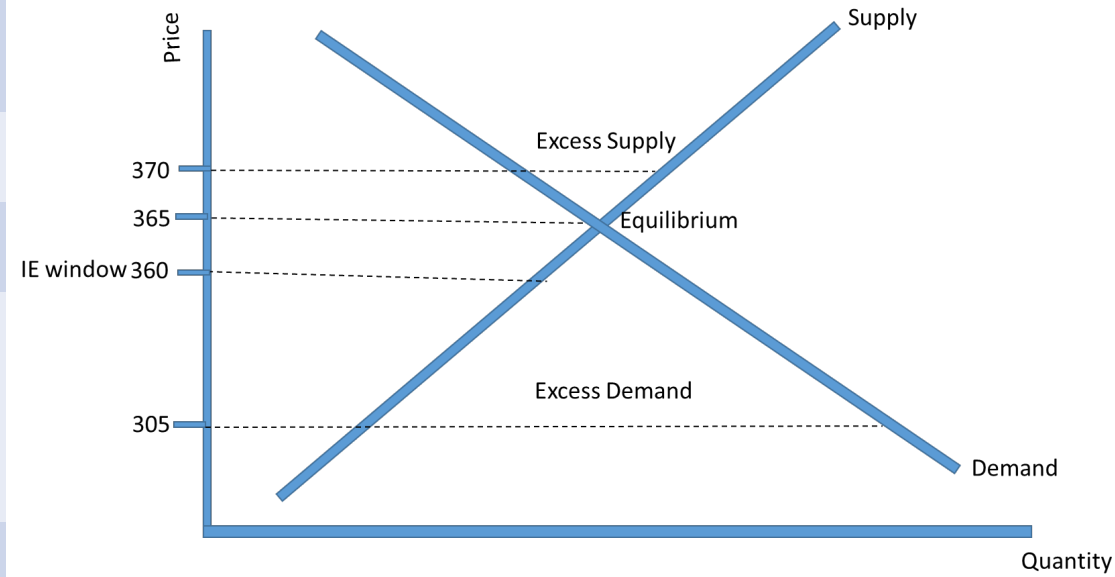


# *The External Picture*

# Forex Market: Market Determined in Theory, CBN Determined in Practice



	Supply	Demand
	Oil companies	Corporates
	Investors	Individuals
	Central Bank	Students
Average PPP value as at July 2 <sup>nd</sup>	N345.88/\$	
Volume traded at IE window in Q1	\$20.29 billion	
Volume traded at IE window in Q2	\$12.92 billion	



# *Forex Market: Market Determined in Theory, CBN Determined in Practice*

## **Where we are**

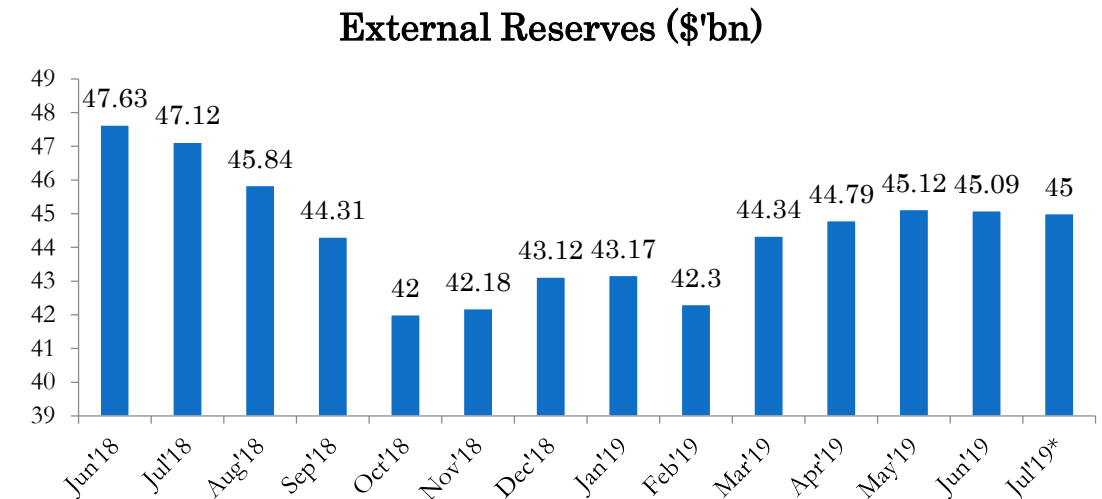
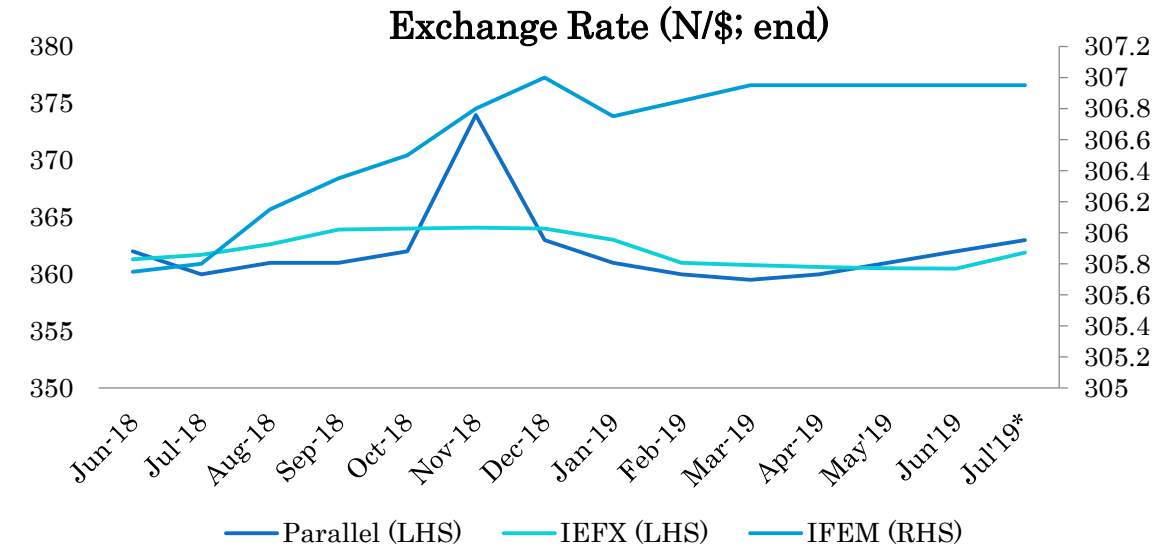
- Imperfect market
- Price discriminating monopoly
- Multiple exchange rates:
  - Official: N306/\$
  - I & E window: N360/\$
  - Parallel: N360/\$
  - Inter government: N325/\$

