

LBS Executive Breakfast Meeting  
**From Russia,**

**...with love tears**



*The New World Economic Disorder*

*Presented by Bismarck Rewane  
CEO Financial Derivatives Company  
July 4<sup>th</sup>, 2018*



# *Outline – How to engage in times of economic anarchy*

- June Highlights
- The New World Disorder
- Domestic Economic Overview
- Stock Market Review and Sectoral Performance
- Policy and Politics
- Outlook for July –August



**What the heck is going on??**  
***Oil – Higher Supply and Higher Prices***

***June Highlights***



# *June Highlights – What a month!!!*

- June 2018, a month of surprises
- The world cup saw more Davids than Goliaths – Uruguay and Croatia
- The gap between the biggies and small boys looks bridged
- T/Bill interest rates declined 400bps to 10.1%
- Stock market tanked rather than rallied – (-1.67% YTD)
- Down 11 days, up eight days
- Market lost 7.8% in Q2, close to a correction
- OPEC and Russia increased output by 1mbpd, but prices up 0.42%
- Normally higher supply should mean lower prices



# June Highlights –What a month!!!

- But this is 2018 and an upside down world
- Trump urges Saudi Arabia to pump more oil
- Nigeria's production falls to 1.7mbpd
- Force majeure and pipeline ruptures hurting output
- Average Brent price in June \$75.94pb
- Budget receives grudging Presidential assent
- Spending up 6% to N9.1trn (\$26bn) – stuffed with constituency projects
- President to submit supplementary budget shortly
- Minimum wage, critical infrastructure and subsidies



# *June Highlights – What a month!!!*

- FAAC disbursement in June delayed due to NNPC shortfalls
- Cash strapped state governments becoming impatient and irritable
- 32 states in election mode
- PMI recovers marginally to 49.8 as companies continue reducing inventories
- PMI had crashed to a record low in May: 49.2
- Corporates lament sluggish sales in Q2 and continued customer down trading
- Compounded by record low Consumer Confidence Index (-6.40)





## *June Highlights – More blackouts*

- Impact of increased excise duty on alcoholic beverages muted
- Beer price up 10% with limited inflationary impact
- SABMiller absorbed the excise tax, leaving prices unchanged
- Strategy is to either delay or provoke a price war
- National grid output is low, oscillating between 3,000MW–4,000MW in June
- Six stations shut down temporarily due to gas constraints
- Headline inflation is forecast to fall again to 11.1%
- Monthly inflation is spiking to 14.1% (annualized)



## *June Highlights – Banks in cosmetic surgery*

- M2 is beginning to show some increase, 4.88% in May to N25.17trn
- Average opening position of the banking system fluctuated between N625.09bn and N6.87bn long
- Interbank interest rates reflected the short positions of banks
- Cosmetic balance sheet purchases for half year end pushed rates upwards
- Some Tier 1 banks have a tradition of interim dividends
- The naira traded flat at the foreign exchange (forex) market at N362/\$
- CBN forex intervention in June surpasses May by 53.8% to \$2.2bn
- External reserves pushed lower in June to \$47.63bn



# *June Highlights – Corporate bonds in vogue*

- Both Dangote and MTN to issue bonds of N150bn and \$1.1bn respectively
- Funding expansion and refinancing expensive bank debt
- Corporate earnings growth up 9% in Q1
- International outbound load factors at seasonal highs of 95%
- Nigeria's external imbalances reduced sharply in 2018
- Trade balance climbed to N2.18trn (\$7.14bn)
- Export earnings in Q1 2018 spiked 10.2% to \$14.39bn compared to \$9.99bn in Q1 2017 (CBN)



*Humpty Dumpty World*

*The New Economic World Disorder*



# *New Economic World Disorder – upside down!!!*

- Trump’s “fair trade” threatening to derail globalization
- Everything is being challenged – open markets, free currencies, NATO, OPEC, WTO
- Doing away with the traditional and dogmatic beliefs of the past
- Tit for tat measures could lead to a redefinition of global alliances
- “America First” threatening the entrenched forces – EU, NAFTA
- End goal of Trump’s play is a renegotiation of the terms of US trade
- Aim is to address the trade imbalance



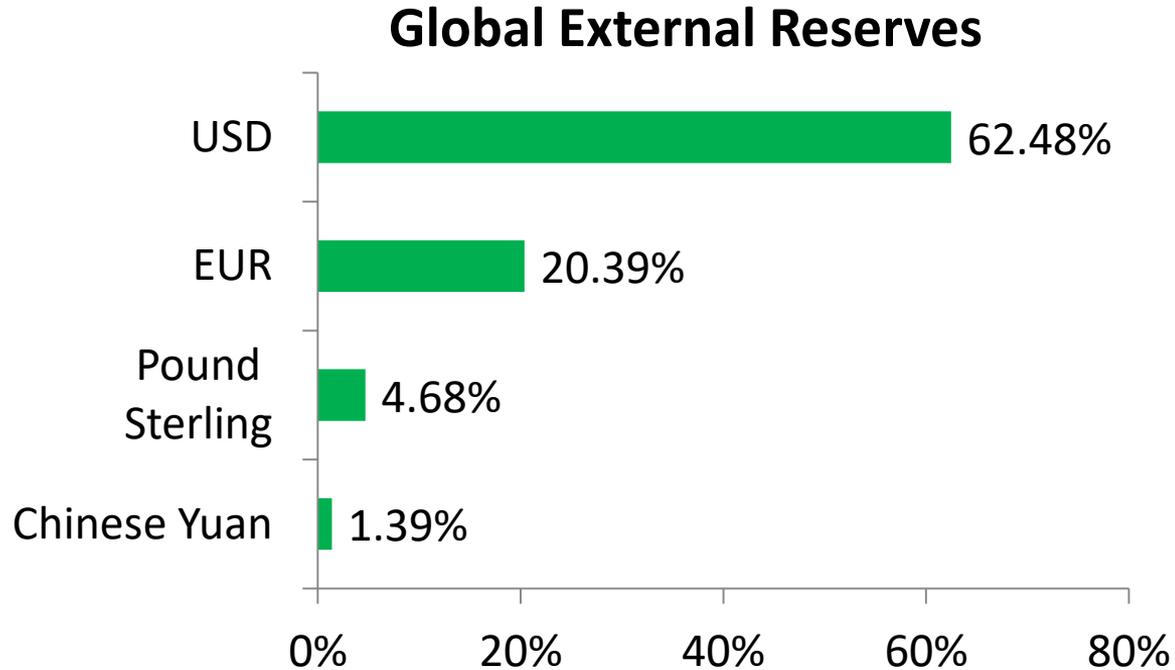


# *New Economic World Disorder*

- GE – the last original member of the Dow Jones Industrial Average – dropped from the Dow, after 126 years
- GE's shares fell 55% over the last year compared with a 15% gain for the Dow
- The move reflects the fundamental shift in the economic composition of the US
- Tilted away from heavy industry and toward services, such as technology, finance and health care
- US dollar share of currency reserves at a four-year low
- Falling for five consecutive quarters
- US dollar is still the biggest reserve currency by far

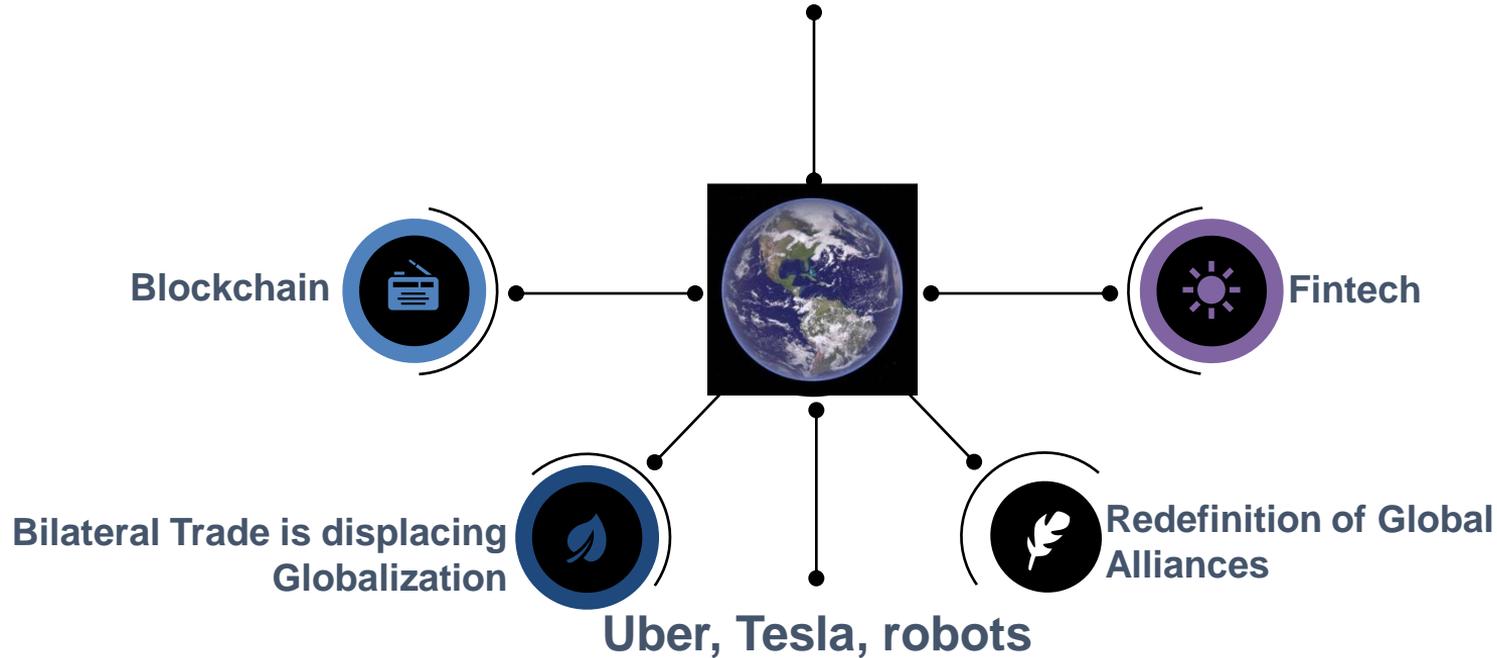
# *New Economic World Disorder*

- \$6,282trn or 62.72% of total reserves



# *New Economic World Disorder*

## Era of Disruption





# *New Economic World Disorder*

- Winners and losers will emerge as global trade war escalates
- Is Nigeria immune?
  - It sells products that are fairly inelastic – oil, LNG
  - What it cannot sell officially, is smuggled
  - Over 30% of economic activity is informal