## **Where we want to be:**

- Market determined exchange rate
- All sellers (oil companies, banks) allowed into the market
- CBN to sell and buy at market rate

# Forex Market Outlook

- Increased forex demand pressure
  - Summer tourists
  - High liquidity within the system
  - Parallel market could slide to N363/\$ (now at N360/\$)
- External reserves likely to continue its downward trend
  - To weigh on CBN's forex intervention



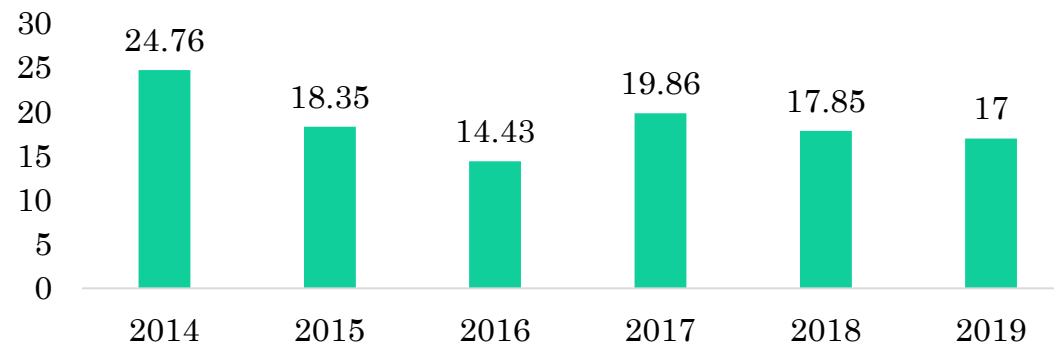
# Increasing External Imbalance

*External reserves – External debt = External buffers*

	External reserves (\$'bn)	External debt (\$'bn)	External Buffers (\$'bn)
2014	34.47	9.71	24.76
2015	29.07	10.72	18.35
2016	25.84	11.41	14.43
2017	38.77	18.91	19.86
2018	43.12	25.27	17.85
2019	45	28	17