# *Nigeria and the new economic world disorder*

- Nigeria is the perverse beneficiary of economic anarchy
- Share of the world trade to grow
- Exports are relatively price inelastic
  - Oil (76%)
  - LNG (10%)
  - Cocoa and sesame seed (1.2%)
- Informal economy 30% of GDP = \$120bn
- Country is a smugglers' paradise
- Refuses to sign African free trade agreement after 49 countries signed



# *Nigeria and the new economic world disorder*

- Fails to comply with the open skies agreement of the continent
- Nigeria in veiled countertrade transactions
  1. Naira – yuan swap = \$2.5bn (3 years)
  2. GBP – naira export credit transactions (£750mn)
  3. Possible rand for naira swap
- Veiled attempts to keep currency trading below its fair value
- Nigerian corporates have to capitalize on bilateral deals
- Differentiate between trader and smuggler
- It's about scale economies and cost competitiveness

## *Africa... United by One Bank*



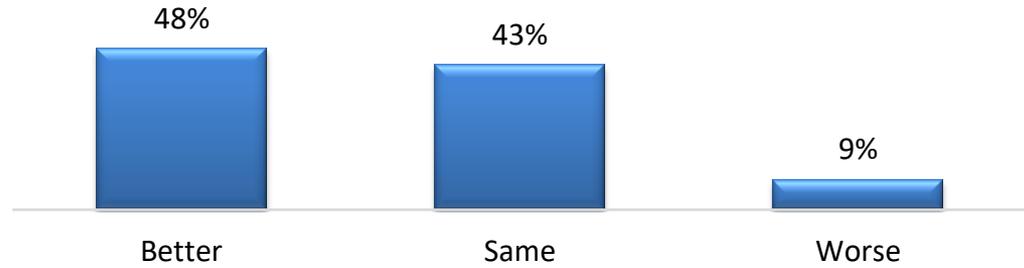
### *We know our way around finance in Africa*

United Bank for Africa Plc is one of Africa's leading financial Institutions, offering banking services to more than 11 million customers through diverse global channels. With presence in 19 African countries and 3 global financial centres; London, New York and Paris, UBA is connecting people and businesses through retail and corporate banking, innovative cross-border payments and trade finance.

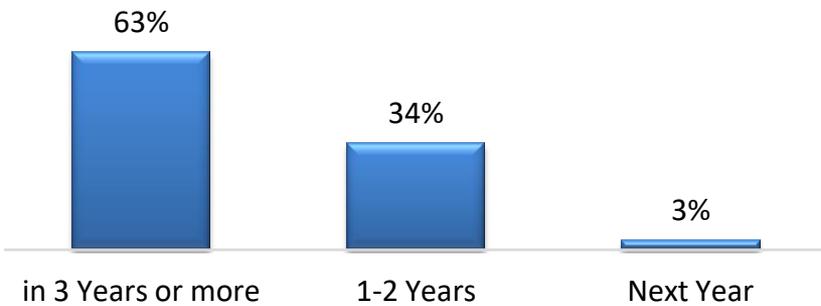
# 2018 CEO Survey – Fortune 500 Companies



Fortune 500 CEOs think global economy in the next 12 months will be



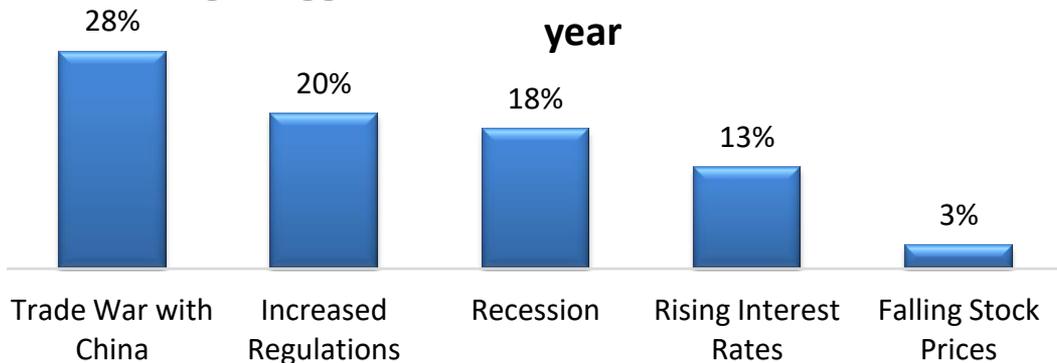
Next Recession is likely to come



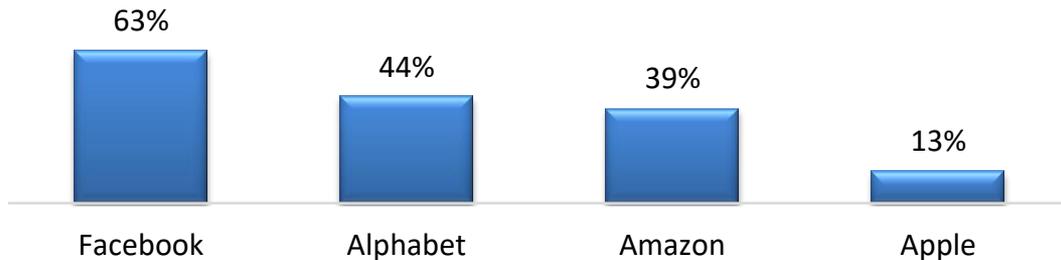
Source: Fortune 500 Survey

# 2018 CEO Survey – Fortune 500 Companies

## Single biggest risk to their business over the next year



## CEOs worry about growing regulation, many believe these big tech companies need more oversight



Source: Fortune 500 Survey



# US – Fed

- US inflation accelerates to six-year high of 2.8% in May
- Reinforced the Fed's outlook for gradual interest rate hikes
- The Fed raised the fed funds rate to 2.0% in June – two more rate hikes likely by 2018 end
- Rising inflation is eroding wage gains that remain relatively tepid despite an 18-year low unemployment rate of 3.8%
- Fed forecasts 3.6% unemployment by Q4'18, based on increasing availability of jobs, particularly in low-paying sectors
- GDP growth expected to rise to 2.8% in 2018, continuing a nine year expansion



# *US – Banks pass financial stress test*

- Test showed that the 35 largest US banks had enough money to withstand a severe financial crisis despite rising levels of credit card debt
- The banks reviewed account for 80% of all US bank assets
- Test scenario: Hypothetical Recession – plunging stock and property prices, unemployment to rise to 10%
- Would lead to \$578bn in losses, but holdings of “high quality capital” would remain above minimum requirement
- Ratio of high quality capital to risky assets would fall to as low as 7.9% compared to a 4.5% minimum requirement



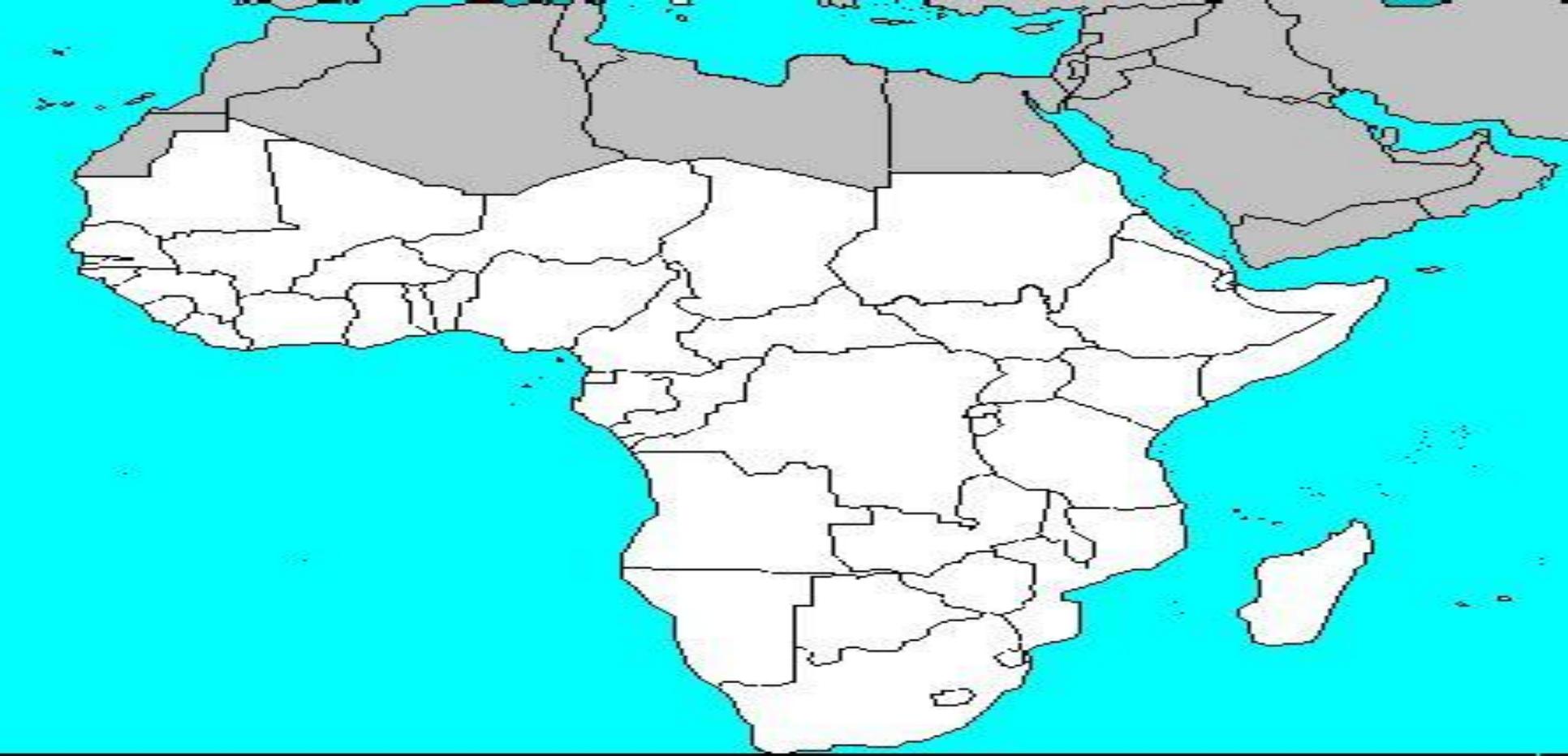
## *Deutsche Bank US fails 2nd round of tests*