**External buffers (\$'bn)**



*Source: CBN, DMO, FDC Think Tank*

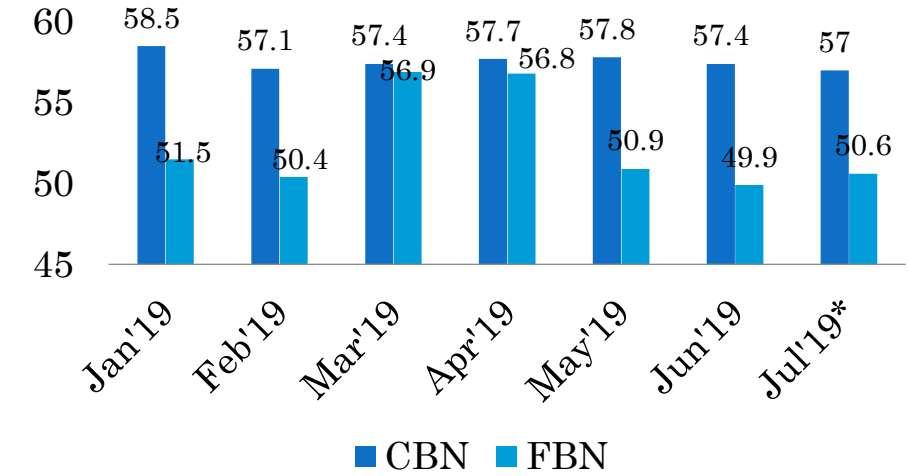


# *Market Proxies*

# PMI Down, Manufacturing Sector's Growth to Slow

Source: CBN, FBNQuest

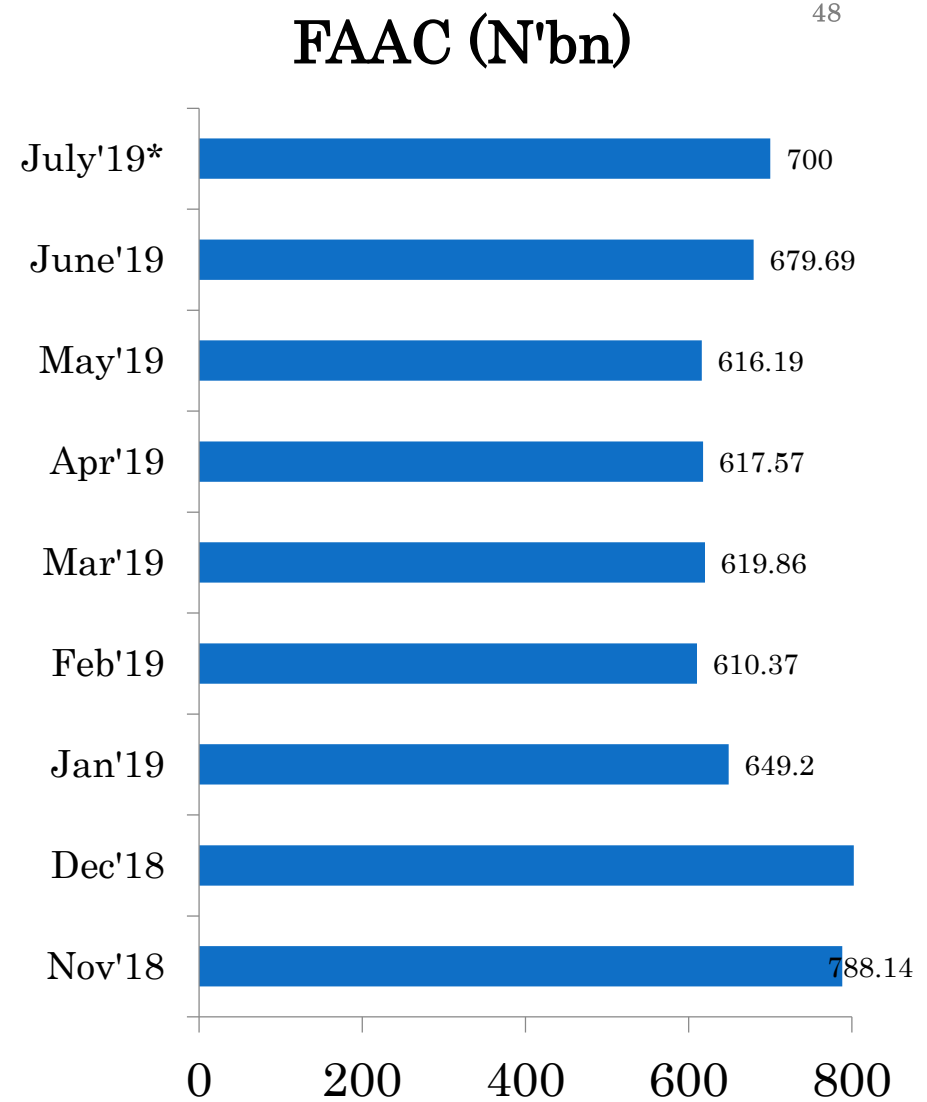
	May'19	June'19	July'19 Forecast
CBN	57.8	57.4	56.8
FBNQuest	50.9	49.9	50.6



- FBN PMI contracted first time in 10 months
- All indices (except output) fell
  - Seasonal factors (Ramadan fast)
  - Squeeze in consumer's purchasing power
- Projected to remain flat in July
- Impact on manufacturing sector's Q2'19 growth will be negative

## FAAC at the highest level in 2019

- FAAC up 10.31% to N679.69 billion, 6-month high
- Driven by:
  - Increase in oil revenue
  - Excess crude account now at \$63 million
  - Projected to expand further in July
    - VAT adjustment
    - Review of inter-government and custom duty exchange rate