- 2<sup>nd</sup> part of test focuses on banks “capital plans” – how much cash it intends to return to shareholders
- Widespread and critical deficiencies found in parts of Deutsche Bank’s business
- Especially in its data capabilities and controls supporting its capital planning process
- Weaknesses in its approach and assumptions in forecasting revenues and losses under stress
- Goldman Sachs and Morgan Stanley were only granted "conditional" passes
- 31 of 35 banks were cleared



# US: Trade

- Trump administration to further impose tariffs on \$200bn in Chinese imports by July 6<sup>th</sup> if China follows through on retaliatory threats
- Trump betting that Beijing will blink first
- The yuan has fallen to an 11-month low as trade tensions spark sell-off
- \$12.57bn in retaliatory tariffs by Canada scheduled to commence July 1<sup>st</sup>
- Deteriorating trade relations with Canada threatens to tear up NAFTA
- General Motors says tariffs will lead to less investment, fewer jobs and lower wages



*Sub-Saharan Africa*

# SSA Economies in View

- Key SSA economies reported strong Y-on-Y Q1 growth
- Growth underpinned by the agriculture and services sectors
- FDI inflows into West Africa fell 11% to \$11.3bn in 2017

Countries	Inflation	1-year Change	Interest rate	Real Return	GDP growth rate Q1'18	FDI inflow (2017)
Ghana	9.8% 	-2.8%	17% 	7.2%	6.8%	\$3.3bn 
Kenya	4.3% (June) 	-4.9%	9.5% 	4.6%	5.8%	\$672mn 
Ivory Coast	-1% 	-0.6%	4.5% 	5.5%	7.6%	\$675mn 
South Africa	4.4% 	-1%	6.5% 	2.1%	0.8%	\$1.3bn 
Angola	19.8% 	-12.8%	18% 	-1.8%	0.94% (2017)	-\$2.3bn 
Nigeria	11.6% 	-4.7%	14% 	2.4%	1.9%	\$3.5mn 



# SSA – Outlook

- FDI flows into SSA are forecast to increase in 2018
- Inflows will be underpinned by continued recovery in global commodities prices as well as macroeconomic fundamentals
- Improved interregional cooperation via Africa Continental Free Trade Area (AfCFTA) to boost FDI inflows in 2018
- FDI inflows will remain cyclical as they continue to flow to commodity enclaves



# *South Africa Business Environment*

- Business confidence at 3-year high as President Ramaphosa boosts prospects for market-friendly policies
- South Africa's ratification of Africa Continental Free Trade Area (AfCFTA) deal would boost trade flow
- New draft mining charter to address land reforms, bolster business and investor confidence
- Mining charter to increase black ownership at permit-holding mining companies to 30% from 26% within five years



*Domestic Economic Performance*

# Economic Indicators

Leading Economic Indicator	May	June	% Change	July*
GDP growth (%)	1.95 (Q1'18)	*2.00–2.20 (Q2'18)	0.05–0.25	2.00–2.20 (Q2'18)
Oil price (\$pb; avg)	76.98	75.94	-1.35	72–75
Oil production (mbpd)	1.76(Apr)	1.71(May)	-2.84	1.7–1.75 (June)
Natural gas (\$/MMBtu; end)	2.95	2.93	-0.68	2.90
Power (MW; avg)	3,807	3,588	-5.75	3,500–3,700
Inflation (%)	12.48(Apr)	11.61(May)	-0.87	11.1 (June)
PMI	FBN:49.2 CBN:56.5	FBN: 49.8 CBN: 57	FBN: 1.22 CBN: 0.88	FBN: 50 CBN: 57.5–58
FAAC (N'bn)	638.09 (April)	701(May)	9.86	700–720

\*: FDC's Forecast

# Economic Indicators

Leading Economic Indicator	May	June	% Change	July*
T Bills (91 day) – Primary (%)	10	10	–	10–10.5
T Bills (91- day) – Secondary (%)	11.59	12.40	0.81	12.5–13
Average NIBOR (%) (O/N, OBB)	20.25	11.94	-8.31	11–11.5
Average Lending Rate (%) (pa)	23.00	23.00	–	22–23
Average Opening Position (N'bn)	168.40	312.05	85.3	320–350

\*: FDC's Forecast

# Economic Indicators

Leading Economic Indicator	May	June	% Change	July*
Money Supply (N'trn)	24.52 (April)	25.17 (May)	4.88	25.5–26.0
External Reserves – \$'bn (end)	47.61	47.63	0.04	48–49
Exchange rate (N/\$; month-end)	Parallel: 363 IFEM:305.95 IEFX:360.97	Parallel: 362 IFEM: 305.75 IEFX: 361.32	-0.28 -0.07 +0.10	Parallel: 362–363 IFEM: 305.5 IEFX: 360–362
Stock Market Cap (N'trn)	13.80	13.87	0.51	13.90–14.0



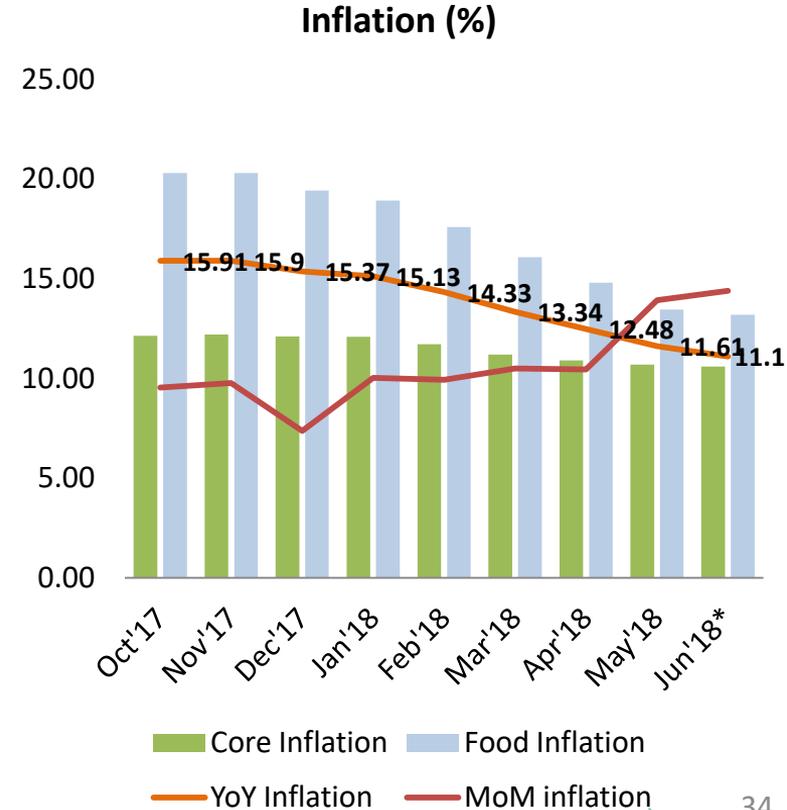
# Leading Economic Indicators

- Most leading indicators maintained positive trend
  - eight positive, six negative, three amber
- Oil production dropped to a YTD low of 1.71mbpd in May
- Exchange rate stable within N361–363/\$
- Inflation to decline further to 11.1% in June
  - 17<sup>th</sup> consecutive monthly decline
- PMI (FBN) still in the contraction region (49.8)



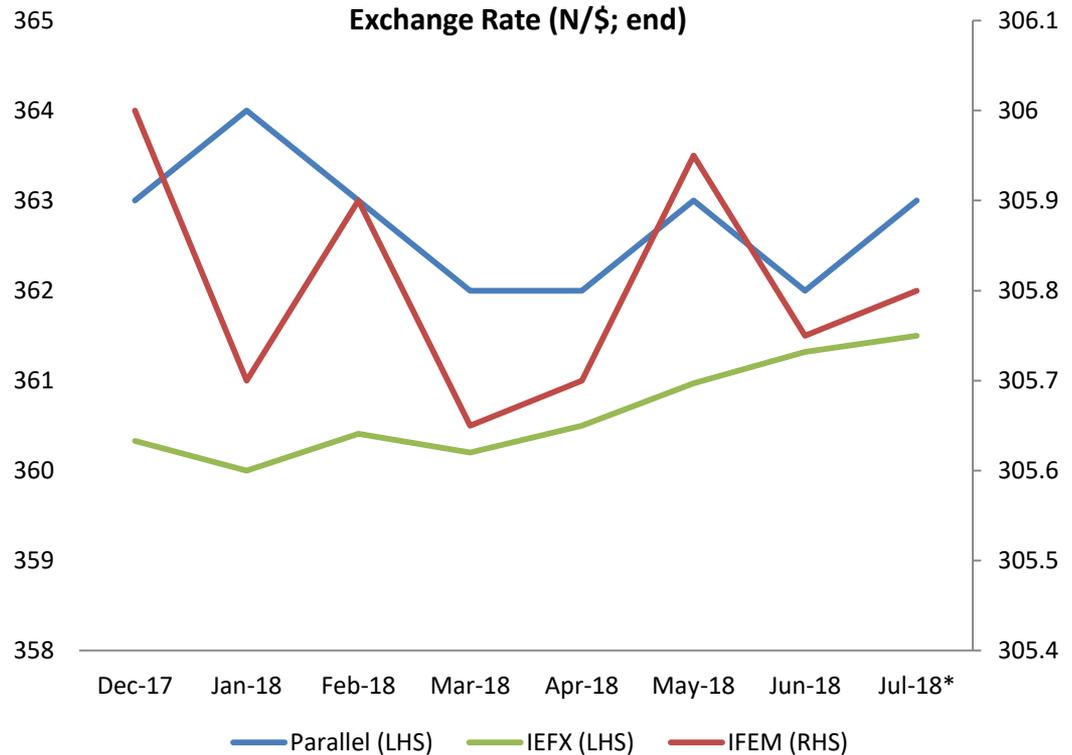
# Inflation Outlook

- June: 11.1%
- Month-on-month inflation to increase due to food supply shortages
  - Planting season and insecurity in food producing regions
- Likely risks to inflation:
  - Release of CAPEX funds
  - Increased election spending