Source: NBS

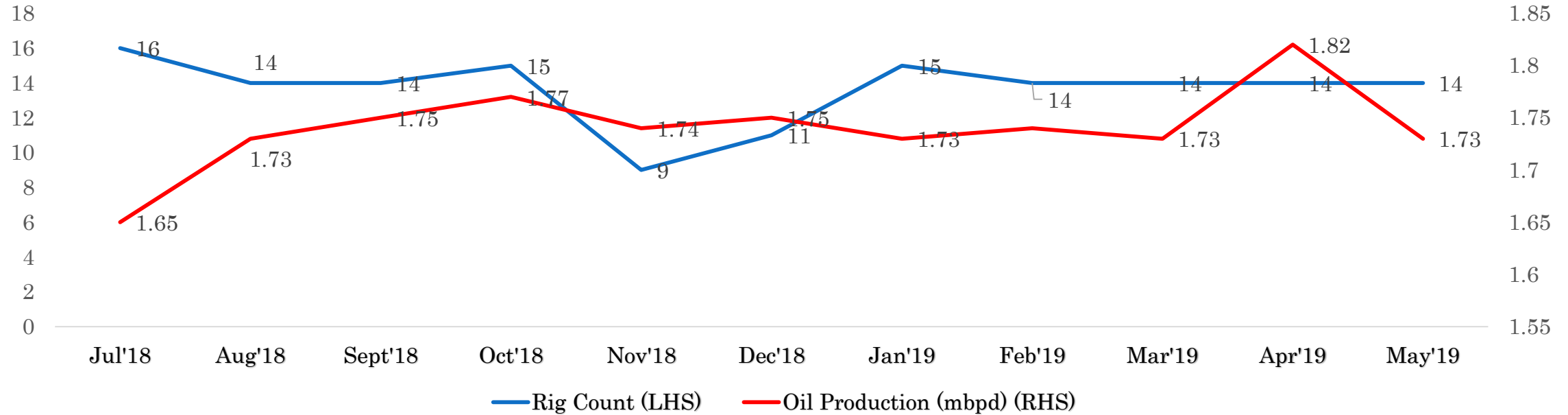


# Rig Count Flat, Oil Production Down

Source: OPEC, Baker Hughes

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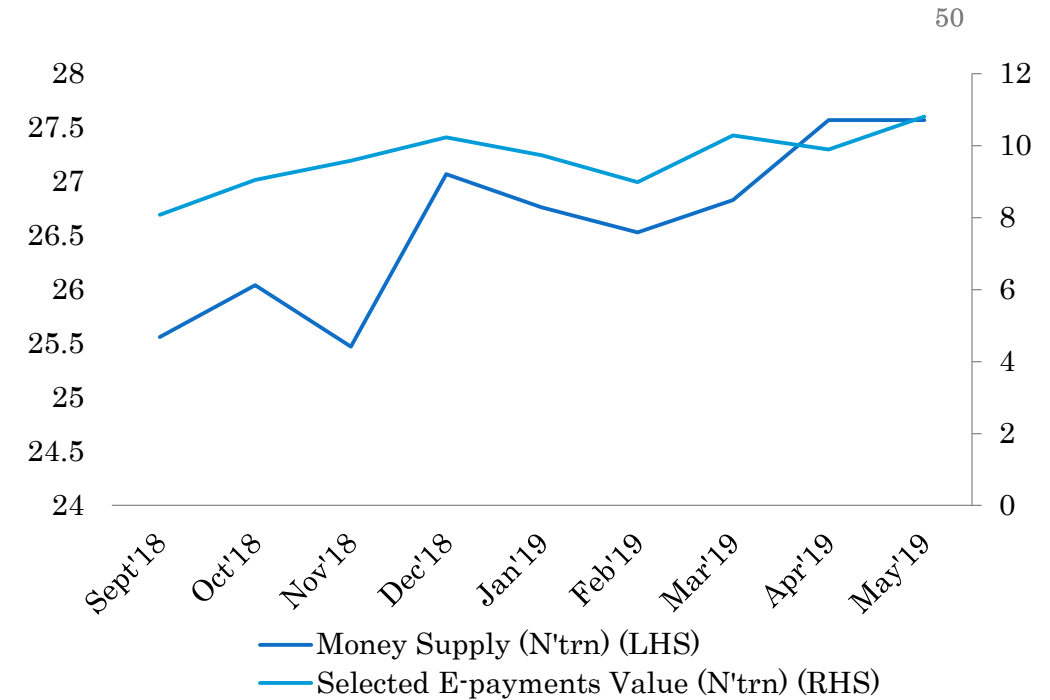
## Nigeria Oil Production vs Rig Count



- Oil production down 4.95% to 1.73mbpd in May
- The number of operational rigs flat at 14 for the fourth consecutive month
- Oil production likely to decline in subsequent months
  - Extension of output quota till 2020
  - Negative for export earnings

# E-payments Up

	Change in Volume (%; m-o-m)	Change in Value (%; m-o-m)
Cheques	12.52 ↑	5.78 ↑
POS	5.99 ↑	4.73 ↑
NIP	9.14 ↑	9.20 ↑
NEFT	8.84 ↑	13.40 ↑



- Value and Volume of e-payments moved in the same direction in May

## Outlook for July

- Increased volumes and value driven by boost in consumer purchasing power
- Minimum wage payment would serve as a stimulus

# *Ships Awaiting Berth- Flat at 20*

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## **Major issues:**


- Dilapidated roads
- Absence of parking bays for trucks


## **Impacts:**

- Exports suffer delay of 2 – 3 weeks
- Payment of huge sums for goods haulage from the port
- The new Apapa –Oshodi highway construction is underway
- To ease the congestion