# Forex Market Outlook

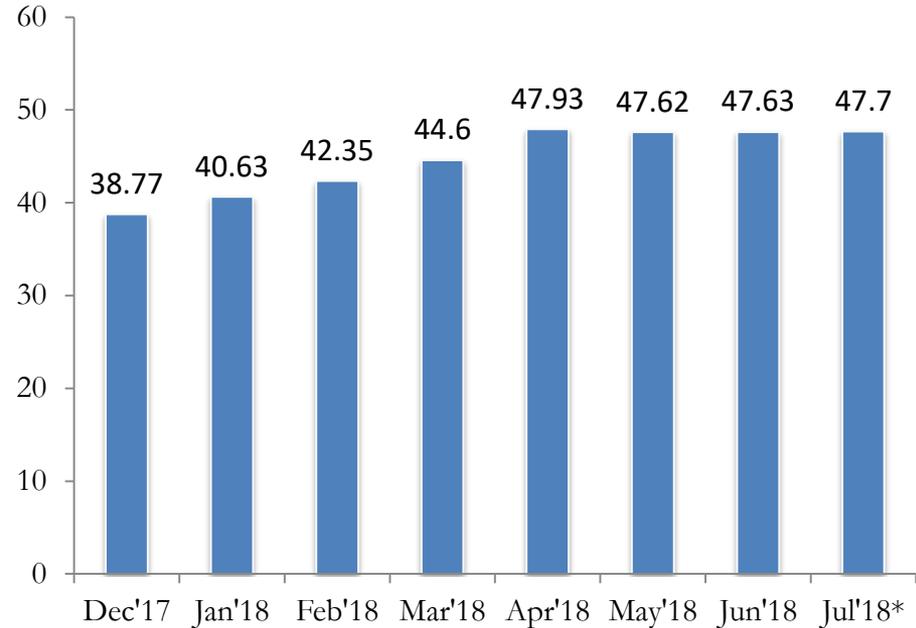
- Increased forex demand pressure:
  - Signing of the budget
  - Summer tourists
- Supplementary budget and reverse capital flows, to put naira under pressure
- Currency value will be maintained
- Parallel market will slip to N370–375/\$ in Sept/Oct



# Forex Market Outlook

- External reserves likely to come under pressure
- Strong oil proceeds to sustain reserves
- External reserves minus swaps and FPIs is down to \$25bn
- Enough to cover 6.94 months of imports and payments

External Reserves (\$'bn)

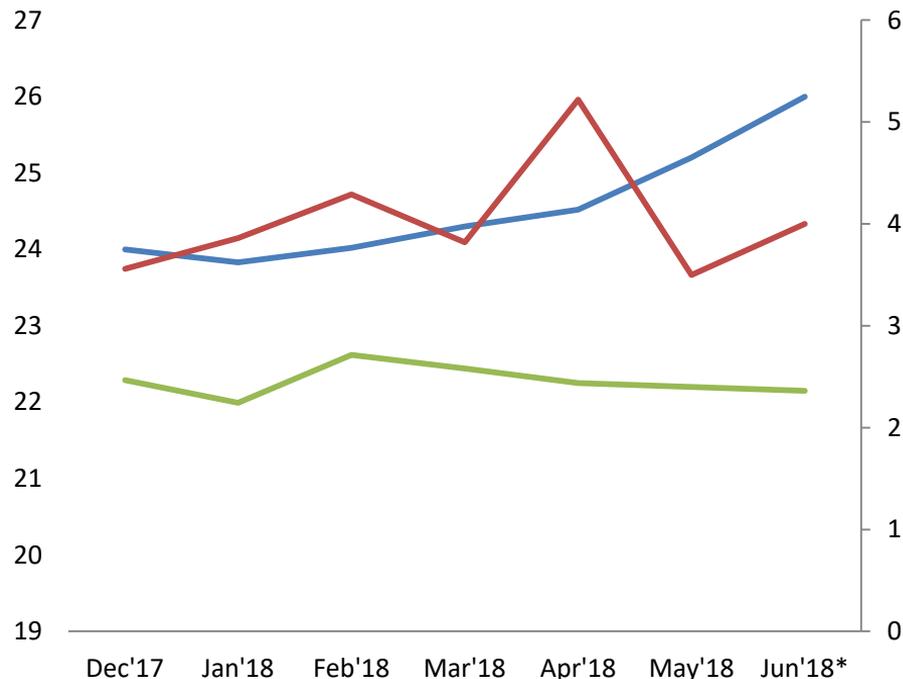


# Monetary Aggregates

- Money supply (M2) grew by 4.88% to N25.17trn in May
  - CBN growth benchmark of 10.29%
- Credit to the private sector declined by 0.18% to N22.21trn in May
- Credit to the government declined by 32.8% to N3.51trn in May

Source: FMDQ, FDC Think Tank

Monetary Aggregates (N'trn)



- Money Supply (LHS)
- Credit to Private Sector (LHS)
- Credit to Gov. (RHS)



# DMO Records Lowest Sales since 2016

- June 2018's monthly auction of N60bn was oversubscribed
- Despite a higher marginal rate compared to May 2018 (*13.5%: 5 and 7-year bonds*)
- Total bid of N67bn was lowest since August 2017
- DMO raised N31bn in sales
  - Lowest since November 2016





# *DMO Records Lowest Sales since 2016*

- Most investors traded at the long end of the yield curve
- CBN's OMO and forex sales tighten liquidity in the market
- Exerting pressure on interest rates
- DMO remained conservative
- Adopted successful bid rates between 13.5% – 13.81%
- To ease debt service costs

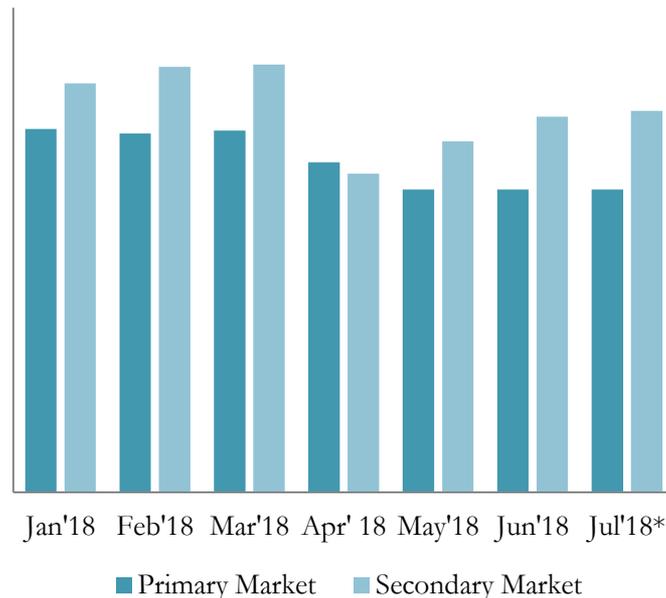


# T-Bills Rates

- Interest rates slowly reversing downward trend
- Likely to increase government debt burden

Tenor	Primary market rates (May-end) (%)	Primary market rates (June-end) (%)	Secondary market rates (May-end) (%)	Secondary market rates (June-end) (%)
91-day	10	10	11.59	12.4
182-day	10.3	10.3	11.43	12.27
364-day	11	11.5	12.62	12.57

91-Day T/Bills (%)



■ Primary Market ■ Secondary Market

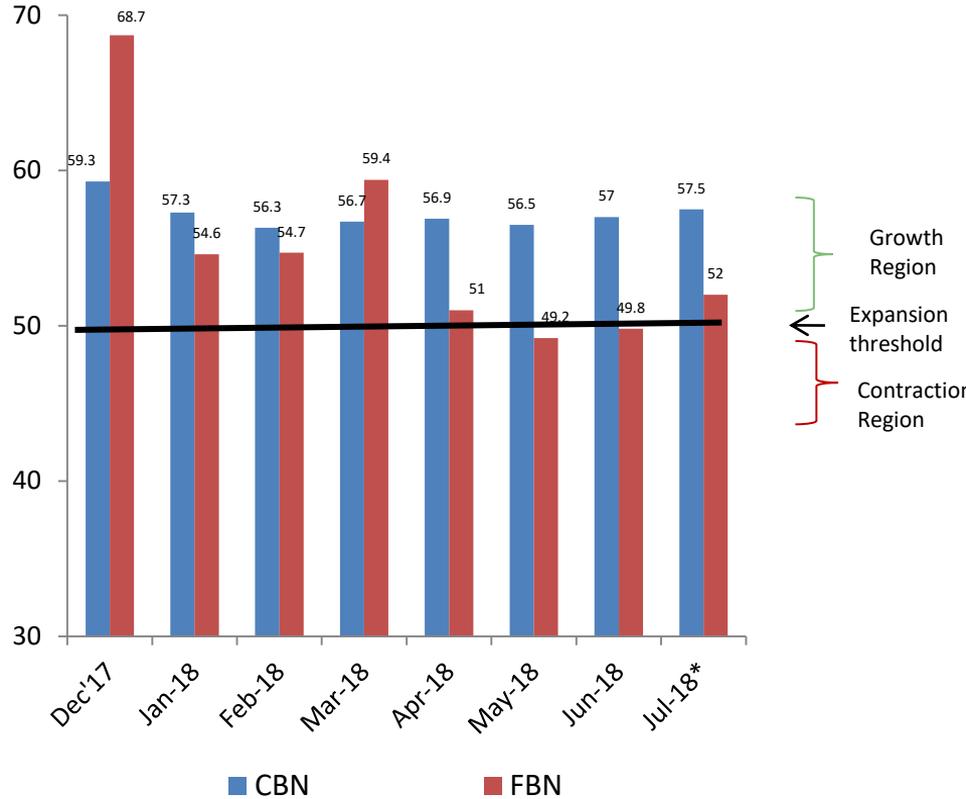
Source: FMDQ, FDC Think Tank



# *Market Proxies*

# May PMI

- FBN PMI expands marginally to 49.8 points from 49.2 points
- CBN PMI expands from 56.5 points to 57 points
- High borrowing costs and low consumer demand remain a limiting factor to inventory build up
- PMI expected to improve in July
  - As budget spending boosts private consumption