# Average Power Output below the 4,000MW Threshold

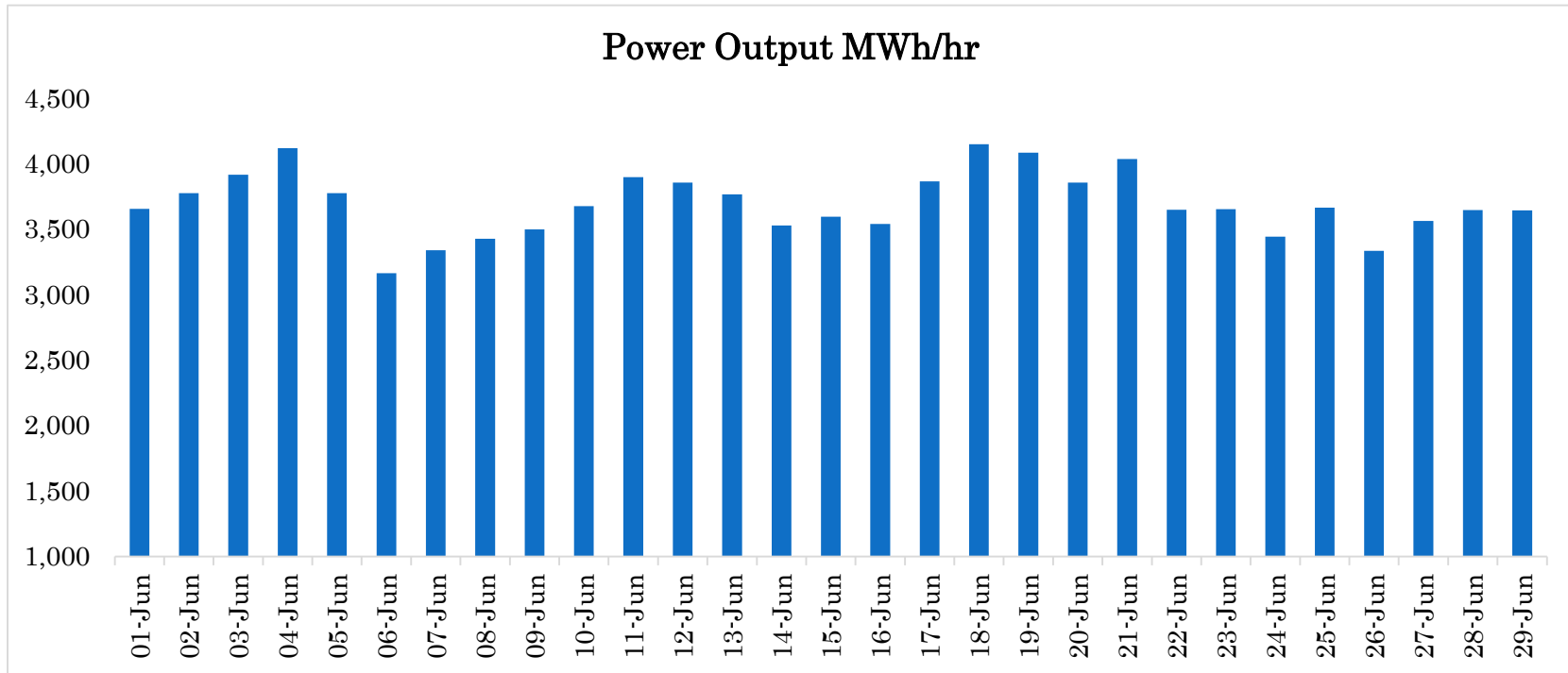
 **5150MW**  
Peak Energy  
Generated

 **3646MWH/H**  
Average Energy  
Generated

**731.6MMSCF/D**  
 Average Gas  
Delivered to  
Plants

**1**  
 Total Grid  
Collapses

**3483MW**  
 Average  
constrained  
energy



Source: Lavayo Advisors

# Power Sector News

- Average power output down by 2.04% to 3,697MW/h in June
  - Collapse of power distribution network due to rainfall
- EU invests N53.9bn in Nigeria's power sector
- Schneider to create an Africa based mini-grid manufacturing industry in Nigeria
- Nigeria seeks China's support for Mambilla power project take-off



*Source: Lavayo Advisors*



# *Policy Update*

# CBN 5-year Road Map – Promises Made

- **Macroeconomic & financial stability** – single digit inflation rate & double digit growth rate
- **Boost financial inclusion** – through investment in payment system infrastructure (95% of Nigerians to have access to finance by 2024)
- **Mortgage facilities** – reduce high cost of obtaining mortgage loans
- **Boost external reserves** – currently at \$45.07bn
- **Recapitalisation of banks** – NPLs down to 9% in 2019



# *What Next?*

- Monetary policy is positive and likely to remain positive in the near term
  - Policy continuity
  - Interaction with international financial community
- Structural changes necessary – fiscal mandate for fiscal team ONLY
  - Forex market structure to remain a managed float regime
  - Improved access to finance for farmers and the creative industry



# *MPC Meeting - July 22/23*

- MPC likely to maintain status quo – MPR (13.5%); CRR (22.5%)

## **Rationale**



- Rising headline inflation
- Slow economic growth
- Lower oil price
- Import duty

# *Monetary Policy Dominance over Fiscal Dominance*

- Nigeria is a fiscally dominant economy
- But cabinet yet to be appointed – no ministers
- CBN governor re-appointed – with a 5-year mandate
- Monetary policy beginning to encroach on fiscal space
- Should be complementary rather than driving the economy

Market is getting mighty cheap

# Stock Market Review



Bottom fishing

# *Stock Market in June- Corporate Actions*

- Airtel lists on the London Stock Exchange on June 28
  - Price falls 16% in 2days
- Nigerian Stock exchange secondary listing on July 5
- Oando and SEC at daggers drawn
- Forte Oil acquired
- Nigerian Breweries launches Series 3 and 4 commercial paper programme
- FBN to redeem subordinated callable note ahead of maturity
- Increasing financial intermediaries as more companies issue debt instruments
  - FMN, MTN, NBC, Dangote etc

# Nigerian Stock Market in June

- Market cap ↓ 3.50% to N13.21trn
- NSE ASI ↓ 3.55% to 29,966.87
- 4 days positive, 13 days negative
- P/E ratio ↓ 4.42% to 7.35x
- Negative market breadth of 0.55x
  - 27 stocks gained
  - 92 stocks remained neutral
  - 49 stocks lost