# Average Power Output Down 5.75%

**4013 MW**

Peak energy generated



**3601MWH/H**

Average energy generated



**1**

Total grid collapse



**701 MMSCF/D**

Average gas delivered to plants

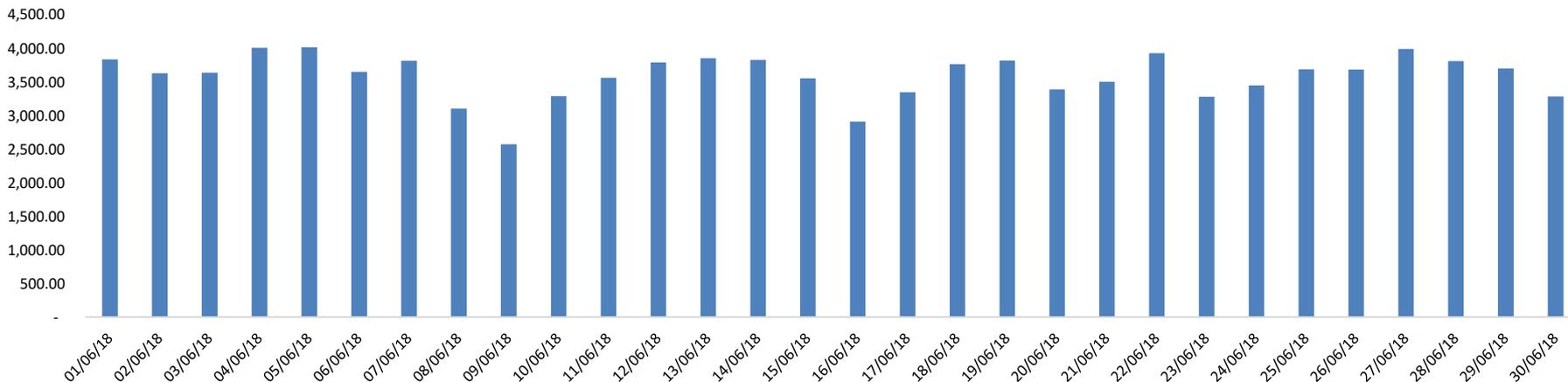


**2988 MW**

Average constrained energy



Power Output MWh/h





# Power Sector News

- FG commences decentralizing of power generation and distribution
- Dangote sub-sea pipeline to boost power generation capacity by 10,000MW once completed
- Sahara Energy predicts power sector collapse to cost over N1.1trn debt burden
- NERC suspends Ibadan Electricity Distribution Company (DisCo) management over N6bn inappropriate loan
- Meter manufacturers lobby for FG to break monopoly of DisCos on electricity supply
- DisCos commence mass disconnection on indebted customers
- Eko DisCo kicks against embedded projects by Rural Electrification Agency (REA)



# *Power Sector News*

- Ministry of Power opposes move by House of Representatives to criminalize estimated billing by DisCos
- Gas shortage cuts over 2,000MW of electricity from the grid
- Shell's Afam VI power plant to provide additional 624MW to national grid

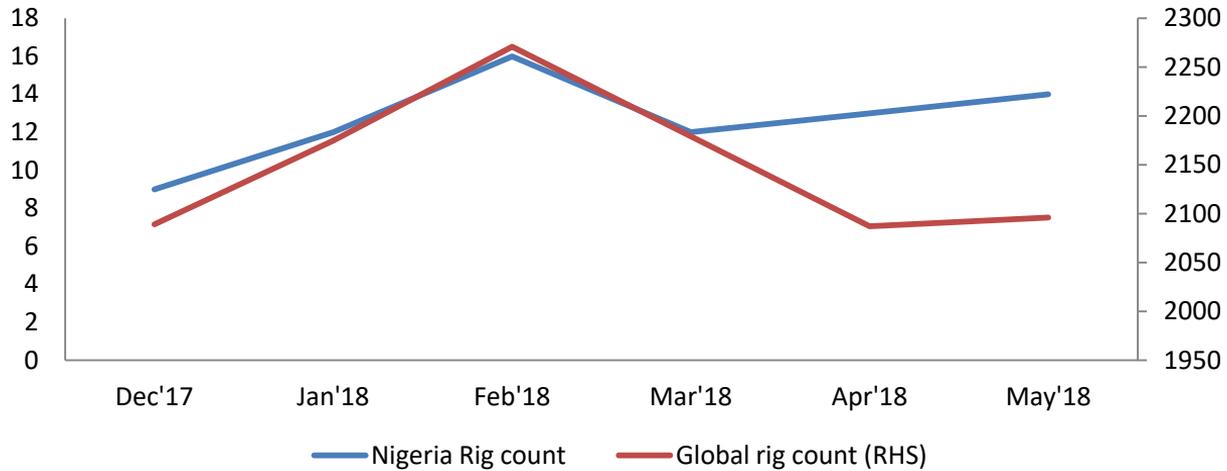


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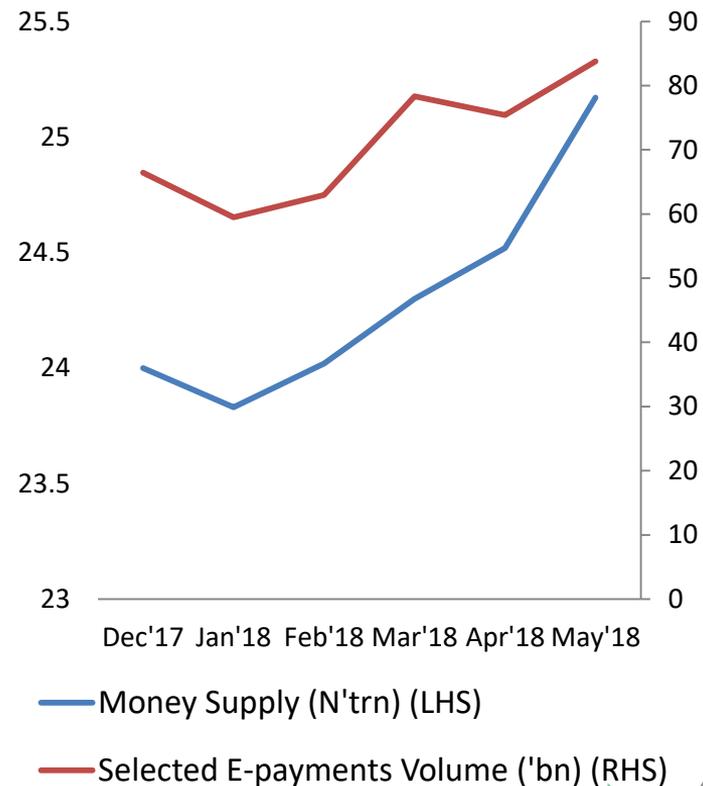
# Nigeria's Oil Rig Count



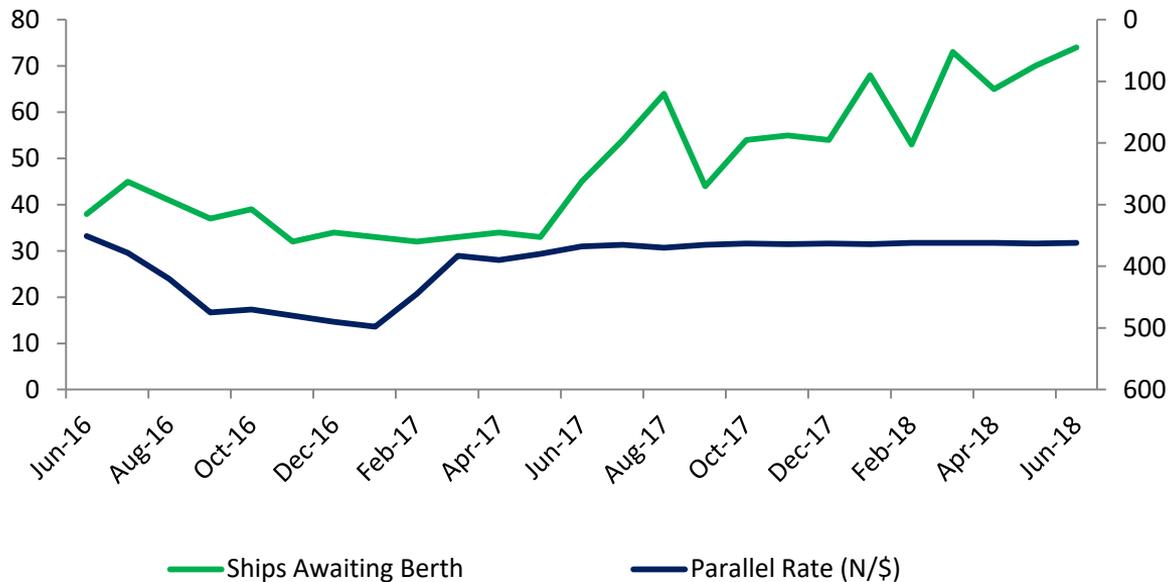
- The number of operational rigs increased 7.7% to 14 in May from 13 in April
- In tandem with global trend
- Global rig count increased by 0.43% to 2,096 from 2,087

# Mixed Movements in E-payments

	Change in Volume (%; m-o-m)		Change in Value (%; m-o-m)	
Cheques	8.54 (May)	↓	1.30	↓
NIP	1.19 (June)	↓	2.75	↓
NEFT	5.27 (June)	↓	10.16	↓
POS	0.51 (June)	↑	3.70	↓



# Ships Awaiting Berth



- Ships awaiting berth increased by 5.71% to 74 in June from 70 in May
- Reflective of increased trading activities and inventory build up

In line with PMI expansion



# *Commodities*

# Commodity Outlook and Nigeria

Export Commodities	June	%Change (May–June)	Import Commodities	June	%Change (May–June)
Oil (\$/b) 	75.87	-1.47% 	Wheat (\$/bushel) 	5.08	-1.68% 
Liquefied Natural Gas (\$/mmbtu) 	2.94	3.90% 	Sugar (\$/pounds) 	11.83	4.09% 
Cocoa (\$/mt) 	2,438	-9.46% 	Rice (\$/cwt) 	11.14	-9.88% 



## *Export Commodities*



# Export Commodities

## Oil

- Oil futures currently trading at \$78.81pb
- Trump needs 30% fall in oil price to bump gasoline to \$2.30/gallon
- Saudi Arabia will increase production to 11mbpd
- Price will fall to \$65pb

## EIU Says:

- Oil demand projected to increase by 1.8% to 99.56mbpd in 2018
- The rise of trade protectionism, particularly by the US, expected to have a negative impact on global oil demand
- Similarly, concerns over militancy in the oil-sector in Nigeria will affect supply.
- Oil production to rise by 2.4% to 99.7mbpd in 2018

## LNG

- Futures currently trading at \$2.96/MMBtu
- Consumption projected to grow by 8% to 313.4mn tonnes in 2018
- Large supply and relatively low prices
- LNG world production is projected to expand by an average annual growth of 7.6%
- Nigeria's production is projected to fall by 0.06% to 17.5m tonnes in 2018



# Export Commodities

## Cocoa

- Consumption to rise slightly by 1.3% to 4.06mn tonnes in 2018
- Consumption in major developed markets such as the EU and US will be weaker due to currently high consumption levels per capita discouraging rapid demand growth.
- Supply to fall by 7% to 4.25mn tonnes
- Nigeria's production to drop by 2.44% to 200,000 tonnes
  - Due to the dieback fungal disease in the South West region
- Prices projected to fall by 1% to an average of \$2,009/tonne

## Quick Facts

- Cocoa is the 2<sup>nd</sup> largest agricultural product in Nigeria
- Accounts for 33% of total agricultural exports
- Cameroon has displaced Nigeria as the 6<sup>th</sup> largest producer
- In the past 5 years, Nigeria's production has plunged by 36% to 245,000MT



## *Import Commodities*

# Import Commodities

## Wheat

- Average price  1.68%
- Global wheat production has attained consecutive highs for five years with approximately 758.4m tonnes produced in 2017/18
- Demand for wheat is expected to continue to increase in 2018/19 by 1.3% to 746m tonnes from 736.8m tonnes in 2018/19

## Sugar

- Average price  4.09%
- Global sugar production is expected to rise sharply by 11.3% year on year in 2018
- This signals the largest global surplus in several years and could mount pressure on prices
- Changing consumer tastes is expected to boost demand for sugar in Africa
- Nigeria is pursuing long-term investment plans in the sugar sector with the aim of becoming self-sufficient

## Rice

- Prices projected to surge by 8.3%
- Global rice production to increase by 0.8% to 492.1mn tonnes in 2018
- World consumption of rice to increase by 1.6% in 2018 to a high of 492m tonnes
- Increase in consumption will be mainly driven by population growth in Asia



# *Commodity In Focus: Maize*

# Facts About Maize



- **Total global production (2017/2018):** 1.04bn tonnes (\$188bn)

- **2018/2019 forecast:** 1.05bn tonnes, growth rate of 0.7%

- **World's top producers:** U.S, China, Brazil

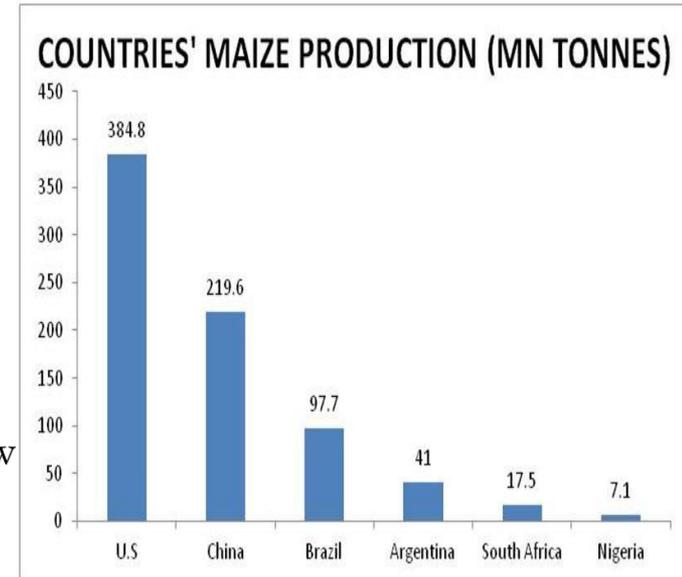
- **World's top consumers:** U.S, China, EU

- **Major uses:** Roasted and boiled, corn flakes, pop corn, starch, glucose, animal feed, ethanol, bio fuel, soft drinks



# Maize Production in Nigeria

- **Total output:** Approximately 7.1mn tonnes (0.66% of global production), valued at \$1.15bn
- **Potential output:** 13.41mn tonnes
- **Domestic demand:** Approximately 10mn tonnes
- **Production rank:** Global: 14th, Africa: 2nd (after South Africa)
- **Major producing states:** Niger, Kaduna, Taraba, Plateau and Adamaw
- **Listed users:** Nestle, Livestock Feeds, Premier Feeds (FMN)



# Financial Highlights of Maize Users



- ❖ Revenue (FY'17): N244.15bn (+34.21%)
- ❖ PAT (FY'17 ): N33.72bn (+325.76%)
- ❖ Dividend yield: 1.99%
- ❖ Share price: N1,575.00



- ❖ Revenue (FY'17): N10.19bn (-7.95%)
- ❖ PAT (FY'17): -N725.8mn (-423%)
- ❖ Dividend yield: 4.57%
- ❖ Share price: N0.76



- ❖ Revenue (9M'17): N427.51bn (+9.63%)
- ❖ PAT (9M'17): -N13.25bn (+79.05%)
- ❖ Dividend yield: 3.73%
- ❖ Share price: N32.00

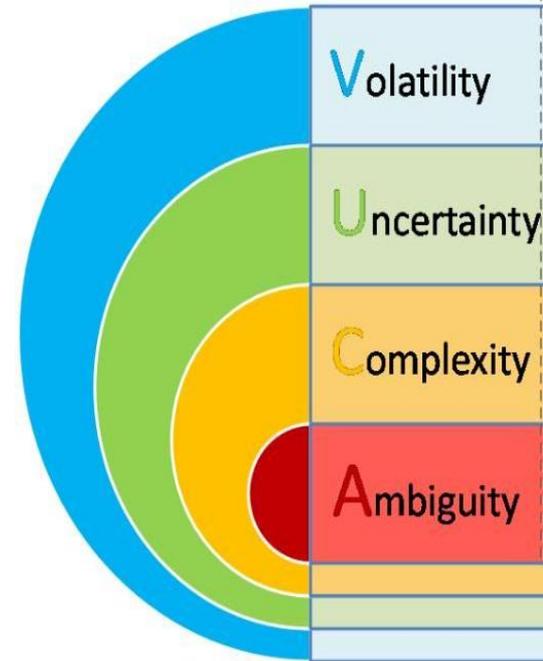




# *Stock Market Review*

# Stock Market – H1'18 Scorecard

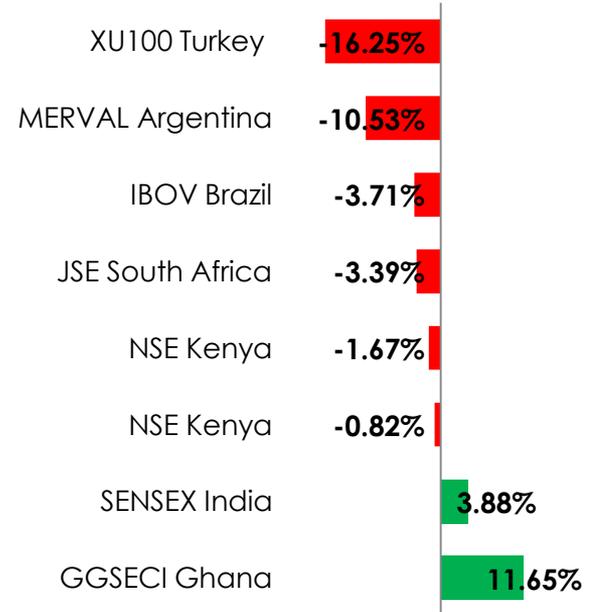
- Bear market dispels correlation between oil prices and equities
- As 2018 bucks the five-year trend
- NSE ASI is relatively flat YTD (0.09%)
- Brent prices rallied 18.8% during the same period
- Nigeria's VUCA weighed on foreign investors' sentiments
- Resulting to capital flows reversal –*Hot money pullout*
- Raise in US fed rate imposing pressure on performance



# Emerging Market Move toward Correction

- Most emerging market indices in negative territory in H1
- Paltry performances attributed to lingering trade tensions
- Fed rates hike also weighed on the performance