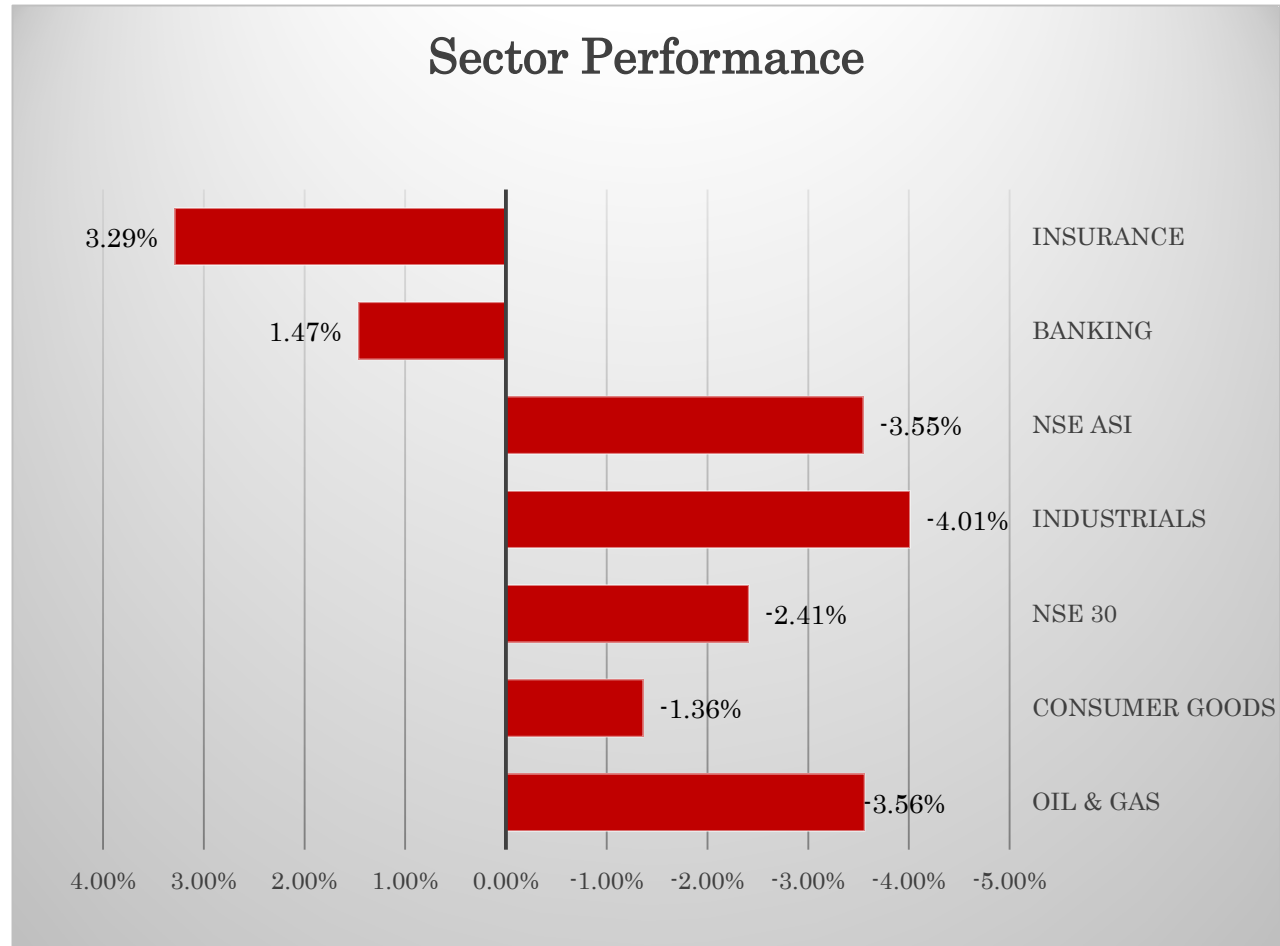


## Peer Comparison



Exchange	Return in June	Driver
NSE ASI	↓ 3.55%	<ul style="list-style-type: none"> <li>• Lack of investor confidence</li> <li>• Delay in appointment of executive council</li> <li>• Oando and SEC saga</li> </ul>
JSE ASI	↑ 4.59%	<ul style="list-style-type: none"> <li>• Early inauguration of cabinet members</li> <li>• Foreign direct investment inflows (R11.7bn)</li> </ul>
GSE ASI	↓ 2.69%	<ul style="list-style-type: none"> <li>• Financial sector clean-up by BoG</li> </ul>