Emerging Market Indices H1'18

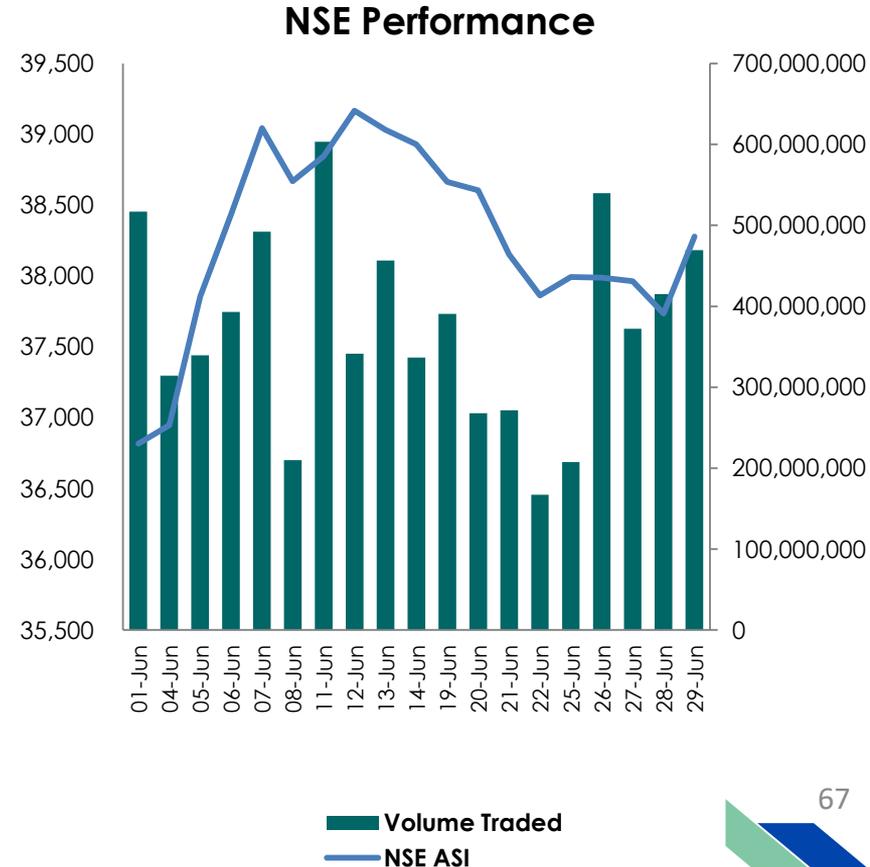


# *Nigerian Stock Market – June 2018*

- Stock market performance was mixed
- Overhaul of a six-day losing streak
- Market cap marginally up  0.51% (N70bn) to N13.87trn
- NSE ASI  0.46% to 38,279 points
- Eight days positive, 11 days negative
- P/E ratio down 1% to 10.79x
- Market remained unresponsive to oil rally

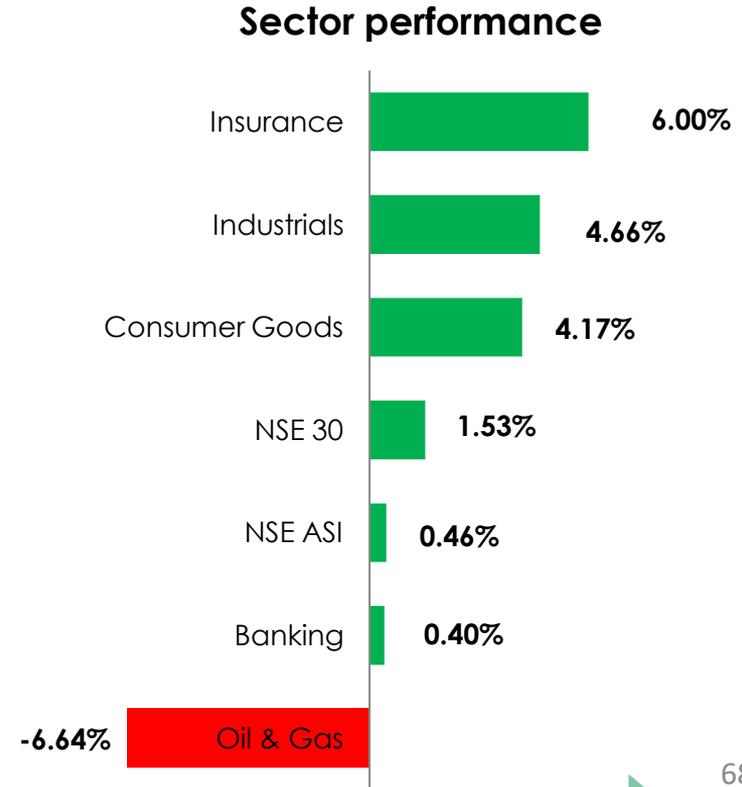
# Trading Activities Parameters Mixed

- Average volume traded  5.06% to 374mn units
- Average value of transaction  35% to N4.94bn
- Renewed interest in undervalued penny stocks
- Negative market breadth of 0.84x
- 49 stocks lost, 79 remained neutral and 41 gained



# Sub Sector Indices – Back to Winning Ways

- All sectors except oil and gas index turned the corner
  - Dragged down by Seplat (12.5%), Forte (11.2%), Oando (5.9%)
  - Despite the oil price rally
- Insurance index led the sector indices
  - Driven by NEM (25%), Sovereign Trust (15.4%), Prestige (14.6%)
  - Sector's stocks have been largely undervalued



# *Sub Sector Indices – Back to winning ways*

- Investors saw significant upsides in insurance stocks
- Insurance stocks were adversely affected by par value rule
- 58% of stocks currently trading below 50 kobo
- Industry’s heavyweights have moved to raise additional capital in order to further consolidate market position
- Other sub indices’ gains were driven by bargain hunting
- As intra-day activity remained volatile



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# Market Activity

- NSE restructures market operations
- To enhance market depth
- Introduced ‘imbalanced sessions’ to ease order imbalance
  - Creating opportunities to bridge ‘bids–offers’ gap
  - After the end of the trading session
- More players to participate across all trading sessions
  - To ensure equality and competitiveness of pricing mechanism
- Adoption of a single reference price
  - To determine daily price limit



# Market Activity

- MTN Nigeria expected on the NSE's premium board
  - Having kick-started its IPO in Ghana
  - Ghana's largest IPO to raise \$720mn
  - Mobile Money based IPO
- Excise duty weighed on brewing stocks
- Especially brands with spirits (Guinness) and value brands (Int'l Breweries)
  - Guinness (-2.3%), Int'l Breweries (-4.8%)
  - NB recorded a gain (5.8%) due to its diverse portfolio of SKUs



# Market Activity

- Oando Plc included in the NSE Oil and Gas Index,
  - Part of the seven most capitalized and liquid stocks in the index
  - MRS Oil was removed



# *Stock Market Outlook – July 2018*

- H1'18 results will drive performance
- Growing uncertainty and speculations will exert pressure on the bourse
- Reducing the upsides for short term gains
- Investors will take position in stocks with robust interim dividend payment history
- Especially banking stocks





*Corporate Earnings*

# Banking – Move towards income diversification

- Decline in net treasury bill issuance—  
*a threat to profitability*
- Banks seek to diversify revenue stream
- SIBs generated over N130bn in Q1'18
- Increase of 9.6% over Q1'17

Fees and Commission – SIBs			
Bank	Q1'17	Q2'18	% Change
Access Bank	11,677	15,717	35%
UBA	12,995	14,996	15%
Ecobank	33,595	38,088	13%
GT Bank	13,094	14,487	11%
First Bank	18,038	19,177	6%
Zenith Bank	21,128	20,837	-1%
Diamond Bank	8,278	6,879	-17%

# Corporate Earnings – Flour Mills Nigeria (FMN)



- An integrated firm with diverse business interests
- Posted revenue of N542bn in 2018
- A growth of 3.5% compared to N524bn recorded in 2017
- Food (80%) and Agro-Allied (17%) segments dominated revenues
- Packaging and real estate segments incurred losses
- Earnings per share up 59.4% to N4.83

## Business Portfolio

Sugar	Pasta and Noodles
Edible Oil	Livestock Feeds
Agro-allied Products	Shipping and Logistics
Packaging	Port Operations

Profit Before Tax	↑ 58 % – (N16.5bn)
Free Cash Flow	↑ -269% – (N59.2bn)
Dividend Yield	2.68%
P/E Ratio	6.67x





# *FY2018 Corporate Earnings – Flour Mills Industry*

## **Performance Drivers**

- Price war weighed on performance
- Finance costs remained key constraints
- Players intensified backward integration efforts to expand footprint and reach





# *Aviation Update*



# Aviation Update – IATA

- Airline share prices declined by 2.8% in May (down 8.5% YTD)
  - Fourth consecutive monthly decline
- Global oil prices reached a 4-year high of \$80pb in May
  - Year-on-year increase of 60%
- Premium-class cabin accounted for 5.5% of total international O-D passenger traffic in Q1'18
  - Unchanged from the share as at Q1'17
- Premium cabin's share of international passenger revenue down to 30.6% in Q1'18 from 31.1% in 2017 (IATA)
- Passenger load factor up 0.2 percentage points in April compared to the corresponding period in 2017



# Aviation Update

- British Airways reporting 90% outbound and 80% inbound
- E/T expanding market share going head to head against Emirates
- Battle for trader traffic
- Emirates cannibalizing Qatar and Etihad
- Turkish Airlines discounting fares to London and Paris
- IATA, African Airline Association (AFRAA) sign MoU to advance aviation in Africa
- AMCON plans sale of Arik, Aero





# Aviation Update

- Air Peace Airline to commence flight operation to Makurdi
  - Route to be serviced by an Embraer 145 jet
  - Abuja – Makurdi – Abuja and Lagos – Markudi – Lagos
  - Opens up parts of the Middle Belt
- Nigerian Immigration Service (NIS) suspends biometric issuance of visa-on-arrival to foreigners
- Ethiopia Airlines using efficient and rapid interconnectivity
- No discount fares this summer



# Aviation Outlook



Increased load factor due to summer travellers



Commencement of Hajj travel

Increased political travelling as 2019 draws closer



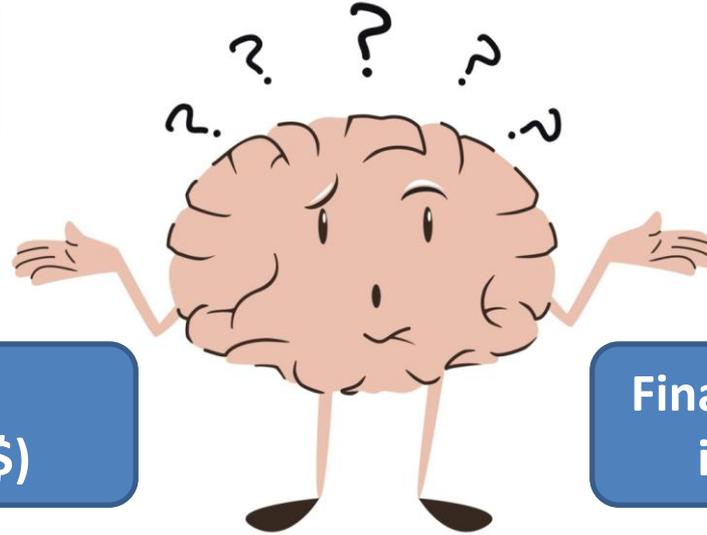


*Real Estate: The perfect hedge against inflation? Maybe!*

# Real Estate as an Investment

Real estate  
investment (N)