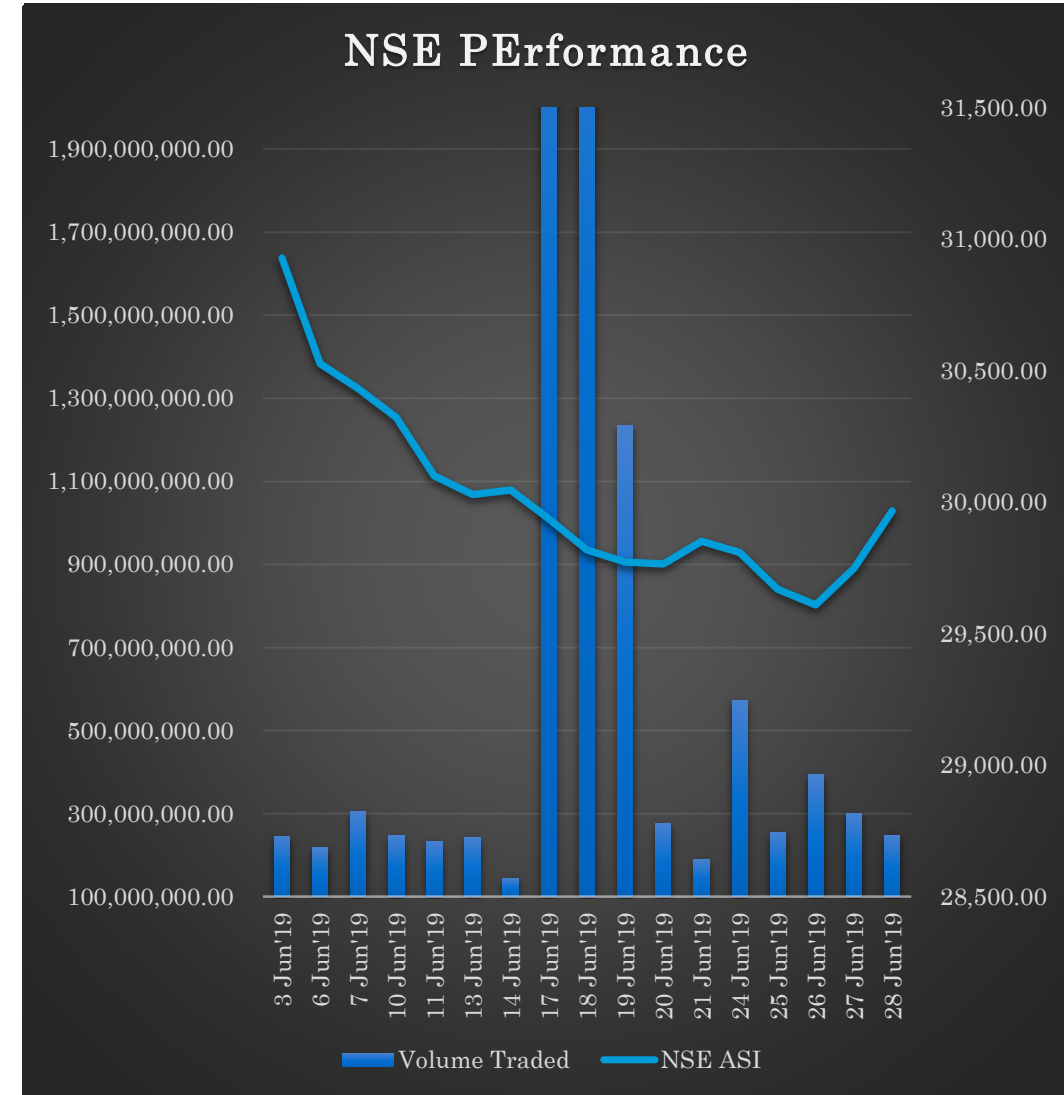
# Sectoral Indices

- 3 sectors closed negative
- 2 sectors closed positive
- Insurance sector was boosted by expectation of consolidation
  - Due to new minimum paid-up capital requirement by NAICOM
- Industrials recorded the worst performance



# Nigerian Stock Market in June

- Average volume traded  121.70% to 640.27mn units
- Average value of transactions  65.77% to N8.68bn
- Sell off pressure
- Spike in volume traded on June 17 and 18
  - WEMA bank constituted 88% of the trades
  - Indicating further interest in WEMA



# Telecoms Industry



- The telecom industry is the largest segment of the ICT sector
- Has an oligopolistic market structure
- Infrastructural backbone for digital development in Nigeria
- Nigeria has the largest telecoms market in Africa
- MTN, Glo, Airtel and 9mobile are the major players in Nigeria
- MTN Nigeria is listed on the bourse
- Airtel Africa has listed on the London Stock Exchange
- Expectation date for its secondary listing on NSE is July 5<sup>th</sup>
  - To raise \$750million to settle debts(\$5bn) In Africa unit



# *Airtel Africa Listing*



- The second largest telecoms company in Africa
- Operates in 14 countries with Nigeria as its largest market
- First telecom company to simultaneously list on London and Nigerian Stock Exchanges through an IPO
- The proceeds will be used to pay down bank debt
- Airtel Africa IPO on LSE at 80p/share- oversubscribed
  - Implying a market cap of N1.4trn (£3bn) for its London listing
  - Strong interests from global investors
- Secondary listing on NSE at N363/share on July 05
- Could become the third largest company on the NSE



# *Airtel Africa listing - Impact*

## NSE

- Visibility in the global market
- Enhance foreign portfolio inflows
- Increase market cap (currently at N13.21trn)
- Encourage further listing

## OTHERS

- Threat to financial players
- Diversification for investors

## AIRTEL AFRICA

- Expansion of 4G network coverage
- Customer acquisition
- Revenue increase currently at \$3.07bn
- Possible increase in market share

# *Deposit Money Banks Recapitalization by CBN*

- It was last implemented in 2005
  - The capital base was increased from N2bn to N25bn
  - The industry consolidated into fewer players
  - 2009 sector was distressed
  - Regulatory induced consolidation followed
- Followed by strategic mergers
  - Access and Diamond bank
  - Takeover of Skye bank (now Polaris) by AMCON
- New banks being licensed leading to fragmentation when consolidation is desired

# Deposit Money Banks Recapitalization by CBN

- The new recapitalisation will:
  - Increase their footprints
  - Make Nigerian banks competitive in the new regional market
  - Increase their capacity to lend
  - Mitigate the impact of exogenous risks
  - Improve their liquidity and capital buffers



	ACCESS (Q1'19)	ZENITH (Q1'19)	UBA (Q1'19)	GTB (FY'18)
Total NPL	N298bn	N94bn	N91bn	N99bn
NPL ratio	10%	4.85%	5.3%	7.3%
NPL by Sector	29.4% Oil & Gas Services	39.89% Oil & Gas	53% Oil & Gas	25% General Commerce
Net Asset	N577bn	N781bn	N502bn	N576bn
Liquidity Ratio	47.6%	66.7%	50%	41.44%

# *Corporate Earnings*



# PRESKO



- The company specializes in oil palm extraction and refining
- Dividend declaration: N2.00
- Performance affected by:
  - Low global crude palm oil price compared to previous year
  - Growing intensity of smuggled crude oil palm

Revenue: N5.51bn ↓ 16.39%

PBT: N2.58bn ↓ 24.78%

PAT: N2.14bn ↓ 17.69%


P/E: 13.59x

Dividend Yield: 3.85%

YTD: -18.75%

Share price: N52



Revenue: N78.51bn  2.64%

PBT: N122.82mn  104.17%

PAT: N3.14bn  257%

Dividend Yield: 12%

YTD: 0.40%

Share price: N12.50

- Africa is the next major growth market for cement
- Lafarge controls 30% in the industry
- Nigeria's second largest cement company
- Tax credit of N3.02bn

# Outlook for June

- Negative sentiment will continue
- O & O exposure to the banking sector is a major systemic risk
- Recapitalisation in the banking sector
  - Dilute shareholding and weigh on share price
  - Increase liquidity
  - Along with consolidation in the insurance space
  - Policy ambiguity on forex sale will increase cross border risks
- Although poor performance and lack of confidence could reverse on:
  - Expected Q2'2019 results from companies
  - Successful listing of Airtel Africa