Financial instrument  
investment (N)



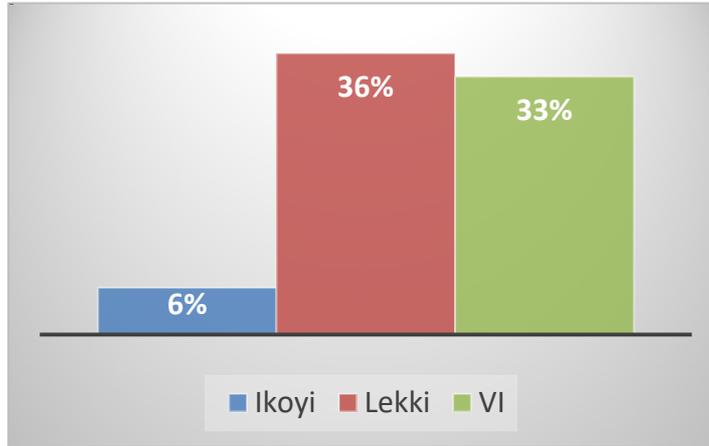
Real estate  
investment (\$)

Financial instrument  
investment (\$)

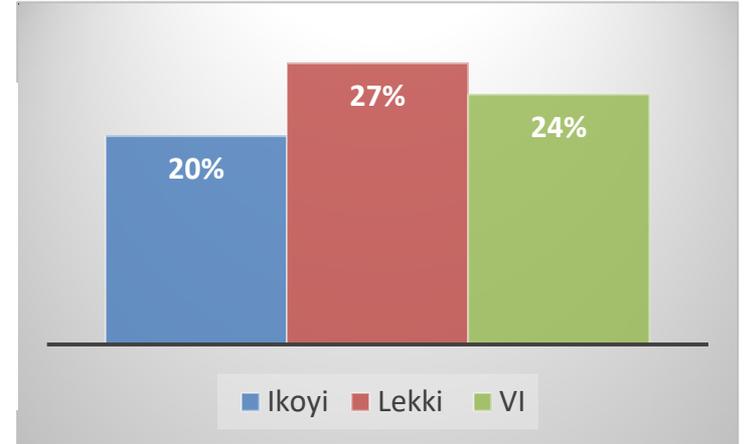
- Nigerian inflation declining from 18% to 11%
- Average SSA down from 13 to 10%
- Average Global inflation to increase from 3% to 3.57%

# General Vacancy Factor

## RESIDENTIAL VACANCY FACTOR



## COMMERCIAL VACANCY FACTOR



- High rental costs continue to drive vacancy rates in prime areas

# General Vacancy Factor: Q1'18 Vs Q2'18

	Q1'18			Q2'18		
	RVF (%)	CVF (%)	VFI (%)	RVF (%)	CVF (%)	VFI (%)
Lekki	29	33	31	36	27	32
Ikoyi	29	18	24	6	20	12
VI	35	18	28	33	24	29
<b>Total</b>	<b>23</b>	<b>21</b>	<b>22</b>	<b>24</b>	<b>24</b>	<b>24</b>

- General Vacancy Factor increased by 2% to 24% in Q2'18
- Increase in abandoned properties
- Increased demand for flats compared to storey buildings and bungalows

# Factors Affecting Vacancy Rate

## *Cost*

- High rental cost
- Replacement cost > market value



## *Commercial Demand*

- High commercial activity attracting commercial occupancy

## *Security*

- Secured areas attract more residents
- Leading to higher rents



## *Traffic*

- Accessibility remains key

## *Location*

- Proximity
- Good road networks and drainage system





# Real Estate Outlook

- Real estate market remains driven by affordability and access to mortgage financing
- Demand for mixed use developments increasing
- Improved design and finishing features to increase the demand for luxury properties
- Relocation of industrial firms to locations such as Ogun, Oyo
  - In response to tax incentives and ease of doing business





# *Policy Analysis*



# *Policy analysis*

- Buhari approved N9.1trn budget for fiscal year 2018
- N1.95trn deficit to be financed by debt
- FG is looking to increase external debt to 40%
- Longer tenors and lower rates
- Domestic nominal rates will continue declining trend
- However, there is an exchange rate risk
- Buhari will likely sign a supplementary budget in H2



# *Policy Outlook – MPC meets again*

- MPC to meet July 23/24

## **Considerations**

- Declining inflation rate, to reach an inflection point
- Capital flight
- Depleting external reserves
- Money supply growth



# Likely Scenarios

## Scenario A – 70% probability

*Shift towards accommodative monetary policy*

MPR: from 14%p.a. to 13.5%p.a.

CRR: from 22.5%p.a. to 22%p.a.

Liquidity ratio: 30%p.a.

Asymmetric corridor around the MPR at +200/-700bps.

## Scenario B – 30% probability:

*Maintain status quo on all policy parameters*

MPR: 14% p.a.

CRR: 22.5%p.a.

Liquidity ratio: 30%p.a.

Gradual reduction in Treasury bill rates.



*Political Environment*



# Political Update

- The shifting sands of Nigerian politics
- APC at extreme points in the confidence curve
- APC election team comprised of activists and strategists
- Activists are usually outliers and farthest from the midpoint in the political confidence curve
- More prone to excessive action and overreaction
- Leading to unintended consequences and flashpoints
- The party is now trying to repair internal difference to reduce potential defections



# *Political Update*

- Shaking down the opponents and other parties
- Problem is that there are not enough carrots
- Risk of an Animal-Farm syndrome is now elevated
- The PDP is beginning to believe in itself again
- But brand is so tarnished, may not be salvageable
- Hoping for a boost from the exodus from the APC
- APC will pick its candidates in August
- The opposition will coagulate into a working alliance in September



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# What to look out for?

- Personalities:

## Group A

Buhari

Tinubu

Amaechi

Amosun

Osinbanjo

Saraki

Tambuwal

Ekwemadu

## Group B

Atiku

Kwankwaso

Sule Lamido

Dankwambo

## Group C

Obasanjo

IBB

Danjuma

Oshiomhole

Adebanjo

Gbenga Daniel

## *Arrangements / political alliances*

Between the APC and APGA and many satellite parties – PDP, SDP and many numerous groups



# *Incoherent messages and tarnished messengers*

- Party spokesmen and surrogates are mainly tarnished and lack credibility
- Economic messages are incoherent and drowned in inconsistencies
- The election battle is now clouded by the unfortunate herdsmen/farmers conflict
- The APC seems stuck and is in defensive mode
- Reacting to imponderables which is a no-no in political messaging
- The PDP is so damaged recovery is a herculean task



# *The unpredictable and possible flashpoints*

- Ekiti election will be a cliff hanger
- Too close to call but it is the game changer for 2019
- If APC loses, the momentum will shift
- If APC wins, it will be the much needed boost to sail through 2019
- APC has candidate with ideology and pedigree but needs to connect with the grassroots
- PDP has a ground game
- Whatever happens will flow into Osun, which is a slippery slope

- The APC will ride on the Buhari cult-like following in the North West and North East
- The registered voters in these zones are huge
- North Central will be a struggle because of herdsmen and Boko Haram menace
- The APC will get 55–60% of the South West establishment
- Will have problems with the 18–30 year old demography in the South West and Lagos



# Outlook

- APC will take Ogun, Lagos and Ondo because of a ground game
- Will take Edo, share Delta
- Will get the 25% in the South East and others
- Uniting the opposition and coordinating them into a strategic force will be a major challenge
- Very difficult and unlikely at this time
- If they coagulate then a 2-way race will be an interesting battle
- It would appear that the incumbent still has an advantage over a disorganised and tarnished opposition at this time



*Outlook for July–August*



# July/August Outlook

- MPC will make no changes
- CBN will support the currency aggressively
- Inflation will slide to 11.1% with monthly inflation up to 14% (annualized)
- T/Bill rates will firm up in the secondary market to 12%p.a.
- Corporate earnings will be flat and force share prices down
- Q2 GDP numbers are going to be slower than expected at 1.8%



# *July/August Outlook*

- Oil price will slide towards \$68–70pb as Saudis pump more oil
- Unemployment and underemployment will fall further
- Minimum wage review and negotiations will conclude in September
- Supplementary budget will be presented in August/September

# Corporate Humour



People who are late are Jollier than  
those waiting for them  
– *E. V. Lucas*

Etiquette is the noise you don't make  
when you are eating soup  
- *Unknown Author*



# Corporate Humour



If you are afraid of loneliness  
don't get married  
- Anton Chekhov

Parliamentarians (NASS) only meet  
two types of people, people with  
problems and people who are right  
- Unknown Author



# Corporate Humour



Maternity is a matter of fact,  
paternity is a matter of opinion  
- *Walter Bagheot*

An optimist is a girl who mistakes a  
bulge for a curve  
- *Ring Lardner*



# CORPORATE HUMOUR



The future is that period time in which our affairs prosper, our friends are true and our happiness is assured  
- *Ambrose Bierce*

Middle age is when your broad mind and your narrow waist begin to change places  
- *Joseph Cossmann*



# Corporate Humour



Youth is when you are allowed to stay up late on New Year's eve.  
Middle age is when you are forced to  
- *Bill Vaughan*

Face book is for people who cannot face books  
- *Madeleine Beard*



# Corporate Humour



It is better to keep your mouth shut and appear stupid than to open it and remove all doubt  
- *Mark Twain*

Statistics is like a bikini, what they reveal is suggestive, but what they conceal is vital  
- *Aaron Levenstein*



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*Thank  
you*