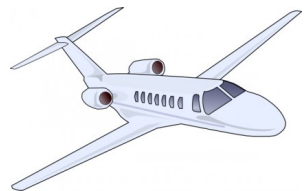




# *Aviation Update*

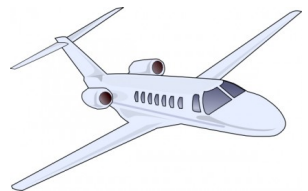
# Aviation Update - IATA

- Global oil prices increase on US/Iran tension and OPEC cuts
- Aviation fuel jumps in tandem with oil to 51 cents per litre
- Most network carriers are fully hedged against Jet fuel volatility
- Global passenger traffic is outperforming both world GDP and trade growth
  - Showing that there is room for more capacity expansion
- The impact of the Boeing max on aviation is taking a toll
- Simulations reveal that a likely software glitch caused the tragedies



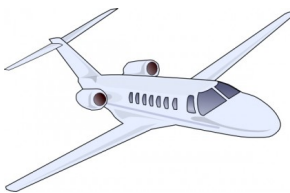
# Aviation Update - IATA

- Premium traffic is growing slower but its contribution is increasing sharply
- Premium fares are disproportionately priced
- British Airways, the major network carrier to Nigeria is upgrading its business class cabin
  - To end its Gatwick - Fort Lauderdale route on September 8
- Etihad is increasing Abu-Dhabi - Heathrow service adding 14 flights to its current 21
  - Good connections for Lagos - Abu Dhabi - London



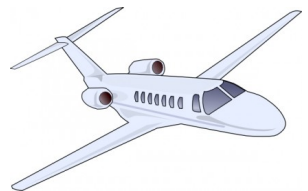
# Aviation Update - IATA

- Virgin Atlantic is to commence Heathrow to Sao-Paulo daily service
- Ethiopian Airlines has suspended its Addis – Enugu service
- Runway repairs at Enugu and other infrastructure problems
- A-Sky, the Ethiopian airline subsidiary starts Lagos – Johannesburg daily next week
- Using a Dreamliner, it will give struggling SAA a run for their money
  - Lagos-Johannesburg is one of SAA's most lucrative routes



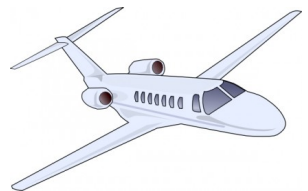
# Aviation Update - IATA

- Emirates airlines increased their frequencies into Lagos and Abuja in Q2
  - Operating three flights a day to Lagos during the Hajj
  - Also two flights into Abuja
- Emirates now has the highest passenger lift out of Nigeria
  - Edging our British airlines
- BA is offering flexible rates and better travel agency discounts
  - Especially in the premier fares



# *Aviation Update - IATA*

- BA is reporting 95% load factor in First and Business class in July bookings
- Airlines are now offering mouth watering promotional fares for October 2019
- Check with your travel agents especially Business Travel Management and Wakanow





*Real Estate  
Update*

# Property Trends- Residential & Commercial



- 🏠 High vacancy rates in high to mid-income locations
- 🏠 Improvement in design and finishing features

- 🏠 Strong demand for co-working office spaces
- 🏠 Shift of office premises to Ikoyi – Capital Alliance, Lufthansa



# Property Watch – The Wings Complex

- Location: Ozumba Mbadiwe, Victoria Island
- Office space situated on approx. 27,000 square metre



Attraction	Existing occupants	Constraints
700-slot parking space	Rand Merchant Bank (RMB)	Ozumba traffic
Ultra modern facilities	Oando	Difficult to access dual - carriage
	Rencap	





# *Political Update*

# *Crunch Time for the APC*

- The party may splinter
- Buhari is between a rock and a hard place
- Cabinet to be announced this month
- Party loyalists Vs Technocrats
- His heart wants loyalists but the head needs technocrats
- The Cabinet is likely to be bloated and unwieldy
- Consolidated portfolios will be broken up – i.e Transport, Power & works etc

# *Crunch Time for the APC*

- 42 – 46 ministers and junior ministers
- We expect at least 70% of current ministers to return
- Cabinet will define the future of the Lagos APC
- The president's choice of Lagos and Ogun ministers may be a deal breaker
- The changes at the NNPC, NHIS and SEC is evidence of an executive fall out

# *Possible Judicial Hammer*

- The supreme court could jolt the system
- Osun state verdict on Friday
- The stakes are very high and it is wide open
- Some state governors could be casualties
- Some NASS bigwigs are likely to be consumed by judicial decisions
- Especially in Delta, Adamawa and Plateau states
- We expect some bye-elections in some races after supreme court ruling

# *Possible Judicial Hammer*

- INEC already facing problems in Kogi and Bayelsa November elections
- The existence of an INEC server and its use could become a problem
- The race for 2023 will start the day the cabinet is announced
- There are 5 groups jostling for the presidency
- Zoning is to all intents and purposes dead
- Attempts to amend the constitution for term limit extension will be dead on arrival



# *July Outlook*

# July Outlook

- Cabinet will be announced this month
- Osun state election verdict could jolt the system
- Inflation will increase to approx. 11.41%
- Budget execution will kick-in after cabinet is cleared
- Bringing additional pressure to bear on the naira
- The fiscal and the economic management team will assert itself and reduce monetary policy trespass
- SEC will wield the hammer on Oando



# July Outlook

- The banking system will be jolted by the exposure and default of Oando
- Airtel will list and demand for MTN shares will push up the price
- The impact of the new import duty exchange rate will force price increases of imported goods – cars, TVs, refrigerators
- The stock market will fall in spite of MTN rally
- The MPC will make no change again
- Interest rates will increase as the mopping up of the CBN intensifies
- July will be all politics and no economy



THANK YOU